

Midstates Petroleum Company, Inc.  
Form DEFR14C  
October 02, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14C**

(Rule 14c-101)

**SCHEDULE 14C INFORMATION**

**(Amendment No. 1)**

**Information Statement Pursuant to Section 14(c) of  
the Securities Exchange Act of 1934**

Check the appropriate box:

- Preliminary Information Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14c-5(d)(2))
- Definitive Information Statement

**MIDSTATES PETROLEUM COMPANY, INC.**

(Name of Registrant as Specified in its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.

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Fee computed on table below per Exchange Act Rules 14c-5(g) and 0-11.

- 1) Title of each class of securities to which transaction applies:
  
- 2) Aggregate number of securities to which transaction applies:
  
- 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
  
- 4) Proposed maximum aggregate value of transaction:
  
- 5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

- 1) Amount Previously Paid:
  
- 2) Form, Schedule or Registration Statement No.:
  
- 3) Filing Party:
  
- 4) Date filed:



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**EXPLANATORY NOTE**

Midstates Petroleum Company, Inc. (the Company ) filed an Information Statement on Schedule 14C with the Securities and Exchange Commission on September 26, 2012 (the original filing ). This Amendment No. 1 to the original filing is being filed in order to make the following changes to the Information Statement.

To change the amount in the column Notes Offering and Credit Agreement Amendment on page 7 in the line Total Liabilities and Equity from \$486,100 to \$436,100.

To change the amount in the column Midstates Pro Forma Combined on page 7 in the line Total Liabilities and Equity from \$1,942,065 to \$1,492,065.

Other than these changes, there are no other changes to the original filing.

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**Midstates Petroleum Company, Inc.**

**4400 Post Oak Parkway**

**Suite 1900**

**Houston, Texas 77027**

September 26, 2012

Dear Stockholder:

We are sending this information statement to holders of shares of common stock, par value \$0.01 per share (the **Common Stock**), of Midstates Petroleum Company, Inc. (the **Company** or **we**). As previously announced, on August 11, 2012, we entered into an asset purchase agreement (the **Acquisition Agreement**) with Eagle Energy Production, LLC ( **Eagle Energy** ) pursuant to which we agreed to acquire certain interests in producing oil and gas assets, unevaluated leasehold acreage in Oklahoma and Kansas and the related hedging instruments (the **Eagle Energy Acquisition** ). The aggregate purchase price includes the issuance to Eagle Energy of 325,000 shares of Series A Mandatorily Convertible Preferred Stock with an initial liquidation preference of \$1,000 per share (the **Preferred Stock** ).

Our Common Stock is listed on the New York Stock Exchange. Under the rules of the New York Stock Exchange, the holders of a majority of the outstanding shares of the Common Stock must approve the issuance of the Preferred Stock because we will have issued securities (i) that are convertible into a number of shares of our Common Stock equal to or in excess of 20 percent of the number of shares of Common Stock outstanding before the issuance of the Preferred Stock and (ii) that represent voting power equal to or in excess of 20% of the total voting power outstanding prior to the issuance of the Preferred Stock. As permitted by the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation and our Bylaws, by resolutions adopted through written consent dated August 11, 2012, the holders of a majority of the outstanding shares of the Common Stock on such date approved the issuance of the Preferred Stock pursuant to the terms of the Acquisition Agreement and the issuance of shares of our Common Stock issuable upon conversion of the Preferred Stock (the **Stockholder Action** ). The closing of the transactions contemplated by the Acquisition Agreement, including the issuance of the Preferred Stock to Eagle Energy, is expected to occur on or about October 1, 2012. At the time of its issuance, the Preferred Stock will not be convertible into Common Stock and will hold voting power equal to 19.9% of the total voting power outstanding before its issuance. Under the rules of the Securities and Exchange Commission, the Stockholder Action will not be effective until 20 calendar days after we mail this information statement to our stockholders. As a result, the Preferred Stock will only become convertible into Common Stock and represent voting power in excess of 19.9% of the total voting power beginning on the 21st calendar day after we mail this information statement to our stockholders.

We are mailing this information statement to our holders of record as of the close of business on September 26, 2012. This information statement is being provided to you for your information to comply with the requirements of the Securities Exchange Act of 1934, as amended. You are urged to read this information statement carefully in its entirety. However, no action is required on your part in connection with this document. No stockholder meeting will be held in connection with this information statement. **We are not asking you for a proxy and you are requested not to send us a proxy.**

We thank you for your continued support.

Very truly yours,

Stephen J. McDaniel  
Chairman of the Board

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**NOTICE ABOUT INFORMATION CONTAINED IN  
THIS INFORMATION STATEMENT**

You should assume that the information in this information statement or any supplement is accurate only as of the date on the front page of this information statement. Our business, financial condition, results of operations and prospects may have changed since that date and may change again.

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**Midstates Petroleum Company, Inc.**

**4400 Post Oak Parkway**

**Suite 1900**

**Houston, Texas 77027**

**September 26, 2012**

**INFORMATION STATEMENT AND**

**NOTICE OF ACTION TAKEN WITHOUT A MEETING**

**WE ARE NOT ASKING YOU FOR A PROXY,**

**AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

**SUMMARY**

We are furnishing this information statement and notice of action taken without a meeting to our stockholders in connection with the approval by our board of directors of the matters described below and the subsequent approval of these matters by written consent of the holders of a majority of our outstanding Common Stock. All corporate approvals in connection with these matters have been obtained and this information statement is furnished solely for the purpose of informing stockholders of these corporate actions in the manner required by the Securities Exchange Act of 1934, as amended (the Exchange Act), the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation and our Bylaws.

The record date for determining stockholders entitled to receive this information statement has been established as the close of business on September 26, 2012. On that date, there were approximately 66,533,872 shares of Common Stock and no shares of preferred stock issued and outstanding.

**Action Approved by Written Consent of Stockholders Representing a Majority of Our Outstanding Common Stock** (See page 16)

The corporate action described in this information statement was approved by the written consent of the holders of a majority of the Common Stock in accordance with the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation and our Bylaws. Only holders of our Common Stock were entitled to vote on matters submitted to our stockholders.

On August 11, 2012, the holders of a majority of our outstanding Common Stock approved by written consent the issuance of the Preferred Stock and the Common Stock into which the Preferred Stock will become convertible. On that date, there were 66,549,563 shares of our Common Stock issued and outstanding.

This information statement is being mailed to stockholders on or about September 26, 2012. The Preferred Stock to be issued in connection with the Eagle Energy Acquisition will not become convertible into shares of our Common Stock until the 21st day after the date on which we mail this information statement to our stockholders, and the holders of the Preferred Stock may not convert their shares of Preferred Stock before the first anniversary of the closing date of the Eagle Energy Acquisition, which is expected to occur on or about October 1, 2012. After such time, the Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Preferred Stock, into a number of shares of our Common Stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share. In addition, the Preferred Stock will be subject to mandatory conversion into shares of our Common Stock on September 30, 2015 at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share.

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### **The Acquisition Agreement** (See page 22)

On August 11, 2012, we entered into the Acquisition Agreement. Under the terms of the Acquisition Agreement, upon consummation of the Eagle Energy Acquisition, among other things:

we will acquire certain interests in producing oil and natural gas assets, unevaluated leasehold acreage in Oklahoma and Kansas and the related hedging instruments from Eagle Energy;

we will pay to Eagle Energy \$325,000,000 in cash, subject to adjustment as provided in the Acquisition Agreement;

we will issue to Eagle Energy 325,000 shares of Preferred Stock; and

we will enter into certain ancillary agreements with Eagle Energy, including a registration rights agreement, transition services agreement, escrow agreement and access agreement.

### **Other Transactions** (See page 19)

In connection with the consummation of the Eagle Energy Acquisition, we anticipate entering into the following additional transactions (together with the Eagle Energy Acquisition, the Transactions ):

the issuance and sale by us and Midstates Sub of \$600 million aggregate principal amount of senior unsecured notes or, if such sale is not completed, the entrance by us and Midstates Sub into a \$500 million bridge credit facility and, in either case, the use of proceeds therefrom to fund the cash portion of the purchase price of the Eagle Energy Acquisition and the expenses relating thereto and to repay a portion of the outstanding borrowings under our revolving credit facility; and

entry into an amendment to our revolving credit facility to, among other things, increase the borrowing capacity from \$200 million to \$250 million, subject to the satisfaction of certain conditions (the Credit Agreement Amendment ).

### **New York Stock Exchange Requirements** (See page 16)

Our Common Stock is listed on the New York Stock Exchange (the NYSE ). Under Section 312.03 of the NYSE Listed Company Manual, stockholder approval is required prior to the issuance of shares of common stock, or of securities convertible into common stock, if:

such common stock or securities have, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance of such stock or securities convertible into common stock; or

the number of shares of common stock to be issued is, or will be upon issuance, equal to 20% or more of the number of shares of common stock outstanding before the issuance of the common stock or securities convertible into common stock.

Because the maximum number of shares of our Common Stock issuable upon conversion of the Preferred Stock would represent approximately 56% of the number of shares of our Common Stock outstanding prior to the issuance of the Preferred Stock and because, beginning on the 21st day after the mailing of this information statement, the Preferred Stock will represent voting power greater than 20% of the voting power before the issuance of the Preferred Stock, stockholder approval of the issuance of the convertible Preferred Stock is required under NYSE regulations.





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**FORWARD-LOOKING STATEMENTS**

Various statements contained in or incorporated by reference into this information statement that express a belief, expectation, or intention, or that are not statements of historical fact, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the Securities Act ) and Section 21E of the Exchange Act. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact, are forward-looking statements. When used in this information statement, the words could, believe, anticipate, intend, estimate, expect, may, continue, predict, potential, project, and other similar expressions are intended to identify forward looking statements, although not all forward looking statements contain such identifying words. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, among others:

our business strategy;

estimated future net reserves and present value thereof;

technology;

cash flows and liquidity;

financial strategy, budget, projections and operating results;

oil and natural gas realized prices;

timing and amount of future production of oil and natural gas;

availability of drilling and production equipment;

availability of oilfield labor;

the amount, nature and timing of capital expenditures, including future development costs;

availability and terms of capital;

drilling of wells including our identified drilling locations;

successful results from our identified drilling locations;

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marketing of oil and natural gas;

the closing, financing, integration and benefits of the Eagle Energy Acquisition or the effects of the acquisition on our cash position and levels of indebtedness;

infrastructure for salt water disposal;

property acquisitions;

costs of developing our properties and conducting other operations;

general economic conditions;

effectiveness of our risk management activities;

environmental liabilities;

counterparty credit risk;

the outcome of pending and future litigation;

governmental regulation and taxation of the oil and natural gas industry;

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developments in oil-producing and natural gas-producing countries;

uncertainty regarding our future operating results; and

plans, objectives, expectations and intentions contained in this information statement that are not historical.

All forward-looking statements speak only as of the date of this information statement. You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions including, but not limited to, those discussed in the prospectus for our initial public offering filed with the SEC on April 20, 2012, our Quarterly Reports for the periods ended March 31, 2012 and June 30, 2012 and our other filings with the SEC. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this information statement are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

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**UNAUDITED PRO FORMA FINANCIAL INFORMATION**

In connection with the execution of the Acquisition Agreement and in order to fund, among other things, the cash portion of the Eagle Energy Acquisition, on August 11, 2012, we and Midstates Sub entered into a commitment letter to provide for an unsecured bridge credit facility in the amount of up to \$500 million. The availability of loans under the bridge credit facility are subject to the consummation of the Eagle Energy Acquisition and other customary conditions and the proceeds may be used solely to fund the Eagle Energy Acquisition, to pay transaction costs and expenses in connection therewith or repay existing outstanding debt under the existing revolving credit facility.

On September 7, 2012, Midstates and Midstates Sub entered into an amendment to the existing secured revolving credit facility. This amendment provides for two sets of changes to the existing credit facility. The amendment provides for \$35 million of non-conforming borrowing base loans, thereby increasing the borrowing base under the existing secured revolving credit facility from \$200 million to \$235 million. The effectiveness of this provision of the amended revolving credit facility was effective on September 7, 2012 and was not subject to the consummation of the Eagle Energy Acquisition.

In addition, the amendment will increase the borrowing base to \$250 million and permit the issuance of the Preferred Stock in connection with the Eagle Energy Acquisition. As further amended, it will also increase the allowance for the incurrence of certain unsecured indebtedness, without a corresponding reduction in the borrowing base, from \$275 million to \$600 million, thereby permitting the incurrence of \$600 million of senior notes without causing a \$0.25 reduction in the borrowing base for every \$1 of debt incurred or issued up to \$600 million. The effectiveness of these provisions of the amended revolving credit facility is subject to the consummation of the Eagle Energy Acquisition and other customary conditions. If these conditions are satisfied, the amended revolving credit facility will mature on the fifth anniversary of the date on which these conditions are satisfied.

The Preferred Stock to be issued in connection with the Eagle Energy Acquisition will not become convertible into shares of our Common Stock until the 21st day after the date on which we mail to our stockholders this information statement regarding the issuance of the Preferred Stock, and the holders of the Preferred Stock may not convert before the first anniversary of the closing date of the Eagle Energy Acquisition. After such time, the Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Preferred Stock, into a number of shares of our Common Stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share. In addition, the Preferred Stock will be subject to mandatory conversion into shares of our Common Stock on September 30, 2015 at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share. Dividends on the Preferred Stock will accrue at a rate of 8.0% per annum, payable semi-annually, at our sole option in cash or through an increase in the liquidation preference. The Preferred Stock will rank senior to our Common Stock with respect to dividend rights and will participate, on an as converted basis, in any cash dividends or other distributions to holders of our Common Stock.

The unaudited pro forma condensed combined balance sheet as of June 30, 2012 is based on our unaudited condensed consolidated balance sheet as of June 30, 2012, adjusted to reflect the following items as though they had occurred on June 30, 2012:

the preliminary purchase accounting assigned to the assets to be acquired and liabilities to be assumed in the Eagle Energy Acquisition and the preliminary estimate of the fair value of the Preferred Stock;

nonrecurring estimated expenses associated with the Eagle Energy Acquisition and the commitment fees and other expenses associated with the bridge funding commitment;

the expected issuance of \$600 million of senior notes and the related offering costs subject to amortization, the net proceeds from which will be used to fund the estimated cash purchase price of the

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Eagle Energy Acquisition, to repay outstanding borrowings under the revolving credit facility and for general corporate purposes; and

the estimated amortizable fees associated with the increase in our borrowing base under the revolving credit facility from \$200 million to \$235 million and, upon the closing of the Eagle Energy Acquisition, from \$235 million to \$250 million.

The unaudited pro forma condensed combined income statement for the year ended December 31, 2011 is based on our audited consolidated income statement for the year ended December 31, 2011. The unaudited pro forma condensed combined income statement for the six months ended June 30, 2012 is based on our unaudited condensed consolidated income statement for the six months ended June 30, 2012. The unaudited pro forma condensed combined income statements for the year ended December 31, 2011 and for the six months ended June 30, 2012 have been adjusted to reflect the following items as though the Eagle Energy Acquisition and related transactions had occurred on January 1, 2011:

the revenues and direct operating expenses related the Eagle Energy Acquisition;

the depreciation, depletion, amortization and asset retirement obligation accretion related to the Eagle Energy Acquisition under the full cost method of accounting;

the historical general and administrative expense associated with the Eagle Energy Acquisition, net of amounts expected to be capitalized to oil and gas properties;

the dividend associated with the Preferred Stock to be issued in connection with the Eagle Energy Acquisition;

the estimated interest expense associated with the senior notes offering and the amortization of deferred financing costs, net of amounts expected to be capitalized to unevaluated oil and gas properties; and

the income tax effect of the adjustments outlined above.

The pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable as of the date of this information statement. The pro forma adjustments reflected herein are preliminary and based on management's estimations and expectations about the accounting that is expected to take place. In particular, the accounting for the Eagle Energy Acquisition is complex and entails determining the fair values of assets acquired and liabilities assumed. The Eagle Energy Acquisition will be accounted for using the purchase method of accounting. Accordingly, the final purchase price allocation is pending the finalization of appraisal valuations of certain tangible and any intangible assets acquired, which may result in an adjustment to the preliminary purchase price allocation. Any such adjustments to the preliminary estimates of fair value could be material. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

These unaudited pro forma condensed combined financial statements have been prepared for comparative purposes only and may not be indicative of the results that would have occurred if we had completed these transactions at an earlier date or the results that may occur in the future. These unaudited pro forma condensed combined financial statements should be read in conjunction with our audited December 31, 2011 consolidated financial statements and notes thereto, the unaudited June 30, 2012 consolidated financial statements, Eagle Energy's audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010, and Eagle Energy's unaudited consolidated financial statements as of and for the six months ended June 30, 2012, each included in this information statement.

**Table of Contents****Midstates Petroleum Company, Inc.****Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2012**

	Midstates Historical	Eagle Energy Assets	Pro forma adjustments Notes Offering and Credit Agreement Amendment	Midstates Pro Forma Combined
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 11,689	\$	\$ 567,500 (iii)	\$ 72,489
			(355,000) (iii)	
			(151,700) (iii)	
Accounts receivable - sales and other	19,567			19,567
Prepaid expenses and other current assets	11,846			11,846
Commodity derivative contracts	12,038	12,535	(i)	24,573
Total current assets	55,140	12,535	60,800	128,475
<b>PROPERTY AND EQUIPMENT</b>				
Oil and gas properties				
Proved properties	833,172	481,000	(i)	1,314,172
Unevaluated properties	95,600	120,000	(i)	215,600
Other property and equipment	2,168			2,168
Less: accumulated depreciation, depletion and amortization	(204,752)			(204,752)
	726,188	601,000		1,327,188
<b>OTHER ASSETS</b>				
Commodity derivative contracts	6,247	6,195	(i)	12,442
Other noncurrent assets	3,660		16,000 (iii)	23,960
			4,300 (iv)	
Total other assets	9,907	6,195	20,300	36,402
<b>TOTAL ASSETS</b>	<b>\$ 791,235</b>	<b>\$ 619,730</b>	<b>\$ 81,100</b>	<b>\$ 1,492,065</b>
<b>CURRENT LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 90,107	\$	\$	\$ 90,107
Commodity derivative contracts	360			360
Total current liabilities	90,467			90,467
<b>LONG-TERM LIABILITIES</b>				
Long-term debt	151,700		600,000 (iii)	600,000
			(151,700) (iii)	
Deferred income taxes	168,917			168,917
Asset retirement obligations and other long-term liabilities	10,012	1,671	(v)	11,683
Total long-term liabilities	330,629	1,671	448,300	780,600
<b>STOCKHOLDERS EQUITY</b>				
Preferred stock, \$0.01 par value, 50,000,000 shares authorized with \$1,000 per share liquidation preference		263,059	(i)	263,059
Common stock, \$0.01 par value, 300,000,000 shares authorized, 66,549,563 issued and outstanding	665			665
Additional paid-in-capital	536,352			536,352
Retained deficit/accumulated loss	(166,878)		(12,200) (ii)	(179,078)

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Total Stockholders equity	370,139	263,059	(12,200)	620,998
TOTAL LIABILITIES AND EQUITY	\$ 791,235	\$ 264,730	\$ 436,100	\$ 1,492,065

*See accompanying notes.*



**Table of Contents****Midstates Petroleum Company, Inc.****Unaudited Pro Forma Condensed Combined Income Statement for the year ended December 31, 2011**

	Midstates Historical	Eagle Energy Assets	Pro Forma Adjustments Notes Offering and Credit Agreement Amendment	Midstates Pro Forma Combined
(In thousands except share and per share amounts)				
<b>REVENUES</b>				
Oil, natural gas and natural gas liquids	\$ 213,812	\$ 73,446	(vi)	\$ 287,258
Gains (losses) on commodity derivative contracts net	(4,844)	4,240	(vi)	(604)
Other	465			465
<b>Total revenues</b>	<b>209,433</b>	<b>77,686</b>		<b>287,119</b>
<b>EXPENSES</b>				
Lease operating and workovers	17,335	12,130	(vi)	29,465
Severance and other taxes	12,422	3,090	(vi)	15,512
Depletion, depreciation, amortization and accretion	92,033	35,353	(vii)	127,386
General and administrative	68,915	4,474	(viii)	73,389
Other				
<b>Total expenses</b>	<b>190,705</b>	<b>55,047</b>		<b>245,752</b>
<b>OPERATING INCOME</b>	<b>18,728</b>	<b>22,639</b>		<b>41,367</b>
<b>OTHER INCOME/EXPENSE</b>				
Interest income	23			23
Interest expense	(2,094)		(41,061) (x)	(43,155)
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>16,657</b>	<b>22,639</b>	<b>(41,061)</b>	<b>(1,765)</b>
Pro forma income tax expense	23,156	9,101	(xi)	15,750
<b>NET INCOME (LOSS)</b>	<b>\$ (6,499)</b>	<b>\$ 13,538</b>	<b>\$ (24,554)</b>	<b>\$ (17,515)</b>
<b>PREFERRED DIVIDEND</b>		26,000	(ix)	26,000
<b>NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (6,499)</b>	<b>\$ (12,462)</b>	<b>\$ (24,554)</b>	<b>\$ (43,515)</b>
Pro forma earnings per share available to Midstates Petroleum Company, Inc. common stockholders:				
Basic	\$ (0.10)			\$ (0.66)
Diluted	\$ (0.10)			\$ (0.66)
Pro forma weighted average number of Midstates Petroleum Company, Inc. common shares outstanding:				
Basic	65,634,353			65,634,353 (xii)
Diluted	65,634,353			65,634,353 (xii)

See accompanying notes.



**Table of Contents****Midstates Petroleum Company, Inc.****Unaudited Pro Forma Condensed Combined Income Statement for the Six Months Ended June 30, 2012**

	Midstates Historical	Eagle Energy Assets	Pro Forma Adjustments		Midstates Pro Forma Combined
			Notes Offering and Borrowing Base Increase		
	(In thousands except share and per share amounts)				
<b>REVENUES</b>					
Oil, natural gas and natural gas liquids	\$ 109,140	\$ 47,097	(xiii)	\$	\$ 156,237
Gains on commodity derivative contracts net	23,478	16,165	(xiii)		39,643
Other	207				207
<b>Total revenues</b>	<b>132,825</b>	<b>63,262</b>			<b>196,087</b>
<b>EXPENSES</b>					
Lease operating and workovers	12,388	7,263	(xiii)		19,651
Severance and other taxes	11,648	1,696	(xiii)		13,344
Depletion, depreciation and amortization	56,207	21,924	(xiv)		78,131
General and administrative	11,019	2,423	(xv)		13,442
Other					
<b>Total expenses</b>	<b>91,262</b>	<b>33,306</b>			<b>124,568</b>
<b>OPERATING INCOME</b>	<b>41,563</b>	<b>29,956</b>			<b>71,519</b>
<b>OTHER INCOME/EXPENSE</b>					
Interest income	150				150
Interest expense	(2,680)			(19,281) (xvii)	(21,961)
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>	<b>39,033</b>	<b>29,956</b>		<b>(19,281)</b>	<b>49,708</b>
Income tax expense	168,917	12,042	(xviii)	(7,751) (xviii)	173,208
<b>NET INCOME (LOSS)</b>	<b>\$ (129,884)</b>	<b>\$ 17,914</b>		<b>\$ (11,530)</b>	<b>\$ (123,500)</b>
PREFERRED DIVIDEND		13,000	(xvi)		13,000
<b>NET INCOME (LOSS) AVAILABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (129,884)</b>	<b>\$ 4,914</b>		<b>\$ (11,530)</b>	<b>\$ (136,500)</b>
Earnings per share available to Midstates Petroleum Company, Inc. common stockholders:					
Basic	\$ (2.39)				\$ (2.52)
Diluted	\$ (2.39)				\$ (2.52)
Weighted average number of Midstates Petroleum Company, Inc. common shares outstanding:					
Basic	54,260,727				54,260,727 (xix)
Diluted	54,260,727				54,260,727 (xix)

See accompanying notes.



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### **Note 1. Basis of Presentation**

The unaudited pro forma condensed combined balance sheet as of June 30, 2012 is based on the unaudited condensed consolidated balance sheet of Midstates as of June 30, 2012, adjusted to reflect the following items as though they had occurred on June 30, 2012:

the preliminary purchase accounting assigned to the assets to be acquired and liabilities to be assumed in the Eagle Energy Acquisition and the preliminary estimate of the fair value of the Preferred Stock;

nonrecurring estimated expenses associated with the Eagle Energy Acquisition and the commitment fees and other expenses associated with the bridge funding commitment;

the expected issuance of \$600 million of senior notes and the related offering costs subject to amortization, the net proceeds from which will be used to fund the estimated cash purchase price of the Eagle Energy Acquisition, to repay outstanding borrowings under the revolving credit facility and for general corporate purposes; and

the estimated amortizable fees associated with the increase in Midstates borrowing base under the revolving credit facility from \$200 million to \$235 million and, upon the closing of the Eagle Energy Acquisition, from \$235 million to \$250 million.

The unaudited pro forma condensed combined income statement for the year ended December 31, 2011 is based on the audited consolidated income statement of Midstates for the year ended December 31, 2011. The unaudited pro forma condensed combined income statement for the six months ended June 30, 2012 is based on the unaudited condensed consolidated income statement of Midstates for the six months ended June 30, 2012. The unaudited pro forma condensed combined income statements for the year ended December 31, 2011 and for the six months ended June 30, 2012 have been adjusted to reflect the following items as though the Eagle Energy Acquisition and related transactions had occurred on January 1, 2011:

the revenues and direct operating expenses related the Eagle Energy Acquisition;

the depreciation, depletion, amortization and asset retirement obligation accretion related to the Eagle Energy Acquisition under the full cost method of accounting;

the historical general and administrative expense associated with the Eagle Energy Acquisition; net of amounts expected to be capitalized to oil and gas properties;

the dividend associated with the Preferred Stock to be issued in connection with the Eagle Energy Acquisition;

the estimated interest expense associated with the senior notes offering and the amortization of deferred financing costs, net of amounts expected to be capitalized to unevaluated oil and gas properties; and

the income tax effect of the adjustments outlined above.

The pro forma adjustments are based upon available information and certain assumptions that Midstates believes are reasonable as of the date of this Current Report on Form 8-K. The pro forma adjustments reflected herein are preliminary and based on management's estimations and expectations about the accounting that is expected to take place. In particular, the accounting for the Eagle Energy Acquisition is complex and

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entails determining the fair values of assets acquired and liabilities assumed. The Eagle Energy Acquisition will be accounted for using the purchase method of accounting. Accordingly, the final purchase price allocation is pending the finalization of appraisal valuations of certain tangible and any intangible assets acquired, which may result in an adjustment to the preliminary purchase price allocation. Any such adjustments to the preliminary estimates of fair value could be material. Therefore, the actual adjustments will differ from the pro forma adjustments, and the differences may be material.

These unaudited pro forma condensed combined financial statements have been prepared for comparative purposes only and may not be indicative of the results that would have occurred if Midstates had completed these

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transactions at an earlier date or the results that may occur in the future. These unaudited pro forma condensed combined financial statements should be read in conjunction with the audited December 31, 2011 consolidated financial statements and notes thereto contained in Midstates Registration Statement on Form S-1, as amended (Registration No. 333-177966), the unaudited June 30, 2012 consolidated financial statements contained in Midstates quarterly report on Form 10-Q as filed with the SEC on August 14, 2012, Eagle Energy Company of Oklahoma, LLC's audited consolidated financial statements as of and for the years ended December 31, 2011 and 2010 included as Exhibit 99.4 to this Form 8-K, and Eagle Energy Company of Oklahoma, LLC's unaudited consolidated financial statements as of and for the six months ended June 30, 2012, included as Exhibit 99.5 to this Form 8-K.

**Note 2. Assumptions and Adjustments**

Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2012:

- (i) To record the preliminary purchase accounting assigned to the assets acquired and liabilities assumed with the Eagle Energy assets. The purchase price allocation is subject to change.

The fair value of the assets and liabilities acquired is described below:

Oil and gas properties	\$ 601,000
Hedges assumed - current	12,535
Hedges assumed - noncurrent	6,195
ARO assumed	(1,671)
<b>Total fair value of assets and liabilities acquired</b>	<b>\$ 618,059</b>

The estimated fair value of the consideration to be transferred is described below:

Cash, with estimated purchase adjustments	\$ 355,000
Estimated fair value of Preferred Stock	263,059
<b>Estimated fair value of consideration</b>	<b>\$ 618,059</b>

- (ii) To record nonrecurring estimated expenses associated with the Eagle Energy Acquisition as well as commitment and other fees and expenses associated with the bridge funding commitment intended to be replaced by the notes offering.
- (iii) To record the issuance of \$600 million of the notes and the related cash, net of approximately \$16.0 million of offering costs and approximately \$16.5 million related to the Eagle Energy Acquisition, the increase in our borrowing base from \$200 million to \$235 million and the increase in our borrowing base upon the closing of the Eagle Energy Acquisition from \$235 million to \$250 million. The net proceeds from this offering will be used to (1) pay the estimated cash portion of the purchase price of \$355 million (including estimated closing adjustments and expenses related to the Transactions), (2) repay \$151.7 million of our borrowings under our revolving credit facility and (3) for general corporate purposes.
- (iv) To record the estimated amortizable fees associated with the increase in our borrowing base from \$200 million to \$235 million and the fees associated with upsizing the borrowing base upon closing of the Eagle Energy Acquisition from \$235 million to \$250 million.

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(v) To record asset retirement obligation assumed from Eagle Energy.

Unaudited Pro Forma Condensed Combined Income Statement for the year ended December 31, 2011:

(vi) To reflect the historical revenues and direct operating expenses related to Eagle Energy.

(vii) To reflect depreciation, depletion, amortization and asset retirement obligation accretion expenses attributable to Eagle Energy.



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- (viii) To adjust general and administrative expense for \$5.1 million of additional expenses associated with Eagle Energy, net of amounts expected to be capitalized as directly attributable to oil and natural gas acquisition, exploration and development (\$0.6 million).
  
- (ix) To record the 8% dividend, compounded semiannually, on 325,000 shares of Preferred Stock issued in connection with the Eagle Energy Acquisition. The 8% Preferred Stock dividend is payable in cash or through an increase in the liquidation preference. The shares of Preferred Stock have an initial liquidation value of \$1,000 per share and are convertible into shares of common stock at \$13.50 per share on the later of the 21st day after Midstates filing of a 14C Information Statement or the one year anniversary after issuance. The shares of Preferred Stock are mandatorily convertible into Midstates common stock on September 30, 2015 at a rate between \$11.00 and \$13.50 per common share, depending on Midstates average common stock price during the 15 trading days prior to the mandatory conversion date.
  
- (x) To reflect additional interest expense associated with this offering and to amortize \$16.0 million in estimated offering expenses over an eight year period. Excluded from expenses is \$7.9 million in estimated costs related to obtaining a bridge loan commitment in connection with the Eagle Energy Acquisition, as this amount is non-recurring. The interest expense is based upon a rate of 10.75% for the notes and is net of \$24.2 million capitalized to unproved properties. Also includes amortization of \$4.3 million of estimated fees and expenses related to the increase in Midstates borrowing base associated with its revolving credit facility from \$200 million to \$235 million and the upsizing of the borrowing base upon closing of the Eagle Energy Acquisition from \$235 million to \$250 million (five year amortization period).
  
- (xi) To adjust income tax expense for the impact of the adjustments outlined above at the estimated statutory rate (including state income taxes) of 40.2%.
  
- (xii) The weighted average shares assume Midstates completed its initial public offering on January 1, 2011. The Preferred Stock is considered participating securities for earnings per share purposes; however, these securities do not participate in undistributed net losses and therefore, do not impact weighted average shares outstanding. At a conversion price of \$13.50, the conversion of the Preferred Stock would result in the issuance of 24,074,074 Midstates common shares before any increase in the liquidation preference.  
Unaudited Pro Forma Condensed Combined Income Statement for the six months ended June 30, 2012:
  
- (xiii) To reflect the historical revenues and direct operating expenses related to Eagle Energy.
  
- (xiv) To reflect depreciation, depletion, amortization and asset retirement obligation accretion expenses attributable to Eagle Energy.
  
- (xv) To adjust general and administrative expense for \$2.7 million of additional expenses associated with Eagle Energy, net of amounts expected to be capitalized as directly attributable to oil and natural gas acquisition, exploration and development (\$0.3 million).
  
- (xvi) To record the 8% dividend, compounded semiannually, on 325,000 shares of Preferred Stock issued in connection with the Eagle Energy Acquisition. The 8% Preferred Stock dividend is payable in cash or through an increase in the liquidation preference. The shares of Preferred Stock have an initial liquidation value of \$1,000 per share and are convertible into shares of common stock at \$13.50 per share on the later of the 21st day after Midstates filing of a 14C Information Statement or the one year anniversary after issuance. The shares of Preferred Stock are mandatorily convertible into Midstates common stock on September 30, 2015 at a rate between \$11.00 and \$13.50 per common share, depending on Midstates average common stock price during the 15 trading days prior to the mandatory conversion date.

(xvii)

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To reflect additional interest expense associated with this offering and to amortize \$16.0 million in estimated offering expenses over an eight year period. Excluded from expenses is \$7.9 million in estimated costs related to obtaining a bridge loan commitment in connection with the Eagle Energy Acquisition, as this amount is non-recurring. The interest expense is based upon a rate of 10.75% for the Notes and is net of \$12.1 million capitalized to unproved properties. Also includes amortization of

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\$4.3 million of estimated fees and expenses related to the increase in Midstates borrowing base associated with its revolving credit facility from \$200 million to \$235 million and the upsizing of the borrowing base upon closing of the Eagle Energy Acquisition from \$235 million to \$250 million (five year amortization period).

(xviii) To adjust income tax expense for the impact of the adjustments outlined above at the estimated statutory rate (including state income taxes) of 40.2%.

(xix) The Preferred Stock is considered participating securities for earnings per share purposes; however, these securities do not participate in undistributed net losses and therefore, do not impact weighted average shares outstanding. At a conversion price of \$13.50, the conversion of the Preferred Stock would result in the issuance of 24,074,074 Midstates common shares before any increase in the liquidation preference.

**Table of Contents****SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA**

You should read the following selected financial data in conjunction with Unaudited Pro Forma Financial Information, Management's Discussion and Analysis of Financial Condition and Results of Operations and our historical consolidated financial statements and related notes thereto included elsewhere in this information statement. We believe that the assumptions underlying the preparation of our historical consolidated financial statements are reasonable. The financial information included in this information statement may not be indicative of our future results of operations, financial position and cash flows.

Set forth below is our selected historical consolidated financial data (i) as of June 30, 2012 and for the six months ended June 30, 2012 and 2011, which has been derived from our unaudited condensed consolidated financial statements included elsewhere in this information statement; (ii) as of and for the years ended December 31, 2011, 2010 and 2009, which has been derived from our audited consolidated financial statements included elsewhere in this information statement, and as of and for the period from August 30, 2008 through December 31, 2008, which has been derived from our audited consolidated financial statements not included elsewhere in this information statement; (iii) for the period from January 1 to August 29, 2008 of Midstates Petroleum Corporation, our accounting predecessor, which has been derived from the audited financial statements of Midstates Petroleum Corporation not included elsewhere in this information statement; and (iv) as of and for the year ended December 31, 2007 of Midstates Petroleum Corporation, which has been derived from the unaudited consolidated financial statements of Midstates Petroleum Corporation not included elsewhere in this information statement.

	Six Months Ended June 30,		Successor Year Ended December 31,			Period from August 30 to December 31, 2008	Predecessor Period from January 1 to August 29, 2008		Year Ended December 31, 2007
	2012	2011	2011	2010	2009		2008	2007	
	(Unaudited)		(In thousands)				(In thousands)		(unaudited)
			(As restated) (1)						
<b>Statement of operations data</b>									
Oil, gas and natural gas liquids revenues	\$ 109,140	\$ 95,828	\$ 213,812	\$ 89,111	\$ 30,133	\$ 8,689	\$ 27,458	\$ 14,647	
Gains (losses) on commodity derivative contracts net	23,478	(18,119)	(4,844)	(26,268)	(5,987)	14,062	(7,678)	(5,363)	
Other revenue	207	114	465	209	108	43	113	234	
<b>Total revenues</b>	<b>132,825</b>	<b>77,823</b>	<b>209,433</b>	<b>63,052</b>	<b>24,254</b>	<b>22,794</b>	<b>19,893</b>	<b>9,518</b>	
<b>Expenses:</b>									
Lease operating and workover (2)	12,388	6,275	16,117	12,861	10,328	3,918	4,975	3,731	
Severance and other taxes (3)	11,648	9,495	13,640	6,986	3,059	805	2,354	1,258	
Asset retirement accretion	298	86	334	175	120	37	79	113	
General and administrative (4)	11,019	14,544	68,915	16,847	5,886	1,402	1,816	1,616	
Depreciation, depletion and amortization	55,909	39,884	91,699	41,827	12,322	2,995	3,117	3,503	
Impairment in carrying value of oil and gas properties					4,297	26,776			
<b>Total expenses</b>	<b>91,262</b>	<b>70,284</b>	<b>190,705</b>	<b>78,696</b>	<b>36,012</b>	<b>35,933</b>	<b>12,341</b>	<b>10,221</b>	
Income (loss) from operations	41,563	7,539	18,728	(15,644)	(11,758)	(13,139)	7,552	(703)	

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	Six Months Ended June 30,		Successor Year Ended December 31,			Period from August 30 to December 31, 2008	Predecessor Period from January 1 to August 29, 2008		Year Ended December 31, 2007
	2012	2011	2011	2010	2009		2008	2008	
	(Unaudited)		(In thousands)				(In thousands)		(unaudited)
			(As restated) (1)						
<b>Other income (expense):</b>									
Interest income	150	12	23	9	6	7	12	34	
Interest expense net of amounts capitalized	(2,680)	(134)	(2,094)				(854)	(1,100)	
Total other income	(2,530)	(122)	(2,071)	9	6	7	(842)	(1,066)	
<b>Income before taxes</b>	39,033	7,417	16,657	(15,635)	(11,752)	(13,132)	6,710	(1,769)	
Income tax expense	168,917								
<b>Net income (loss)</b>	\$ (129,884)	\$ 7,417	\$ 16,657	\$ (15,635)	\$ (11,752)	\$ (13,132)	\$ 6,710	\$ (1,769)	

- (1) See Note 11 to our Consolidated Financial Statements as of and for the year ended December 31, 2011.
- (2) Includes \$1.5 million, \$0.7 million, \$2.1 million, \$4.7 million, and \$5.2 million in workover expense for the six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, respectively.
- (3) Includes \$1.7 million, \$0.4 million, \$1.2 million, \$0.6 million, and \$0.2 million in ad valorem tax expense for the six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, respectively.
- (4) Includes \$0.7 million, \$7.9 million, \$53.7 million, \$1.5 million and \$0.2 million in share-based compensation expense for the six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, respectively. See Note 7 to our Consolidated Financial Statements.

	As of June 30, 2012	Successor As of December 31,			As of December 31, 2008	Predecessor As of December 31, 2007
		2011	2010	2009		
	(Unaudited)	(In thousands)				(In thousands)
		(As restated) (1)				(unaudited)
<b>Balance sheet data:</b>						
Cash and cash equivalents	\$ 11,689	\$ 7,344	\$ 11,917	\$ 4,353	\$ 3,214	\$ 1,000
Net property and equipment	726,188	574,079	397,126	271,726	209,939	30,640
Total assets	791,235	624,656	427,004	284,034	222,074	35,447
Long-term debt	151,700	234,800	89,600	29,800	21,800	20,100
Total members /stockholders equity	370,139	285,502	255,879	235,334	192,006	2,510

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(1) See Note 11 to our Consolidated Financial Statements as of and for the year ended December 31, 2011.

	Six Months Ended June 30,		Successor Year Ended December 31,			Period from August 30 to December 31, 2008	Predecessor Period from January 1 to August 29, 2008		Year Ended December 31, 2007
	2012	2011	2011	2010	2009		2008	2007	
	(Unaudited)		(In thousands)				(In thousands)		(unaudited)
<b>Other financial data:</b>									
Net cash provided by operating activities	\$ 59,963	\$ 66,984	\$ 140,700	\$ 50,768	\$ 10,595	\$ 3,670	\$ 10,046	\$ 7,429	
Net cash used in investing activities	(184,245)	(102,302)	(242,771)	(139,618)	(75,215)	(5,451)	(9,480)	(15,709)	
Net cash provided by financing activities	128,627	33,856	97,498	96,414	65,759	4,995	1,792	8,275	

(1) See Note 11 to our Consolidated Financial Statements as of and for the year ended December 31, 2011.

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**ACTION BY WRITTEN CONSENT**

**Issuance of Shares of Our Common Stock Upon Conversion of Our Preferred Stock**

On August 11, 2012, we entered into the Acquisition Agreement with Eagle Energy pursuant to which we agreed to issue to Eagle Energy 325,000 shares of the Preferred Stock with an initial liquidation preference of \$1,000 per share as part of the consideration for the Eagle Energy Acquisition. The Preferred Stock will only become convertible into Common Stock beginning on the 21st calendar day after we mail this information statement to our stockholders, and the holders of the Preferred Stock may not convert their shares of Preferred Stock before the first anniversary of the closing date of the transaction, which is expected to occur on or about October 1, 2012. After such time, the Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Preferred Stock, into a number of shares of our Common Stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share. Each share of Preferred Stock is mandatorily convertible into Common Stock on September 30, 2015 at a price of no greater than \$13.50 per share and no less than \$11.00 per share, or a maximum of 37,384,426 shares of our Common Stock in the aggregate assuming a conversion price of \$11.00 and that all dividends are paid in kind until the mandatory conversion date, which would represent approximately 56% of our Common Stock outstanding on September 26, 2012.

Because our Common Stock is currently listed on the New York Stock Exchange and we are therefore subject to Section 312.03 of the Listed Company Manual, we must obtain stockholder approval before issuing Common Stock, or securities convertible into Common Stock, in any transaction or series of related transactions, if (i) the Common Stock has, or will have upon issuance, voting power equal to 20% or more of the voting power outstanding before the issuance of such stock or securities convertible into Common Stock or (ii) the number of shares of Common Stock to be issued is, or will be upon issuance, equal to 20% or more of the number of shares of Common Stock outstanding before the issuance of the Common Stock or securities convertible into Common Stock. Pursuant to Section 228 of the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation and our Bylaws, the written consent of the holders of shares of our outstanding capital stock, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, may be substituted for such meeting. On August 11, 2012, the holders of 36,121,546 shares of Common Stock, representing a majority of our then-outstanding voting power, approved by written consent the issuance of the Preferred Stock and the Common Stock upon conversion of the Preferred Stock (the Written Consent ).

**No Further Stockholder Action Needed**

As a result of the Written Consent, stockholder approval of the issuance of the Preferred Stock and the Common Stock issuable upon conversion of the Preferred Stock has been obtained. We were not required under the General Corporation Law of the State of Delaware, our Amended and Restated Certificate of Incorporation or our Bylaws to obtain stockholder approval to issue the Preferred Stock. Accordingly, all necessary corporate approvals in connection with the matters referred to herein have been obtained and no further votes will be needed. The Preferred Stock will not become convertible into shares of Common Stock until the 21st day after the date on which we mail this information statement to our stockholders. Our board of directors does not intend to solicit any proxies or consents in connection with the foregoing actions.

This information statement is furnished solely for the purpose of informing stockholders regarding the actions taken by Written Consent and is being provided pursuant to the requirements of Rule 14c-2 promulgated under Section 13 of the Exchange Act.

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**THE EAGLE ENERGY ACQUISITION**

As part of our strategy to increase our position in onshore basins in North America, we entered into the Acquisition Agreement on August 11, 2012. Pursuant to the Acquisition Agreement, we agreed to acquire certain interests in producing oil and natural gas assets and unevaluated leasehold acreage in Oklahoma and Kansas and related hedging instruments. The aggregate purchase price, subject to adjustment as provided in the Acquisition Agreement, consists of (i) \$325,000,000 in cash and (ii) 325,000 shares of our Preferred Stock with an initial liquidation preference of \$1,000 per share. The Eagle Energy Acquisition will be effective June 1, 2012 and is expected to close on or about October 1, 2012, subject to customary closing conditions.

Eagle Energy is an independent energy company focused on exploration and development of oil and natural gas properties, with a focus on the Mississippian Lime formation in northwestern Oklahoma and southern Kansas. Eagle Energy was founded in 2009 and is headquartered in Tulsa, Oklahoma.

We believe Eagle Energy represents both a strategic and transformative acquisition for us. We believe the properties we are acquiring are in a market-recognized, horizontal oil play with a well understood geology. The Mississippian Lime has thousands of industry vertical wells with decades of production history and approximately 500 industry horizontal wells in the region. We believe the play has attractive economics, which are supported by high oil and NGLs content and competitive drilling and completion costs attributable to the relatively shallow nature of this carbonate-rich formation. The Eagle Energy Acquisition also increases our geographical diversification and scale by adding a new core area with approximately 600 gross potential oil- and liquids-weighted drilling locations and substantially increases our proved reserves and extends our reserve life. Furthermore, we believe that Eagle Energy complements our existing geological and operational profile. We expect that key members of Eagle Energy's management will remain with the company for a year to assist us with the transaction. In addition, Eagle Energy executives are bound by a one year no solicitation agreement with respect to Eagle Energy employees.

Eagle Energy was an early mover in the Mississippian Lime, with a majority of its acreage residing in the core of the play in Woods County and Alfalfa County in northwestern Oklahoma. As of August 1, 2012, Eagle Energy had approximately 82,000 net acres prospective in the Mississippian Lime with 76,000 net acres in Woods and Alfalfa Counties, Oklahoma and 6,000 net acres in Kansas, in which the company held an average working interest of approximately 73%. Eagle Energy also had approximately 15,000 net acres in the Hunton formation in Lincoln County, Oklahoma. Eagle Energy's underlying properties produced approximately 7,000 Boe/d as of August 10, 2012. NSAI, Eagle Energy's independent reserve engineers, estimated the company's net proved reserves to be 25.1 MMBoe as of December 31, 2011, 59% of which were comprised of oil and NGLs.

The Mississippian Lime is an expansive carbonate hydrocarbon system located on the Anadarko Shelf. The top of the formation is encountered between 4,000 feet and 7,000 feet. The Mississippian formation can reach 1,000 feet in gross thickness and the targeted porosity zone is between 50 and 100 feet in thickness. The formation had been historically developed utilizing vertical wellbores dating back to the 1940's. In 2007, the application of horizontal drilling and multi-stage hydraulic fracturing demonstrated the potential for extracting significant additional quantities of oil, natural gas and NGLs from the formation. Since the beginning of 2009, there have been approximately 500 horizontal wells drilled in the Mississippian formation in northern Oklahoma and southern Kansas, including the 60 wells drilled by Eagle Energy. While horizontal wells are more expensive than vertical wells, a horizontal wellbore increases the production of hydrocarbons and adds significant recoverable reserves per well at a more competitive return on investment than vertical wells. With data collected from the thousands of vertical and horizontal wells that have been drilled by Eagle Energy and other operators in the region, we are better able to understand the permeability and porosity of the underlying rock properties, the amount of recoverable oil, natural gas and NGLs, and how to best identify productive reservoirs and potential horizontal well locations.



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We believe Eagle Energy possesses the following competitive advantages:

early mover in the Mississippian Lime, with a majority of its acreage in the core of the play;

strong current cash flow with material untapped growth;

top quartile well results with recent initial projections in the 400 Boe/d to 1,460 Boe/d range; and

low cost producer with established and growing infrastructure.

For the year ended December 31, 2011 and the six months ended June, 30, 2012, Eagle Energy had net income of \$23.6 million and a net loss of \$1.8 million, respectively, and cash provided by operating activities of \$48.8 million and \$26.8 million, respectively.

We intend to fund the cash portion of the purchase price for, and expenses related to, the Eagle Energy Acquisition with the net proceeds from the issuance and sale by us and Midstates Sub of \$600 million aggregate principal amount of senior unsecured notes or, if such sale is not completed, the entrance by us and Midstates Sub into a \$500 million bridge credit facility and, in either case, the use of proceeds therefrom. The completion of such notes offering or entrance into the bridge credit facility is not a condition to the closing of the Eagle Energy Acquisition.

We and Eagle Energy have made customary representations, warranties and covenants in the Acquisition Agreement. Eagle Energy has made certain additional customary covenants, including, among others, covenants to conduct its business in the ordinary course between the execution of the Acquisition Agreement and the closing of the Eagle Energy Acquisition and not to engage in certain kinds of transactions during that period, subject to certain exceptions. We have agreed not to take certain specified actions without Eagle Energy's consent during the time between execution of the Acquisition Agreement and the closing of the Eagle Energy Acquisition.

Consummation of the Eagle Energy Acquisition is subject to various conditions, including, among others, (1) the accuracy of representations and warranties of the parties as of the closing date, including the absence of any material adverse effect with respect to each of Eagle Energy's business and our business, (2) the release of certain liens in connection with the repayment of Eagle Energy's indebtedness, (3) the execution of certain ancillary documents and (4) other customary closing conditions.

The Acquisition Agreement contains certain customary termination rights for both us and Eagle Energy, including, among others, the right of either party to terminate the Acquisition Agreement if, subject to certain exceptions, the Eagle Energy Acquisition is not consummated by November 30, 2012. In the event either party terminates the Acquisition Agreement because of a breach by the other party of any of its obligations, representations, warranties, agreements or covenants, the breaching party may be liable for any and all damages of the terminating party arising from such breach. In addition, in the event of a willful and material breach of the Acquisition Agreement that results in the failure of a closing condition, the terminating party may elect to collect \$65 million from the breaching party in lieu of pursuing actual damages.

The Preferred Stock will not become convertible into shares of our Common Stock until the 21st day after the date on which we mail this information statement to our stockholders, and the holders of the Preferred Stock may not convert their shares of Preferred Stock before the first anniversary of the closing date of the Eagle Energy Acquisition. After such time, the Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Preferred Stock, into a number of shares of our Common Stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share. In addition, the Preferred Stock will be subject to mandatory conversion into shares of our Common Stock on September 30, 2015 at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share. Dividends on the Preferred Stock will accrue at a rate of 8.0% per annum, payable semi-annually, at our sole option, in cash or through an increase in the liquidation preference. The Preferred Stock will also have the other

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rights and terms set forth on the Certificate of Designation, including voting rights that are similar to those belonging to holders of our Common Stock on an as-converted basis (except with respect to the election of directors and the approval of certain transactions where the holders of the Preferred Stock would be entitled to consideration at least equal to the liquidation preference) until such time as holders of the Preferred Stock are permitted to convert their shares into Common Stock and the market price of our Common Stock is above \$13.50 per share for 15 consecutive trading days. In addition, the holders of the Preferred Stock will have the right, subject to the terms and conditions set forth in the Certificate of Designations, to elect one member of the board of directors, and to approve certain corporate actions. The Preferred Stock will rank senior to our Common Stock with respect to dividend rights. The issuance of the Preferred Stock to Eagle Energy pursuant to the Acquisition Agreement has been approved by stockholders holding a majority of the outstanding shares of our Common Stock.

You should carefully review the audited and unaudited consolidated financial statements for Eagle Energy and the notes related thereto and our unaudited pro forma consolidated financial statements and the notes related thereto contained in this information statement.

For additional information about the terms of our shares of Preferred Stock and other outstanding stock, see Description of Capital Stock. For additional information about the terms of the registration rights agreement applicable to the shares of Common Stock issued upon conversion of the Preferred Stock, see Registration Rights.

## **Other Transactions**

In connection with the consummation of the Eagle Energy Acquisition, we anticipate entering into the following additional transactions:

the issuance and sale by us and Midstates Sub of \$600 million aggregate principal amount of senior unsecured notes or, if such sale is not completed, the entrance by us and Midstates Sub into a \$500 million bridge credit facility and, in either case, the use of proceeds therefrom to fund the cash portion of the purchase price of the Eagle Energy Acquisition and the expenses relating thereto and to repay a portion of the outstanding borrowings under our revolving credit facility; and

entry into the Credit Agreement Amendment to, among other things, increase the borrowing capacity under our revolving credit facility from \$200 million to \$250 million, subject to the satisfaction of certain conditions.

For additional information about the terms of the bridge credit facility, see Management's Discussion and Analysis of Financial Condition and Results of Operations Potential Bridge Credit Facility. For additional information about the terms of the revolving credit facility, see Management's Discussion and Analysis of Financial Condition and Results of Operations Reserve-based Credit Facility.

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**BACKGROUND OF THE TRANSACTION**

**Reasons for the Action Taken**

Please read "The Eagle Energy Acquisition" above.

As partial consideration for the Eagle Energy Acquisition, we will issue to Eagle Energy 325,000 shares of Preferred Stock with an initial liquidation preference of \$1,000 per share.

**Effects of the Proposed Issuance**

The issuance of a significant amount of Common Stock upon conversion of the Preferred Stock may adversely affect the price of the Common Stock. We have agreed to enter into a registration rights agreement in connection with the issuance of the Preferred Stock to permit the public resale of the shares of Common Stock underlying the Preferred Stock. The influx of such a substantial number of common shares into the public market could have a significant negative effect on the trading price of the Common Stock. As of September 26, 2012, approximately 66,533,872 shares of Common Stock were outstanding. An additional approximate 37.4 million shares of Common Stock will be outstanding upon automatic conversion of the outstanding Preferred Stock, assuming a conversion price of \$11.00 per share and dividends are paid through an increase in the liquidation preference of the Preferred Stock until the mandatory conversion date. Issuance of these shares of Common Stock may substantially dilute the ownership interests of our existing stockholders. The potential issuance of such additional shares of Common Stock may create downward pressure on the trading price of our Common Stock. In recent years, broad stock market indices, in general, and smaller capitalization companies, in particular, have experienced substantial price fluctuations, and, since our initial public offering in April 2012, we have experienced wide fluctuations and a decline in the market price of our Common Stock.

Before the Preferred Stock becomes convertible into Common Stock, it will be entitled to 19.9% of the total voting power outstanding. After the Preferred Stock becomes convertible into Common Stock, it will vote with the Common Stock on an as-converted basis on all matters submitted to the holders of the Common Stock (except with respect to the election of directors and the approval of certain transactions where the holders of the Preferred Stock would be entitled to consideration at least equal to the liquidation preference) until the first anniversary of the date of issuance and the price of our Common Stock has been above \$13.50 per share for at least 15 consecutive trading days. While the Preferred Stock has such voting power, Riverstone Holdings, LLC ( "Riverstone" ), which controls Eagle Energy, will have significant influence over our operations. In addition, for so long as at least 75% of the Preferred Stock is held by Riverstone and its affiliates, holders of the Preferred Stock, voting as a single class, will be entitled to elect one member of our board of directors, who must be an employee of Riverstone or one of its affiliates. The terms of the Preferred Stock also prohibit us from engaging in certain transactions without the consent of the holders of a majority of the Preferred Stock, including the following actions:

the creation or issuance of any class of capital stock senior to or on parity with the Preferred Stock;

the redemption, acquisition or purchase by us of any of our equity securities, other than a repurchase from an employee or director in connection with such person's termination or as provided in the agreement pursuant to which such equity securities were issued;

any change to our certificate of incorporation or bylaws that adversely affects the rights, preferences, privileges or voting rights of the holders of the Preferred Stock;

acquisitions or dispositions for which the amount of consideration exceeds 20% of our market capitalization in any single transaction or 40% of our market capitalization for any series of transactions during a calendar year;

entering into certain transactions with affiliates, other than transactions that do not exceed, in the aggregate, \$10 million in any calendar year;



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certain corporate transactions unless the holders of the Preferred Stock would receive consideration consisting solely of cash and/or marketable securities with an aggregate fair market value equal to or greater than the liquidation preference on such shares of Preferred Stock; and

any increase or decrease in the size of our board of directors.

As a result of Riverstone's equity ownership or voting power, director nominee and consent rights, our ability to engage in financing transactions or other significant transactions, such as a merger, acquisition, disposition or liquidation, may be limited. In connection with such transactions, conflicts of interest could arise between us and Riverstone, and any conflict of interest may be resolved in a manner that does not favor us.

**No Dissenter's Rights**

The corporate action described in this information statement will not afford to stockholders the opportunity to dissent from the actions described herein or to receive an agreed or judicially appraised value for their shares.

**Interest of Certain Persons in the Action Taken**

No person who has been an officer or director of Midstates since January 1, 2012, nor any associate of such person, has any substantial interest by security holding or otherwise in the issuance of the shares of Common Stock underlying the shares of the Preferred Stock.

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**THE ACQUISITION AGREEMENT**

Upon the consummation of the Eagle Energy Acquisition, we will acquire certain interests in producing oil and natural gas assets, unevaluated leasehold acreage in Oklahoma and Kansas and the related hedging instruments from Eagle Energy for \$325 million in cash and 325,000 shares of Preferred Stock. The cash purchase price that we will pay is subject to adjustments as described in the Acquisition Agreement.

We, Eagle Energy and Midstates Sub have made customary representations, warranties and covenants in the Acquisition Agreement. Eagle Energy has made certain additional customary covenants, including, among others, covenants to conduct its business in the ordinary course between the execution of the Agreement and the closing of the Eagle Energy Acquisition and not to engage in certain kinds of transactions during that period, subject to certain exceptions. We have agreed not to take certain specified actions without Eagle Energy's consent during the time between execution of the Acquisition Agreement and the closing of the Eagle Energy Acquisition.

Consummation of the Eagle Energy Acquisition is subject to various conditions, including, among others, (1) the accuracy of representations and warranties of the parties as of the closing date, including the absence of any material adverse effect with respect to each of Eagle Energy's business and our business, (2) the release of certain liens in connection with the repayment of Eagle Energy's indebtedness, (3) the execution of certain ancillary documents and (4) other customary closing conditions. The Eagle Energy Acquisition will be effective June 1, 2012 and closing is expected to occur on or about October 1, 2012. The Acquisition Agreement may be terminated under customary circumstances.

This summary of the material terms of the Acquisition Agreement is qualified in its entirety by reference to the Acquisition Agreement, which is attached as Annex A to this information statement and is incorporated herein by reference.

**The Parties to the Acquisition Agreement**

***Midstates Petroleum Company, Inc.***

4400 Post Oak Parkway, Suite 1900

Houston, Texas 77027

(713) 595-9400

We are an independent exploration and production company focused on the development of oil-prone resources in the Upper Gulf Coast Tertiary trend onshore in central Louisiana. Our current acreage positions and evaluation efforts are concentrated in the Wilcox interval of the trend. We are currently focused on the development of our inventory of identified drilling locations, which we will selectively allocate capital to by applying rigorous investment analysis in an effort to maximize our potential returns. We are focused on maximizing the net present value of our drilling opportunities by measuring risk and financial return, among other factors. In addition, we are the operator of the substantial majority of our properties, which enables us to better control timing, costs and drilling and completion techniques.

We were incorporated pursuant to the laws of the State of Delaware on October 25, 2011 to become a holding company for Midstates Petroleum Company LLC, a wholly-owned subsidiary of Midstates Petroleum Holdings LLC. Pursuant to the terms of a corporate reorganization that was completed immediately prior to the closing of our initial public offering on April 25, 2012, all of the interests in Midstates Petroleum Holdings LLC were exchanged for our newly issued common shares, and as a result, Midstates Petroleum Company LLC became our wholly-owned subsidiary.

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***Eagle Energy Production, LLC***

200 Reunion Center

9 East 4th Street

Tulsa, Oklahoma 74103

(918) 746-1350

Eagle Energy is an independent energy company focused on exploration and development of oil and natural gas properties, with a focus on the Mississippian Lime formation in northwestern Oklahoma and southern Kansas. Eagle Energy was founded in 2009 and is headquartered in Tulsa, Oklahoma.

***Midstates Petroleum Company LLC***

4400 Post Oak Parkway, Suite 1900

Houston, Texas 77027

(713) 595-9400

Midstates Sub is our wholly owned subsidiary and our main operating company.

**Accounting Treatment**

In accordance with accounting principles generally accepted in the United States and in accordance with the Financial Accounting Standards Board's Accounting Standards Codification Topic 805-Business Combinations, we will account for the Eagle Energy Acquisition as an acquisition of a business and as such, the results of operations of the Eagle Energy Assets subsequent to the closing date of the Eagle Energy Acquisition will be included in our results of operations and the assets acquired and the liabilities assumed in the Eagle Energy Acquisition will be recorded at their respective estimated fair values at the same date. Any excess of the total purchase price over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed will be recorded as goodwill.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth information regarding the beneficial ownership of our Common Stock as of September 6, 2012 by:

each person to be known by us to be the beneficial owner of more than 5% of our outstanding shares of Common Stock;

each of our named executive officers;

each of our directors; and

all of our current executive officers and directors as a group.

Except as otherwise indicated, the person or entities listed below have sole voting and investment power with respect to all shares of our Common Stock beneficially owned by them, except to the extent this power may be shared with a spouse. All information with respect to beneficial ownership has been furnished by the respective directors, officers or 5% or more stockholders, as the case may be. Unless otherwise indicated, the address of each person or entity named in the table below is 4400 Post Oak Parkway, Suite 1900, Houston, Texas 77027.

As of September 6, 2012, approximately 66,535,256 million shares of our Common Stock were outstanding.

NAME AND ADDRESS OF BENEFICIAL OWNER	Shares Beneficially Owned	Percentage
FR Midstates Interholding, LP (1)	27,147,651	40.80%
Stephen J. McDaniel	4,455,627	6.70%
John A. Crum	861,301	1.29%
Thomas L. Mitchell	290,399	*
Alex T. Krueger (2)		
Anastasia Deulina (2)		
John Mogford (2)		
Mary P. Ricciardello	9,615	*
Loren M. Leiker	9,615	*
Stephen C. Pugh	244,245	*
John P. Foley	602,737	*
All directors and executive officers as a group (10 persons)	33,621,190	50.53%

- (1) FR Midstates Interholding, L.P.'s general partner is FR XII Alternative GP, L.L.C. FR XII Alternative GP, L.L.C.'s managing member is First Reserve GP XII, L.P. The general partner of First Reserve GP XII, L.P. is First Reserve GP XII Limited. William E. Macaulay is a director of First Reserve GP XII Limited and has the right to appoint the majority of the board of directors of First Reserve GP XII Limited.
- (2) Messrs Krueger and Mogford are managing directors, and Ms. Deulina is a non-executive director, of First Reserve Management Limited, an affiliate of FR Midstates Interholding, L.P. Each of Messrs Krueger and Mogford and Ms. Deulina disclaim beneficial ownership of the shares that relate to and are described in footnote 3 above. The address of each of the persons mentioned in this paragraph is One Lafayette Place, Greenwich, Connecticut 06830.



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### **DESCRIPTION OF CAPITAL STOCK**

The authorized capital stock of Midstates consists of 300,000,000 shares of Common Stock and 50,000,000 shares of preferred stock of which no shares are issued and outstanding.

The following summary of the capital stock and Amended and Restated Certificate of Incorporation and Bylaws of Midstates does not purport to be complete and is qualified in its entirety by reference to the provisions of applicable law and to our Amended and Restated Certificate of Incorporation and Bylaws.

#### **Common Stock**

Except as provided by law or in a preferred stock designation, holders of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of the stockholders, will have the exclusive right to vote for the election of directors and do not have cumulative voting rights. Except as otherwise required by law, holders of Common Stock are not entitled to vote on any amendment to the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of preferred stock) that relates solely to the terms of any outstanding series of preferred stock if the holders of such affected series are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to the Amended and Restated Certificate of Incorporation (including any certificate of designations relating to any series of preferred stock) or pursuant to the DGCL. Subject to prior rights and preferences that may be applicable to any outstanding shares or series of preferred stock, holders of Common Stock are entitled to receive ratably in proportion to the shares of Common Stock held by them such dividends (payable in cash, stock or otherwise), if any, as may be declared from time to time by our board of directors out of funds legally available for dividend payments. All outstanding shares of Common Stock are fully paid and non-assessable, and the shares of Common Stock to be issued upon completion of this offering will be fully paid and non-assessable. The holders of Common Stock have no preferences or rights of conversion, exchange, pre-emption or other subscription rights. There are no redemption or sinking fund provisions applicable to the Common Stock. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of our affairs, holders of Common Stock will be entitled to share ratably in our assets in proportion to the shares of Common Stock held by them that are remaining after payment or provision for payment of all of our debts and obligations and after distribution in full of preferential amounts to be distributed to holders of outstanding shares of preferred stock, if any.

#### **Preferred Stock**

Our Amended and Restated Certificate of Incorporation authorizes our board of directors, subject to any limitations prescribed by law, without further stockholder approval, to establish and to issue from time to time one or more classes or series of preferred stock, par value \$0.01 per share, covering up to an aggregate of 50,000,000 shares of preferred stock. Each class or series of preferred stock will cover the number of shares and will have the powers, preferences, rights, qualifications, limitations and restrictions determined by the board of directors, which may include, among others, dividend rights, liquidation preferences, voting rights, conversion rights, preemptive rights and redemption rights. Except as provided by law or in a preferred stock designation, the holders of preferred stock will not be entitled to vote at or receive notice of any meeting of stockholders.

#### **Series A Mandatorily Convertible Preferred Stock**

*Optional Conversion.* The Preferred Stock will not become convertible into shares of our Common Stock until the 21st day after the date on which we mail to our stockholders this information statement regarding the issuance of the Preferred Stock, and the holders of the Preferred Stock may not convert before the first anniversary of the closing date of the Eagle Energy Acquisition. After such time, the Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Preferred Stock, into a number of shares of our Common Stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share.

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*Mandatory Conversion.* The Preferred Stock will be subject to mandatory conversion into shares of our Common Stock on September 30, 2015 at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share.

*Dividend Rights.* Dividends on the Preferred Stock will accrue at a rate of 8.0% per annum, payable semi-annually, at our sole option, in cash or through an increase in the liquidation preference.

*Voting Rights.* The Preferred Stock will also have the other rights and terms set forth on the Certificate of Designations, including voting rights that are similar to those belonging to holders of our Common Stock on an as-converted basis (except with respect to the election of directors and the approval of certain transactions where the holders of the Preferred Stock would be entitled to consideration at least equal to the liquidation preference) until such time as holders of the Preferred Stock are permitted to convert their shares into Common Stock and the market price of our Common Stock is above \$13.50 per share for 15 consecutive trading days. In addition, the holders of the Preferred Stock will have the right, subject to the terms and conditions set forth in the Certificate of Designations, to elect one member of the board of directors, and to approve certain corporate actions.

*Ranking.* The Preferred Stock will rank senior to our Common Stock with respect to dividend rights.

### **Anti-Takeover Effects of Provisions of Our Amended and Restated Certificate of Incorporation, our Bylaws and Delaware Law**

Some provisions of Delaware law, and our Amended and Restated Certificate of Incorporation and our Bylaws described below, will contain provisions that could make the following transactions more difficult: acquisitions of us by means of a tender offer, a proxy contest or otherwise; or removal of our incumbent officers and directors. These provisions may also have the effect of preventing changes in our management. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interests, including transactions that might result in a premium over the market price for our shares.

These provisions, summarized below, are expected to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with us. We believe that the benefits of increased protection and our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because, among other things, negotiation of these proposals could result in an improvement of their terms.

#### **Delaware Law**

We will not be subject to the provisions of Section 203 of the DGCL, regulating corporate takeovers. In general, those provisions prohibit a Delaware corporation, including those whose securities are listed for trading on the NYSE, from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder, unless:

the transaction is approved by the board of directors before the date the interested stockholder attained that status;

upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or

on or after such time the business combination is approved by the board of directors and authorized at a meeting of stockholders by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

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### **Amended and Restated Certificate of Incorporation and Bylaws**

Provisions of our Amended and Restated Certificate of Incorporation and Bylaws may delay or discourage transactions involving an actual or potential change in control or change in our management, including transactions in which stockholders might otherwise receive a premium for their shares, or transactions that our stockholders might otherwise deem to be in their best interests. Therefore, these provisions could adversely affect the price of our Common Stock.

Among other things, our Amended and Restated Certificate of Incorporation and Bylaws:

permit our board of directors to issue up to 50,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate;

provide that the authorized number of directors may be changed only by resolution of the board of directors;

at any time after the earlier of the date that (i) funds affiliated with First Reserve Management, L.P. ( First Reserve ) no longer own more than 25% of our Common Stock or (ii) First Reserve declares that a Trigger Date (as defined in our Amended and Restated Certificate of Incorporation and our Bylaws) has occurred:

provide that any action required or permitted to be taken by the stockholders must be effected at a duly called annual or special meeting of stockholders and may not be effected by any consent in writing in lieu of a meeting of such stockholders, subject to the rights of the holders of any series of preferred stock with respect to such series (prior to such time, such actions may be taken without a meeting by written consent of holders of Common Stock having not less than the minimum number of votes that would be necessary to authorize such action at a meeting);

provide that all vacancies, including newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum (prior to such time, vacancies may also be filled by the affirmative vote of the holders of a majority of our then outstanding Common Stock);

provide that our Bylaws may only be amended by the affirmative vote of the holders of at least two-thirds of our then outstanding Common Stock (prior to such time, our Bylaws may be amended by the affirmative vote of the holders of a majority of our then outstanding Common Stock); and

provide that special meetings of our stockholders may only be called by the board of directors, the chief executive officer or the chairman of the board or the board of directors (prior to such time, a special meeting may also be called at the request of stockholders holding 25% of the outstanding shares entitled to vote);

provide for our board of directors to be divided into three classes of directors, with each class as nearly equal in number as possible, serving staggered three year terms, other than directors which may be elected by holders of preferred stock, if any. This system of electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us, because it could have the effect of increasing the length of time necessary to change the composition of a majority of the board of directors. In general, at least two annual meetings of stockholders will be necessary for stockholders to effect a change in a majority of the members of the board of directors;

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provide that we renounce any interest in the business opportunities of First Reserve and of our directors who are affiliated with First Reserve, other than directors employed by us, and that neither our directors affiliated with First Reserve, other than directors employed by us, nor First Reserve, have any obligation to offer us those opportunities;

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eliminate the personal liability of our directors for monetary damages resulting from breaches of their fiduciary duty to the extent permitted by the DGCL and indemnify our directors and officers to the fullest extent permitted by Section 145 of the DGCL;

provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide notice in writing in a timely manner, and also specify requirements as to the form and content of a stockholder's notice; and

not provide for cumulative voting rights, therefore allowing the holders of a majority of the shares of Common Stock entitled to vote in any election of directors to elect all of the directors standing for election, if they should so choose.

### **Limitation of Liability and Indemnification Matters**

Our Amended and Restated Certificate of Incorporation limits the liability of our directors for monetary damages for breach of their fiduciary duty as directors, except for liability that cannot be eliminated under the DGCL. Delaware law provides that directors of a company will not be personally liable for monetary damages for breach of their fiduciary duty as directors, except for liabilities:

for any breach of their duty of loyalty to us or our stockholders;

for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;

for unlawful payment of dividend or unlawful stock repurchase or redemption, as provided under Section 174 of the DGCL; or

for any transaction from which the director derived an improper personal benefit.

Any amendment, repeal or modification of these provisions will be prospective only and would not affect any limitation on liability of a director for acts or omissions that occurred prior to any such amendment, repeal or modification.

Our Amended and Restated Certificate of Incorporation and Bylaws also provide that we will indemnify our directors and officers to the fullest extent permitted by Delaware law. Our Amended and Restated Certificate of Incorporation and Bylaws also permit us to purchase insurance on behalf of any officer, director, employee or other agent for any liability arising out of that person's actions as our officer, director, employee or agent, regardless of whether Delaware law would permit indemnification. These agreements will require us to indemnify these individuals to the fullest extent permitted under Delaware law against liability that may arise by reason of their service to us, and to advance expenses incurred as a result of any proceeding against them as to which they could be indemnified. We believe that the limitation of liability provision in our Amended and Restated Certificate of Incorporation and the indemnification agreements will facilitate our ability to continue to attract and retain qualified individuals to serve as directors and officers.

### **Transfer Agent and Registrar**

The transfer agent and registrar for our Common Stock and the Preferred Stock is American Stock Transfer & Trust Company, LLC.

### **Listing**

Our Common Stock is listed on the NYSE under the symbol MPO. The Preferred Stock will not be listed on any securities exchange.

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**REGISTRATION RIGHTS**

In connection with the closing of the Eagle Energy Acquisition, we expect to enter into a registration rights agreement (the Registration Rights Agreement ) with Eagle Energy, FRMI, Mr. McDaniel (the Chairman of our board), Mrs. McDaniel, our executive officers and certain other members of our management team. Pursuant to the Registration Rights Agreement, we have agreed to register the sale of shares of our Common Stock under the circumstances described below.

*Demand Registration Rights.* If we receive from (i) Eagle Energy, at any time after the conversion of the Preferred Stock into Common Stock in accordance with the Certificate of Designations, or (ii) First Reserve, at any time after October 25, 2012, a written request to file a registration statement with respect to the holders' shares, then we shall, within five business days of receipt thereof, use commercially reasonable efforts to effect registration under the Securities Act of the sale of all shares that the holders request to be registered. We are required to provide notice of the demand request within 30 days following receipt of such demand request to all holders party to the Registration Rights Agreement. The holders have the right to cause up to an aggregate of twelve such demand registrations, provided neither Eagle Energy nor First Reserve, acting individually, may make more than six. In no event shall more than one demand registration occur within three months after the effective date of a registration statement filed pursuant to a demand request or within 60 days prior to our good faith estimate of the date of an offering and 180 days after the effective date of a registration statement we file. Further, we are not obligated to effect any demand registration in which the anticipated aggregate offering price included in such offering is equal to or less than \$50,000,000. Once we are eligible to effect a registration on Form S-3, any such demand registration may be for a shelf registration statement. If we are a well-known seasoned issuer, any such demand registration may be for an automatic shelf registration statement.

*Piggy-back Registration Rights.* If, at any time, we propose to register an offering of Common Stock (subject to certain exceptions) for our own account, then we must give prompt notice to all holders party to the Registration Rights Agreement to allow them to include a specified number of their shares in that registration statement or offering.

*Conditions and Limitations; Expenses.* These registration rights are subject to certain conditions and limitations, including the right of the underwriters to limit the number of shares to be included in a registration and our right to delay or withdraw a registration statement under certain circumstances. We will generally pay all registration expenses in connection with our registration obligations under the Registration Rights Agreement, regardless of whether a registration statement is filed or becomes effective. The obligations to register shares under the Registration Rights Agreement will terminate when no registrable shares remains outstanding. Registrable shares means (A) all outstanding shares of Common Stock other than shares (i) sold pursuant to an effective registration statement under the Securities Act, (ii) sold in a transaction exempt from registration under the Securities Act (including transactions pursuant to Rule 144), or (iii) that can be sold without volume limitations within 90 days under Rule 144 and (B) any (a) Common Stock issued and outstanding as a result of any conversion of the Preferred Stock or (b) Common Stock issued or issuable directly or indirectly with respect to the Common Stock referred to in clause (a) above by way of stock dividend or stock split or in connection with a combination of shares, recapitalization, reclassification, merger, consolidation or other reorganization.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes appearing elsewhere in this information statement. The following discussion contains forward-looking statements that are based on management's current expectations, estimates and projections about our business and operations, and involves risks and uncertainties. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Forward-Looking Statements and elsewhere in this information statement. Management's Discussion and Analysis of Financial Condition and Results of Operations has been revised for the effects of the restatement of our consolidated financial statements. See Note 11 to our Consolidated Financial Statements as of and for the year ended December 31, 2011.*

**Overview**

We are an independent exploration and production company focused on the development of oil-prone resources in the Upper Gulf Coast Tertiary trend onshore in central Louisiana. Our current acreage positions and evaluation efforts are concentrated in the Wilcox interval of the trend. We are currently focused on the development of our significant inventory of identified drilling locations, to which we will selectively allocate capital by applying rigorous investment analysis in an effort to maximize our potential returns. We are focused on maximizing the net present value of our drilling opportunities by measuring risk and financial return, among other factors. In addition, we are the operator of the substantial majority of our properties, which enables us to better control timing, costs and drilling and completion techniques. As of June 30, 2012, our properties consisted of approximately 121 gross active producing wells, 95% of which we operate, and in which we held an average working interest of approximately 97% across our 103,400 net acre leasehold.

As of December 31, 2011, our estimated net proved reserves were 26.2 MMBoe, of which 75% was oil or NGLs and 43% was proved developed. During the six months ended June 30, 2012, our properties had aggregate average net daily production of approximately 8,090 Boe/d.

All of our growth has been driven through the development of our leasehold acreage. We initiated operations in 1993 in our North Cowards Gully project area and slowly aggregated leasehold acreage in that project area and others over the next eighteen years. In August 2008, First Reserve acquired a majority interest in us and, along with members of our senior management, provided a significant amount of growth capital to expand our exploration and development program. As a result of this increase in capital available for our operations, we have increased our average daily production at a compound annual growth rate of 82% from 995 Boe/d in the year ended December 31, 2008 to 8,090 Boe/d in the six months ended June 30, 2012. Our current activities are focused on evaluating and developing our asset base, optimizing our acreage position, and identifying potential expansion areas across the trend.

During the three and six months ended June 30, 2012, our average daily production was 7,904 Boe/d and 8,090 Boe/d, respectively. Our average daily production for the three months ended June 30, 2012 was below our average for the first quarter of 8,275 Boe/d. Oil production increased by approximately 10%, while natural gas and NGLs decreased approximately 21%, primarily due to continued severe declines on two higher GOR wells in our Central Fault Block area of South Bearhead Creek. Results that were below expectations from recent West Gordon wells and unplanned downtime were responsible for lower than projected volumes, which will be described in further detail below. We have revised our drilling plan for the remainder of 2012 to increase focus on the Pine Prairie project area while we continue to analyze the results of our drilling programs in the other areas.

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As part of our strategy to increase our position in onshore basins in North America, we entered into an asset purchase agreement with Eagle Energy on August 11, 2012. Pursuant to the Acquisition Agreement, we agreed to acquire certain interests in producing oil and natural gas assets and unevaluated leasehold acreage in Oklahoma and Kansas and related hedging instruments. The aggregate purchase price, subject to adjustment as provided in the Acquisition Agreement, consists of (i) \$325,000,000 in cash and (ii) 325,000 shares of our Preferred Stock with an initial liquidation preference of \$1,000 per share. The Eagle Energy Acquisition will be effective June 1, 2012 and is expected to close on or about October 1, 2012, subject to customary closing conditions.

In connection with the consummation of the Eagle Energy Acquisition, we anticipate entering into the following additional transactions:

the issuance and sale by us of \$600 million aggregate principal amount of senior unsecured notes or, if such sale is not completed, the entrance by us into a \$500 million bridge credit facility and, in either case, the use of proceeds therefrom to fund the cash portion of the purchase price of the Eagle Energy Acquisition and the expenses relating thereto and to repay a portion of the outstanding borrowings under our revolving credit facility; and

entry into the Credit Agreement Amendment to, among other things, increase the borrowing capacity under our revolving credit facility from \$200 million to \$250 million, subject to the satisfaction of certain conditions.

**Factors that Significantly Affect our Results**

Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as economic, political and regulatory developments, as well as competition from other sources of energy. Oil and natural gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil or natural gas could materially and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

We generally hedge a portion of our expected future oil and gas production to reduce our exposure to fluctuations in commodity price. By removing a portion of commodity price volatility, we expect to reduce some of the variability in our cash flow from operations. See [Liquidity and Capital Resources](#) [Commodity Derivative Contracts](#) and [Quantitative and Qualitative Disclosures About Market Risk](#) [Commodity price exposure](#) for discussion of our hedging and hedge positions.

Like all businesses engaged in the exploration and production of oil and natural gas, we face the challenge of natural production declines. As initial reservoir pressures are depleted, oil and natural gas production from any given well is expected to decline. As a result, oil and natural gas exploration and production companies deplete their asset base with each unit of oil or natural gas they produce. We attempt to overcome this natural production decline by developing additional reserves through our drilling operations, acquiring additional reserves and production and implementing secondary recovery techniques. Our future growth will depend on our ability to enhance production levels from our existing reserves and to continue to add reserves in excess of production. We will maintain our focus on the capital investments necessary to produce our reserves as well as to add to our reserves through drilling and acquisition. Our ability to make the necessary capital expenditures is dependent on cash flow from operations as well as our ability to obtain additional debt and equity financing. That ability can be limited by many factors, including the cost of such capital and operational considerations.

The volumes of oil and natural gas that we produce are driven by several factors, including:

success in the drilling of new wells, including exploratory wells, and the recompletion of existing wells;

the amount of capital we invest in the leasing and development of our oil and natural gas properties;

facility or equipment availability and unexpected downtime;



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delays imposed by or resulting from compliance with regulatory requirements; and

the rate at which production volumes on our wells naturally decline.

The following table sets forth summary data with respect to our production volumes for the periods presented:

	Six Months Ended		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Production data:</b>					
Oil (MBbls)	852	753	1,610	945	497
Natural gas (MMcf)	2,369	1,924	4,918	2,253	690
Natural gas liquids (MBbls)	225	117	308	74	2
Oil equivalents (MBoe)	1,472	1,190	2,737	1,394	614
Average daily production (Boe/d)	8,090	6,577	7,499	3,820	1,682

**Growth Drivers in 2012 and Beyond**

We intend to drill and develop our current acreage position in the oil-prone portion of the Upper Gulf Coast Tertiary trend to maximize the value of our resource potential. We also plan to increase our leasehold position in the trend. We have identified an estimated 1,101 gross drilling locations on our current leased acreage position and on acreage we currently have under option that we believe will increase our reserves, production and cash flow. We have identified approximately 40 additional geologic structures throughout the trend that we believe have characteristics similar to our existing operating areas and we are actively pursuing the increase of our acreage position through leasing in these areas. In addition to increasing our acreage position through leasing, we may selectively pursue potential acquisitions of strategic assets or operating companies in the trend. Over time, we also expect to selectively target additional onshore basins in North America that would allow us to extend our competencies to large undeveloped acreage positions in hydrocarbon trends similar to our existing core area.

Our total 2011 capital expenditures were \$264 million and we drilled or spud 32 wells. As of June 30, 2012, our total 2012 capital expenditure budget has been revised from \$380 million to \$365 million, approximately 6% of which will be spent developing acreage currently under lease in our expansion areas. Our capital expenditures for the six months ended June 30, 2012 were \$206.5 million. Excluding planned expenditures associated with the Eagle Energy Acquisition, our 2012 budget consists of:

\$292 million for drilling and completion capital;

\$52 million for acquisition of acreage and seismic data; and

\$21 million in unallocated funds which are available for facilities.

While we have budgeted \$365 million for these purposes, the ultimate amount of capital we will expend may fluctuate materially based on market conditions and our drilling results as the year progresses.

**Basis of Presentation**

On August 29, 2008, First Reserve purchased an approximate 72% interest in Midstates Petroleum Holdings LLC (the "FR Investment"). For financial reporting purposes, the FR Investment was accounted for as a purchase and resulted in a new basis of accounting reflecting estimated fair values for 100% of our assets and liabilities that were recorded at their estimated fair value as of the closing date, based on the purchase price paid in the transaction. Accordingly, the financial statements for periods subsequent to August 29, 2008, are presented on Midstates Petroleum Holdings LLC's new basis of accounting giving effect to the transaction. Including its initial investment in August 2008, First Reserve acquired an approximate 77% aggregate equity interest in Midstates Petroleum Holdings LLC.



**Table of Contents****Sources of Our Revenues**

*Oil, natural gas and natural gas liquids.* Our revenues are derived from the sale of oil and natural gas production, as well as the sale of NGLs that are extracted from our high Btu content natural gas. Our oil and gas revenues do not include the effects of derivatives, and may vary significantly from period to period as a result of changes in production volumes or commodity prices.

*Realized and unrealized gain (loss) on commodity derivative financial contracts.* We utilize commodity derivatives to reduce our exposure to fluctuations in the prices of oil. In addition, we utilize derivatives to help mitigate our exposure to fluctuations in Louisiana Light Sweet ( LLS ) oil prices as compared to West Texas Intermediate ( NYMEX WTI ) benchmark oil prices. Accordingly, our income statements reflect (i) the recognition of unrealized gains and losses associated with our open derivative contracts as commodity prices change and commodity derivatives contracts expire or new ones are entered into, and (ii) our realized gains or losses on the settlement of these commodity derivative contracts. Unrealized gains and losses result from changes in market valuations of derivatives as future commodity price expectations change compared to the contract prices on the derivatives. If the expected future commodity prices increase compared to the contract prices on the derivatives, unrealized losses are recognized. Conversely, if the expected future commodity prices decrease compared to the contract prices on the derivatives, unrealized gains are recognized. Since we have elected not to apply hedge accounting to our derivatives, we reflect the unrealized and realized gains and losses in our current income statement periods based on the mark-to-market value at the end of each month. Cash flows associated with derivative financial instruments are reflected in cash flow from operations in our consolidated statement of cash flows.

*Commodity prices.* Our revenues are heavily influenced by commodity prices, which are subject to wide fluctuations in response to changes in supply and demand.

The table below sets forth the prices we received per unit of volume for our oil, natural gas, and NGLs, both including and excluding the effects of our commodity derivative contracts.

The table below sets forth the prices we received per unit of volume for our oil, natural gas, and NGLs, both including and excluding the effects of our commodity derivative contracts.

	Six Months Ended June 30,		Year Ended December 31,		
	2012	2011	2011	2010	2009
<b>Average sales prices:</b>					
Oil, without realized derivatives (\$/Bbl)	\$ 109.30	\$ 108.34	\$ 110.25	\$ 80.29	\$ 55.07
Oil, with realized derivatives (\$/Bbl)	95.59	97.53	99.85	79.37	57.69
Natural gas liquids (\$/Bbl)	45.14	44.67	50.98	36.92	47.66
Natural gas (\$/Mcf)	2.46	4.70	4.20	4.66	3.89

In general, differentials are adjustments to the benchmark price for oil based on grade and location of the sales point. All of our oil is sold at the market price for LLS, which has recently traded at a significant premium to NYMEX WTI prices. Our oil production benefits from higher pricing differentials relative to many other oil producers in other areas of North America. For example, for the six months ended June 30, 2012, the average realized price before the effect of commodity derivative contracts for our oil production was \$109.30 per Bbl, compared to an average NYMEX WTI settlement price of \$98.10 per Bbl for the same time period. In addition, our gas production benefits from relatively rich Btu content. As a result of natural gas processing, we benefit from an overall higher realized price relative to the Henry Hub benchmark. For example, for the six months ended June 30, 2012, the average realized price for our gas production was \$2.46 per Mcf, compared to an average Henry Hub settlement price of \$2.36 per MMBtu for the same period.

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*Other revenue.* Other revenue consists of income derived from the recovery of administrative overhead, gas compression charges and saltwater disposal fees from third parties for their share of costs on company owned assets.

### **Our Expenses**

*Lease operating and workover expenses.* These are daily costs incurred to bring oil and gas out of the ground and to the market, together with the daily costs incurred to maintain our producing properties. Such costs also include natural gas transportation and treating expenses, as well as maintenance and repair expenses related to our oil and gas properties. Lease operating expenses include both a portion of costs that are fixed in nature, such as infrastructure costs, as well as variable costs resulting from additional wells and production. As production increases, our average lease operating expense per barrel of oil equivalent is typically reduced because fixed costs do not increase proportionately with production. Workover expense includes major remedial operations on a completed well to restore, maintain, or improve a well's production and is closely correlated to the levels of workover activity. Because workover projects are pursued on an as needed basis and are not regularly scheduled, workover expense is not necessarily comparable from period to period.

*Severance and other taxes.* Severance taxes are paid on produced oil and gas based on a percentage of revenues from products sold at market prices or at fixed rates established by federal, state, or local taxing authorities. We attempt to take full advantage of all credits and exemptions in our various taxing jurisdictions. In general, the severance taxes we pay correlate to the changes in oil and gas revenues. Ad valorem taxes are property taxes assessed based on the value of property and are presented with severance and other taxes.

*Depreciation, depletion and amortization.* Under the full cost accounting method, we capitalize costs within a cost center and systematically expense those costs on a unit of production basis based on proved oil and natural gas reserve quantities. We calculate depletion on the following types of costs: (i) all capitalized costs, other than the cost of investments in unproved properties for which proved reserves have not yet been assigned, less accumulated amortization; (ii) estimated future expenditures to be incurred in developing proved reserves; and (iii) estimated dismantlement and abandonment costs.

*Impairment of oil and gas properties/Ceiling test.* Our historical policy as a privately-owned company has been to perform a ceiling test on an annual basis, and we performed a ceiling test at December 31, 2011, 2010 and 2009. However, we have applied Rule 4-10 of Regulation S-X going forward, which requires the ceiling test to be performed on at least a quarterly basis. The test establishes a limit (ceiling) on the book value of oil and gas properties. The capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization (DD&A) and the related deferred income taxes, may not exceed this ceiling. The ceiling limitation is equal to the sum of: (i) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet, calculated using the average oil and natural gas sales price we received as of the first trading day of each month over the preceding 12 months (such average price is held constant throughout the life of the properties) and a discount factor of 10%; (ii) the cost of unproved and unevaluated properties excluded from the costs being amortized; (iii) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (iv) related income tax effects. If capitalized costs exceed this ceiling, the excess is charged to expense in the accompanying consolidated statements of operations.

*General and administrative expense.* General and administrative expense consists of overhead, including payroll and benefits for our corporate staff, non-cash charges for share-based compensation, costs of maintaining our headquarters, franchise taxes, audit and other professional fees and legal compliance. General and administrative expenses related to being a publicly traded company include: Exchange Act reporting expenses; expenses associated with Sarbanes-Oxley compliance; expenses associated with listing on the NYSE; legal fees, investor relations expenses, registrar and transfer agent fees, director and officer liability insurance costs; and director compensation. As a result of being a publicly-traded company following our recently completed initial

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public offering, we expect that our general and administrative expenses in future periods will increase (excluding the effects of our non-cash share-based compensation charge incurred during the year ended December 31, 2011 resulting from the transition from liability accounting to equity accounting as described in Note 7 to our audited financial statements for the year ended December 31, 2011).

Certain of our employees hold units in Midstates Incentive Holdings LLC that entitle the holders to a portion of the proceeds to be received by First Reserve upon sales of our common stock by FRMI. Any payments with respect to these units will only occur if and when First Reserve achieves certain minimum return hurdles (defined as certain multiples of First Reserve's capital contributions plus investment expenses) on its investment through the sale of its shares of common stock. While these proceeds will not involve any cash payment by us, we will recognize a non-cash compensation expense, which may be material, in the period such payment is made. See Note 7 to our audited financial statements for the year ended December 31, 2011.

*Interest expense.* We finance a portion of our working capital requirements and capital expenditures with borrowings under our revolving credit facility. As a result, we incur interest expense that is affected by both fluctuations in interest rates and our financing decisions. We reflect interest paid to the lenders under our revolving credit facility in interest expense.

We capitalize a portion of our interest costs on unproved properties. Capitalized interest is depreciated over the useful life of assets in the same manner as the depreciation of the underlying assets.

*Income Taxes.* Midstates Petroleum Holdings LLC has historically not been subject to U.S. federal and certain state income taxes. As a result of our recently completed public offering and corporate reorganization, Midstates Petroleum Company, Inc. became subject to U.S. federal, state, local and foreign income taxes, effective April 25, 2012 and will be subject to tax at the prevailing corporate tax rates for future periods.

**Table of Contents****Results of Operations**

The following table summarizes our revenues and production data for the period indicated.

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,		
	2012	2011	2012	2011	2011	2010	2009
<b>Revenues:</b>							
Oil	\$ 48,056	\$ 45,994	\$ 93,138	\$ 81,577	\$ 177,464	\$ 75,875	\$ 27,347
Natural gas	2,379	4,962	5,829	9,035	20,665	10,505	2,683
Natural gas liquids	3,901	3,171	10,173	5,216	15,683	2,731	103
Gains/(losses) on commodity derivative contracts net	48,143	10,477	23,478	(18,119)	(4,844)	(26,268)	(5,987)
Other	103	60	207	114	465	209	108
<b>Total revenues</b>	<b>\$ 102,582</b>	<b>\$ 64,664</b>	<b>\$ 132,825</b>	<b>\$ 77,823</b>	<b>\$ 209,433</b>	<b>\$ 63,052</b>	<b>\$ 24,254</b>
<b>Operating Expenses:</b>							
Lease operating and workover (1)	\$ 5,921	\$ 3,669	\$ 12,388	\$ 6,275	\$ 16,117	\$ 12,861	\$ 10,328
Severance and other taxes (2)	6,272	5,370	11,648	9,495	13,640	6,986	3,059
Asset retirement accretion	164	39	298	86	334	175	120
General and administrative	4,956	10,641	11,019	14,544	68,915	16,847	5,886
Depreciation, depletion and amortization	27,882	21,266	55,909	39,884	91,699	41,827	12,322
Impairment in the carrying value of oil and gas properties							4,297
<b>Total expenses</b>	<b>\$ 45,195</b>	<b>\$ 40,985</b>	<b>\$ 91,262</b>	<b>\$ 70,284</b>	<b>\$ 190,705</b>	<b>\$ 78,696</b>	<b>\$ 36,012</b>
<b>Other Income (Expense):</b>							
Interest income	143	4	150	12	23	9	6
Interest expense net of amounts capitalized	(990)	(134)	(2,680)	(134)	(2,094)		
<b>Total other income (expense)</b>	<b>(847)</b>	<b>(130)</b>	<b>(2,530)</b>	<b>(122)</b>	<b>(2,071)</b>	<b>9</b>	<b>6</b>
Income tax expense	168,917		168,917				
<b>Net income (loss)</b>	<b>\$ (112,377)</b>	<b>\$ 23,549</b>	<b>\$ (129,884)</b>	<b>\$ 7,417</b>	<b>\$ 16,657</b>	<b>\$ (15,635)</b>	<b>\$ (11,752)</b>
<b>Production Data:</b>							
Oil (MBbls)	447	391	852	753	1,610	945	497
Natural gas (MMcf)	1,047	1,043	2,369	1,924	4,918	2,253	690
Natural gas liquids (MBbls)	98	70	225	117	308	74	2
Oil equivalents (MBoe)	719	635	1,472	1,190	2,737	1,394	614
Average daily production (Boe/d)	7,904	6,976	8,090	6,577	7,499	3,820	1,682
<b>Average Sales Prices:</b>							
Oil, without realized derivatives (per Bbl)	\$ 107.56	\$ 117.48	\$ 109.30	\$ 108.34	\$ 110.25	\$ 80.29	\$ 55.07
Oil, with realized derivatives (per Bbl)	95.97	101.83	95.59	97.53	99.85	79.37	57.69
Natural gas (per Mcf)	2.27	4.76	2.46	4.70	4.20	4.66	3.89
Natural gas liquids (per Bbl)	39.83	45.58	45.14	44.67	50.98	36.92	47.66

(1) Includes \$0.7 million, \$0.4 million, \$1.5 million, \$0.7 million, \$2.1 million, \$4.7 million, and \$5.2 million in workover expense for the three and six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, respectively.

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- (2) Includes \$0.8 million, \$0.2 million, \$1.7 million, \$0.4 million, \$1.2 million, \$0.6 million, and \$0.2 million in ad valorem tax expense for the three and six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009, respectively.

**Three Months Ended June 30, 2012 as Compared to the Three Months Ended June 30, 2011**

*Oil, natural gas and natural gas liquids revenues.* Our oil, natural gas and natural gas liquids, or NGLs, sales revenues increased by \$0.2 million, or less than 1%, to \$54.3 million during the second quarter of 2012 as compared to \$54.1 million for the second quarter of 2011. Our revenues are a function of oil, natural gas, and NGL production volumes sold and average sales prices received for those volumes. Of the \$0.2 million revenue variance, sales volume increases contributed \$7.8 million, offset by unfavorable price variances of \$7.6 million. Average daily production sold increased by 928 Boe per day, or 13%, to 7,904 Boe per day during the second quarter of 2012 as compared to 6,976 Boe per day during the second quarter of 2011. The increase in average daily production sold was primarily due to a greater number of producing wells during the 2012 period resulting from our increased drilling activity. Average oil sales prices, without realized derivatives, decreased by \$9.92 per barrel or 8% to \$107.56 per barrel for the second quarter of 2012 as compared to \$117.48 per barrel for the second quarter of 2011.

*Gains/losses on commodity derivative contracts net.* Net gains (losses) on our mark-to-market, MTM, derivative positions increased \$37.6 million, or 359%, to a net gain of \$48.1 million for the three months ended June 30, 2012 compared to a net gain of \$10.5 million for the three months ended June 30, 2011. Our derivative positions moved from an unrealized gain of \$16.6 million in the second quarter of 2011 to an unrealized gain of \$53.3 million in the second quarter of 2012. The increase in our unrealized gains for the 2012 period were primarily attributable to an increase in volumes covered by derivative instruments and a general decline in oil prices during the 2012 period. The value of our derivative positions move inversely to the price of oil. The realized loss on derivatives for the three months ended June 30, 2012 was \$5.2 million compared to a realized loss of \$6.1 million for the three months ended June 30, 2011. Realized oil sales prices, with realized derivatives, averaged \$95.97 per barrel for the second quarter of 2012 compared to \$101.83 per barrel for the same period in 2011.

*Lease operating and workover expenses.* Lease operating and workover expenses increased \$2.2 million, or 59%, to \$5.9 million for the second quarter of 2012 compared to \$3.7 million for the second quarter of 2011. Lease operating expenses increased \$1.9 million, or 58%, to \$5.2 million for the second quarter of 2012 as compared to \$3.3 million for the second quarter of 2011. This increase was due to higher surface maintenance costs of \$0.6 million due to increased road and lease maintenance, higher saltwater disposal costs of \$0.5 million primarily attributable to central fault block wells in our South Bearhead Creek/Oretta operating area, and additional costs of \$0.7 million, related to compression, well work charges and labor related costs, due to a greater number of producing wells period over period. Workover expenses increased \$0.3 million, or 75%, to \$0.7 million for the second quarter of 2012 as compared to \$0.4 million for the second quarter of 2011. We completed ten workovers in the second quarter of 2012, which was an increase of four projects over the six workovers completed in the second quarter of 2011. Lease operating and workover expenses increased to \$8.24 per Boe for the quarter ended June 30, 2012 from \$5.78 per Boe for the quarter ended June 30, 2011, an increase of 43%, which was primarily attributable to the factors discussed above.

*Severance and other taxes.* Severance and other taxes increased \$0.9 million, or 17%, to \$6.3 million for the second quarter of 2012 compared to \$5.4 million for the second quarter of 2011. Severance taxes increased \$0.4 million, or 8%, to \$5.5 million for the second quarter of 2012 as compared to \$5.1 million for the second quarter of 2011. This increase was primarily attributable to slightly higher oil, natural gas and NGL sales revenue during the second quarter of 2012. Our severance taxes as a percentage of oil, natural gas and NGL sales revenue were 10.1% for the second quarter of 2012, compared to 9.5% in the second quarter of 2011. Ad valorem taxes increased \$0.6 million, or 300%, to \$0.8 million for the second quarter of 2012 as compared to \$0.2 million for the second quarter of 2011, corresponding to a related increase in producing wells.

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*Depreciation, depletion and amortization (DD&A).* DD&A expense increased \$ 6.6 million, or 31%, to \$27.9 million for the second quarter of 2012 compared to \$21.3 million for the second quarter of 2011. The DD&A rate for second quarter of 2012 was \$38.78 per Boe compared to \$33.49 per Boe for the second quarter of 2011. The increase in the DD&A rate per Boe versus the comparable 2011 period is primarily attributable to wells spud during the 2012 period on drilling locations that have probable and possible reserve classifications. We drill these wells to extend our proved reserves within the play. The impact on the DD&A rate is directly related to the timing of our evaluation of the well results and our ability to assign proved reserves to those wells.

*General and administrative.* Our general and administrative expenses, or G&A, decreased by \$5.6 million, or 53%, to \$5.0 million for the second quarter of 2012 compared to \$10.6 million for the second quarter of 2011. The overall decrease is driven by a reduction in equity-based compensation expense of \$6.6 million; in the second quarter of 2012, the Company recorded \$0.7 million in share-based compensation related to restricted stock awards granted during the quarter compared to \$7.3 million recorded in the second quarter 2011. This decrease was partially offset by an increase over the same periods of \$1.1 million in other employee related costs, including salary and insurance, which relates to an overall increase in headcount from 48 full time employees during three months ended June 30, 2011 to 86 full time employees during the three months ended June 30, 2012.

*Interest expense.* Interest expense for the three months ended June 30, 2012 and for the three months ended June 30, 2011 was \$2.7 million and \$0.9 million, respectively. The increase in interest expense was primarily due to the higher average outstanding balances under our revolving credit facility during the 2012 period. Our average outstanding balance was \$163.7 million during the 2012 period, versus \$116.2 million for the 2011 period, and related to \$1.0 million of the total interest expense of \$2.7 million. The remainder of the interest expense for the three months ended June 30, 2012, \$1.7 million, is attributable to interest expense of \$1.5 million associated with our Preferred Units, which were redeemed in April 2012, and amortization of deferred loan costs of \$0.2 million. Of total interest expense, \$1.7 million and \$0.7 million was capitalized, resulting in \$1.0 million and \$0.1 million in interest expense for the three months ended June 30, 2012 and June 30, 2011, respectively.

*Provision for Income Taxes.* Income tax expense was \$168.9 million during the three months ended June 30, 2012. We were not a tax paying entity during the 2011 corresponding period and therefore, no income tax expense was recorded. With the consummation of our corporate reorganization ( Reorganization ) in connection with our initial public offering completed on April 25, 2012, we became a tax paying entity and as such, were required to record a charge against income equal to the estimated tax effect of the excess of the book carrying value of our net assets (primarily producing oil and gas properties) over their collective estimated tax bases as of the Reorganization date. As a result, during the three months ended June 30, 2012, we recorded a tax charge of \$149.5 million associated with the Reorganization. During the three months ended June 30, 2012, we also recorded \$19.4 million of income tax expense. This represents an application of our estimated effective tax rate (including state income taxes) for the three months ended June 30, 2012 of 34.4% to our income earned from the Reorganization date through the quarter end.

**Six Months Ended June 30, 2012 as Compared to the Six Months Ended June 30, 2011**

*Oil, natural gas and natural gas liquids revenues.* Our oil, natural gas and NGL sales revenues increased by \$13.3 million, or 14%, to \$109.1 million during the first six months of 2012 as compared to \$95.8 million for the first six months of 2011. Our revenues are a function of oil, natural gas, and NGL production volumes sold and average sales prices received for those volumes. Of the \$13.3 million revenue variance, sales volume increases contributed \$17.7 million of the total, offset by unfavorable price variances of \$4.4 million. Average daily production sold increased by 1,513 Boe/d, or 23%, to 8,090 Boe/d during the first six months of 2012 as compared to 6,577 Boe/d during the first six months of 2011. The increase in average daily production sold was primarily due to a greater number of producing wells during the 2012 period resulting from our increased drilling activity. Average oil sales prices, without realized derivatives, increased by \$0.96 per barrel or 1% to \$109.30 per barrel for the first six months of 2012 as compared to \$108.34 per barrel for the first six months of 2011.



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*Gains/losses on commodity derivative contracts net.* Net gains (losses) on our MTM derivative positions increased \$41.6 million, or 229%, to a \$23.5 million gain for the six months ended June 30, 2012 compared to a net loss of \$18.1 million for the six months ended June 30, 2011. Our derivative positions moved from an unrealized loss of \$10.0 million in the six months ended June 30, 2011 to an unrealized gain of \$35.2 million in the six months ended June 30, 2012. The increase in our unrealized gain for the 2012 period is primarily attributable to increases in volumes covered by derivative instruments and a general decline in oil prices during the latter part of the 2012 period. The value of our hedging instruments moves inversely to the price of oil. The realized loss on derivatives for the six months ended June 30, 2012 was \$11.7 million compared to a realized loss of \$8.1 million in the six months ended June 30, 2011. Realized oil sales prices, with realized derivatives, averaged \$95.59 per barrel for the first six months of 2012 compared to \$97.53 per barrel for the same period in 2011.

*Lease operating and workover expenses.* Lease operating and workover expenses increased \$6.1 million, or 97%, to \$12.4 million for the six months ended June 30, 2012 compared to \$6.3 million for the six months ended June 30, 2011. Lease operating expenses increased \$5.2 million, or 93%, to \$10.8 million for the six months ended June 30, 2012 as compared to \$5.6 million for the six months ended June 30, 2011. This increase was due to higher surface maintenance costs of \$1.2 million due to increased road and lease maintenance, higher saltwater disposal of \$1.4 million primarily attributable to central fault block wells in our South Bearhead Creek/Oretta operating area, and additional costs of \$2.0 million, related to compression, well work charges and labor related costs due to a greater number of producing wells period over period. Workover expenses increased \$0.8 million, or 114%, to \$1.5 million for the six months ended June 30, 2012 as compared to \$0.7 million for the six months ended June 30, 2011. We completed 19 workovers in the six months ended June 30, 2012, which was an increase of ten projects over the nine workovers completed in the six months ended June 30, 2011. Lease operating and workover expenses increased to \$8.42 per Boe for the six months ended June 30, 2012 from \$5.27 per Boe for the six months ended June 30, 2011, an increase of 60%, which was primarily a result of the incurrence of lease operating and workover costs during 2012 at a higher rate than the overall increase in production during the period.

*Severance and other taxes.* Severance and other taxes increased \$2.1 million, or 23%, to \$11.6 million for the six months ended June 30, 2012 compared to \$9.5 million for the six months ended June 30, 2011. Severance taxes increased \$0.9 million, or 10%, to \$10.0 million for the six months ended June 30, 2012 as compared to \$9.1 million for the six months ended June 30, 2011. This increase was primarily attributable to higher oil, natural gas and NGL sales revenue during the six months ended June 30, 2012. Our severance taxes as a percentage of oil, natural gas and NGL sales revenue were 9.1% for the six months ended June 30, 2012, compared to 9.5% in the six months ended June 30, 2011. Ad valorem taxes increased \$1.3 million, or 325%, to \$1.7 million for the six months ended June 30, 2012 as compared to \$0.4 million for the six months ended June 30, 2011, corresponding primarily to a related increase in producing wells.

*Depreciation, depletion and amortization (DD&A).* DD&A expense increased \$16.0 million, or 40%, to \$55.9 million for the six months ended June 30, 2012 compared to \$39.9 million for the six months ended June 30, 2011. The DD&A rate for the six months ended June 30, 2012 was \$37.97 per Boe compared to \$33.52 per Boe for the six months ended June 30, 2011. The increase in DD&A expense for the six months ended June 30, 2012 was primarily due to higher production volumes during the 2012 period, as well as capital expenditures incurred during the 2012 period, without a corresponding proportionate increase in the total proved reserve base.

*General and administrative.* Our G&A expenses decreased by \$3.5 million, or 24%, to \$11.0 million for the six months ended June 30, 2012 compared to \$14.5 million for the six months ended June 30, 2011. Primarily driving the decrease is a reduction in share-based compensation of \$7.3 million, as \$0.7 million was recorded during the six months ended June 30, 2012 compared to \$7.9 million recorded during the six months ended June 30, 2011. This decrease was partially offset by the other components of general and administrative expenses, which increased primarily due to the overall growth in the company and headcount between June 30,

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2011 and June 30, 2012. As of June 30, 2012, we had 86 full time employees compared to 48 employees as of June 30, 2011. The 79% increase in headcount resulted in a \$2.3 million increase in employee-related costs to \$5.5 million for the six months ended June 30, 2012, compared to \$3.2 million for the six months ended June 30, 2011. Rent expense increased \$0.4 million, or 133%, to \$0.7 million for the six months ended June 30, 2012 compared to \$0.3 million for the six months ended June 30, 2011, as the Company requires more workspace to accommodate the increase in headcount. Professional expenses increased \$0.8 million, or 50%, to \$1.6 million for the six months ended June 30, 2012 compared to \$0.8 million for the six months June 30, 2011 primarily due to expenses associate with becoming a public company.

*Interest expense.* Interest expense for the six months ended June 30, 2012 and for the six months ended June 30, 2011 was \$5.1 million and \$1.5 million, respectively. The increase in interest expense was primarily due to the higher average outstanding balances under our revolving credit facility during the 2012 period. Our average outstanding balance was \$199.2 million during the 2012 period, versus \$107.3 million for the 2011 period, and related to \$2.8 million of the total interest expense of \$5.1 million. The remainder of the interest expense for the six months ended June 30, 2012, \$2.3 million, related to interest expense of \$2.1 million associated with our Preferred Units, which were redeemed in April 2012, and amortization of deferred loan costs of \$0.2 million. Of total interest expense, \$2.4 million and \$1.3 million was capitalized, resulting in \$2.7 million and \$0.1 million in interest expense for the six months ended June 30, 2012 and June 30, 2011, respectively.

*Provision for Income Taxes.* Income tax expense was \$168.9 million during the six months ended June 30, 2012. We were not a tax paying entity during the 2011 corresponding periods and therefore, no income tax expense was recorded. With the consummation of the Reorganization in connection with our initial public offering completed on April 25, 2012, we became a tax paying entity and as such, were required to record a charge against income equal to the estimated tax effect of the excess of the book carrying value of our net assets (primarily producing oil and gas properties) over their collective estimated tax bases as of the Reorganization date. As a result, during the six months ended June 30, 2012, we recorded a tax charge of \$149.5 million associated with the Reorganization. During the six months ended June 30, 2012, we also recorded \$19.4 million of income tax expense. This represents an application of our estimated effective tax rate (including state income taxes) for the six months ended June 30, 2012 of 49.7% to our income earned from the Reorganization date through the period end.

**Year Ended December 31, 2011 as Compared to the Year Ended December 31, 2010**

*Oil, natural gas and natural gas liquids revenues.* Our oil, natural gas and NGLs sales revenues increased by \$124.7 million, or 140%, to \$213.8 million during the year ended December 31, 2011 as compared to \$89.1 million for the year ended December 31, 2010. Our revenues are a function of oil, natural gas, and NGLs production volumes sold and average sales prices received for those volumes. Of the \$124.7 million revenue variance, sales volume increases contributed \$74.4 million of the total, while price variance contributed \$50.3 million. Average daily production sold increased by 3,679 Boe/d, or 96%, to 7,499 Boe/d during the year ended December 31, 2011 as compared to the year ended December 31, 2010. The increase in average daily production sold was primarily due to increased drilling activity resulting in 31 additional producing wells in operation during 2011 as compared to the prior year period. Average oil sales prices, without realized derivatives, increased by \$29.96 per barrel, or 37%, to \$110.25 per barrel for the year ended December 31, 2011 as compared to \$80.29 per barrel for the year ended December 31, 2010.

*Losses on commodity derivative contracts net.* Our MTM derivative positions moved from an unrealized loss of \$25.4 million as of December 31, 2010 to an unrealized gain of \$11.9 million as of December 31, 2011. The MTM change results from higher average hedge volumes and prices on December 31, 2011 compared to the open positions on December 31, 2010. The NYMEX WTI closing price on December 30, 2011 (the last trading day of 2011) was \$98.83 per barrel compared to a closing price of \$91.38 per barrel on December 31, 2010. The realized loss on derivatives for the year ended December 31, 2011 was \$16.7 million compared to a realized loss of \$0.9 million for the year ended December 31, 2010. The loss for the year ended December 31, 2011 was a

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result of realized oil prices rising substantially for the year versus the prices at which we had oil production hedged for the period. Realized oil sales prices, without realized derivatives, averaged \$110.25 per barrel for the year ended December 31, 2011 compared with \$80.29 per barrel for the year ended December 31, 2010.

*Lease operating and workover expenses.* Lease operating and workover expenses increased \$3.2 million, or 25%, to \$16.1 million for the year ended December 31, 2011 compared to \$12.9 million for the year ended December 31, 2010. Of this change, lease operating expenses increased \$5.8 million, or 71%, to \$14.0 million, due to 31 additional producing wells in operation during the period, which resulted in additional salt water disposal costs of \$2.9 million, additional compression charges of \$0.8 million, additional gas dehydration and chemical costs of \$1.0 million, with the remaining variance primarily attributable to increases in labor related costs. Workover expenses decreased \$2.6 million, or 55%, to \$2.1 million for the year ended December 31, 2011 compared to \$4.7 million for the year ended December 31, 2010. Lease operating and workover expenses decreased to \$5.89 per Boe at December 31, 2011 from \$9.23 per Boe at December 31, 2010, a decrease of 36%. This decrease was primarily a result of the 162% increase in production volumes from the year ended December 31, 2010 to the year ended December 31, 2011, without a commensurate increase in fixed costs.

*Severance and other taxes.* Severance and other taxes increased \$6.6 million, or 94%, to \$13.6 million for the year ended December 31, 2011 as compared to \$7.0 million for the year ended December 31, 2010. Severance taxes increased by \$6.0 million, or 93%, and accounted for \$12.4 million of the 2011 amount. This increase was primarily attributable to higher oil, natural gas and NGLs sales revenue during the 2011 period. Severance taxes for the year ended December 31, 2011 and 2010 were 5.8% and 7.2%, respectively, as a percentage of oil, natural gas and NGLs sales revenue. The severance tax rate for the year ended December 31, 2011 was lower than the severance tax rate for the year ended December 31, 2010 due to an increase in production on wells qualifying for severance tax exemptions, which reduced 2011 severance tax expense by approximately \$0.9 million.

*Depreciation, depletion and amortization (DD&A).* Depreciation, depletion and amortization expense increased \$49.9 million, or 119%, to \$91.7 million for the year ended December 31, 2011 compared to \$41.8 million for the year ended December 31, 2010. The DD&A rate for the year ended December 31, 2011 was \$33.50 per Boe compared to \$30.00 per Boe for the year ended December 31, 2010. The increase in DD&A expense for the year ended December 31, 2011 was primarily due to the higher capital expenditures related to increased drilling and completion activities during the year, which resulted in a higher amortization base, and increased oil, natural gas and NGLs production, partially offset by the impact of higher total proved reserves.

*General and administrative.* Our G&A expenses increased to \$68.9 million for the year ended December 31, 2011 from \$16.8 million for the year ended December 31, 2010. The increase in G&A expenses of \$52.1 million, or 310%, was primarily due to the expenses related to share-based compensation, which included a \$53.7 million non-cash charge for share-based compensation for the year ended December 31, 2011, compared to a \$1.5 million non-cash charge for the year ended December 31, 2010. Share-based compensation expense for the year ended December 31, 2011 included expense related to the accelerated vesting in November 2011 of restricted stock of one of our affiliates held by certain of our employees, as well as expense attributable to the change in fair value of certain equity awards accounted by the Company as liability awards up to December 5, 2011. (See Notes to Consolidated Financial Statements Note 7 Member's Equity and Share-Based Compensation). As of December 31, 2011, we had 51 full-time employees as compared to 43 employees as of December 31, 2010. The additional expenses related to the increase in headcount and professional fees paid to contractors of approximately \$1.9 million, were offset by approximately \$2.4 million less being paid in employee bonuses between periods.

*Interest expense.* Interest expense for the year ended December 31, 2011 and December 31, 2010 was \$4.7 million and \$1.7 million, respectively. The increase in interest expense is primarily due to the increase in outstanding balances under our prior revolving credit facility, resulting in an additional \$2.7 million of interest expense and an increase in our interest rate, which increased such expense by \$0.3 million. Of total interest expenses, \$2.6 million and \$1.7 million were capitalized, resulting in \$2.1 million and no interest expenses for the years ended December 31, 2011 and 2010, respectively.

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*Oil, natural gas and natural gas liquids revenues.* Our oil, natural gas and NGLs sales revenues increased by \$59 million, or 196%, to \$89.1 million during the year ended December 31, 2010 as compared to \$30.1 million for the year ended December 31, 2009. Of the \$59 million revenue variance, sales volume increases contributed \$34.2 million of the total, while price variance contributed \$24.8 million. Average daily production sold increased by 2,139 Boe/d, or 127%, to 3,820 Boe/d during the year ended December 31, 2010 as compared to the year ended December 31, 2009. The increase in average daily production sold was primarily due to the increased drilling activity in 2010 versus 2009. Average oil sales prices, without realized derivatives, increased by \$25.22 per barrel or 46% to \$80.29 per barrel for the year ended December 31, 2010 as compared to \$55.07 per barrel the year ended December 31, 2009.

*Gains (losses) on commodity derivative contracts net.* Our MTM derivative unrealized loss increased from \$7.3 million as of December 31, 2009 to an unrealized loss of \$25.4 million as of December 31, 2010. The MTM change results from the increase in NYMEX WTI prices between these two dates and the open volume hedge positions at the end of each period at prices lower than NYMEX WTI. The NYMEX WTI closing price on December 31, 2010 was \$91.38 per barrel while the same price for December 31, 2009 was \$79.36 per barrel. The realized loss on derivatives for the year ended December 31, 2010 was \$0.9 million compared to a realized gain of \$1.3 million for the year ended December 31, 2009. The loss for the year ended December 31, 2010 was a result of realized oil prices rising substantially for the year versus the prices at which we had oil production hedged for the period. Realized oil sales prices averaged \$80.29 per barrel for the year ended December 31, 2010 compared with \$55.07 per barrel for the year ended December 31, 2009.

*Lease operating and workover expenses.* Lease operating and workover expenses increased \$2.6 million, or 25%, to \$12.9 million for the year ended December 31, 2010 compared to \$10.3 million for the year ended December 31, 2009. This change was primarily due to the increase in lease operating expenses of \$3.1 million, or 60%, to \$8.2 million for the year ended December 31, 2010 compared to \$5.1 million for the year ended December 31, 2009, driven by our number of operating wells during 2010 versus 2009, which led to additional surface maintenance costs of \$1.0 million, additional compression charges of \$0.6 million, additional gas dehydration and chemical costs of \$0.5 million, and the remainder from saltwater disposal and increases in labor related costs. Workover expenses decreased \$0.5 million, or 10%, to \$4.7 million for the year ended December 31, 2010 compared to \$5.2 million for the year ended December 31, 2009. This decrease was primarily due to fewer workovers on our active wells and better cost control. Lease operating and workover expenses decreased to \$9.23 per Boe at December 31, 2010 from \$16.82 per Boe at December 31, 2009, a decrease of 45%. This decrease was primarily a result of the 127% increase in production volumes from the year ended December 31, 2009 to the year ended December 31, 2010.

*Severance and other taxes.* Severance and other taxes increased \$3.9 million, or 126%, to \$7.0 million for the year ended December 31, 2010 compared to \$3.1 million for the year ended December 31, 2009. Our severance taxes for the year ended December 31, 2010 and 2009 were \$6.4 million and \$2.8 million, respectively, and were driven primarily by an increase in production during the same periods, which accounted for \$4.2 million of the increase. Our severance taxes for the year ended December 31, 2010 and 2009 were 7.2% and 9.5%, respectively, as a percentage of oil, natural gas and NGLs revenues. The severance tax rate for the year ended December 31, 2010 was lower than the severance tax rate for the year ended December 31, 2009 due to an increase in production on wells qualifying for severance tax exemptions, which reduced severance taxes by approximately \$0.7 million in 2010.

*Depreciation, depletion and amortization (DD&A).* Depreciation, depletion and amortization expense increased \$29.5 million, or 239%, to \$41.8 million for the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase in DD&A expense for the year ended December 31, 2010 was primarily due to both increased production volumes and an increase in the DD&A rate. The DD&A rate for the year ended December 31, 2010 was \$30.00 per Boe compared to \$20.08 per Boe for the year ended December 31, 2009. This increase in the DD&A rate was due to an increase in capital expenditures without proportional associated proved reserve additions being booked within the period.

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*Impairment of oil and gas properties/Ceiling test.* During the year ended December 31, 2010, we did not record a non-cash impairment charge. For the year ended December 31, 2009, we recorded non-cash impairment charges of \$4.3 million as a result of net capitalized costs exceeding the ceiling limit calculated from the reserves data. In determining the amount of the non-cash impairment charges for such periods, we considered the application of the factors described under Critical Accounting Policies and Estimates Impairment of Oil and Gas Properties/Ceiling Test.

*General and administrative.* Our G&A expenses increased to \$16.8 million for the year ended December 31, 2010 from \$5.9 million for the year ended December 31, 2009, resulting in a change of \$10.9 million, or 186%. In the year ended December 31, 2010, we incurred employee bonuses of approximately \$4.9 million. In addition, our G&A expenses included a \$1.5 million non-cash charge for stock-based compensation expense for the year ended December 31, 2010, compared to a \$0.2 million non-cash charge for the year ended December 31, 2009. The increase in G&A expenses was primarily due to a \$4.8 million increase in employee bonuses, a \$4.8 million increase in expenses due to the addition of a significant number of employees to support our growth and a \$1.3 million increase in expenses related to share-based compensation.

*Interest expense.* Interest costs for the years ended December 31, 2010 and 2009 were \$1.7 million and \$0.8 million, respectively. The \$0.9 million increase in interest cost is primarily a result of a \$1.0 million increase in outstanding balances under our prior revolving credit facility partially offset by \$0.1 million from a reduction in interest rates. Of the total interest cost, all of the \$1.7 million and \$0.8 million were capitalized for the years ended December 31, 2010 and 2009.

## **Liquidity and Capital Resources**

On a pro forma basis as of June 30, 2012, after giving effect to the issuance and sale by us of \$600 million aggregate principal amount of senior unsecured notes and the use of proceeds therefrom to fund the cash portion of the purchase price of the Eagle Energy Acquisition and the expenses related thereto and to repay a portion of the outstanding borrowings under our revolving credit facility as described above, we expect to have approximately \$23.7 million of cash and cash equivalents and availability of \$250 million under our revolving credit facility. Alternatively, if we do not issue and sell such notes and instead enter into a \$500 million bridge credit facility as described above, we expect to have approximately \$11.7 million of cash and cash equivalents and availability of \$221 million under our revolving credit facility.

Our primary sources of liquidity to date have been net proceeds from our initial public offering, equity provided by First Reserve and our management team, borrowings under our revolving credit facility and cash flows from operations. Our primary use of capital has been the acquisition, development and exploration of oil and natural gas properties. We continually monitor potential capital sources, including equity and debt capital markets, in order to meet our planned capital expenditures and liquidity requirements. Our future success in growing proved reserves and production will be highly dependent on our ability to access outside sources of capital.

Our total 2011 capital expenditures were \$264 million, which consisted of:

\$227 million for drilling and completion capital;

\$27 million for acquisition of acreage and seismic data; and

\$10 million for facilities and other capital items.

Excluding planned expenditures associated with the Eagle Energy Acquisition, our total 2012 capital expenditure budget is \$365 million, which consists of:

\$292 million for drilling and completion capital;

\$52 million for acquisition of acreage and seismic data; and

\$21 million in unallocated funds which are available for facilities.

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Through June 30, 2012, approximately \$206.5 million of our 2012 capital expenditure budget has been spent.

While we have budgeted \$365 million for these purposes, the ultimate amount of capital we will expend may fluctuate materially based on market conditions and the success of our drilling results as the year progresses. We believe the net proceeds from this offering together with cash flows from operations and additional borrowings under our revolving credit facility should be more than sufficient to fund our 2012 and our 2013 capital expenditure budget. However, because wells funded under our 2012 and 2013 future drilling plan represent only a small percentage of our gross identified operated drilling locations, we will be required to generate or raise multiples of this amount of capital to develop our entire inventory of identified drilling locations should we elect to do so.

We expect that in the future our commodity derivative positions will help us stabilize a portion of our expected cash flows from operations despite potential declines in the price of oil and natural gas. Please see **Risk Factors** **Risks Related to the Oil and Natural Gas Industry and Our Business**. A substantial or extended decline in oil and, to a lesser extent, natural gas, prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments in our prospectus dated April 19, 2012 and filed with the SEC pursuant to Rule 424(b) on April 20, 2012 and **Quantitative and Qualitative Disclosures About Market Risk**.

We review leasehold acquisition opportunities on an ongoing basis. In addition, we may selectively pursue the acquisition of businesses that may be complimentary to ours. Our ability to make significant additional acquisitions for cash would require us to obtain additional equity or debt financing, which we may not be able to obtain on terms acceptable to us or at all.

Our cash flows for the six months ended June 30, 2012 and 2011 and the years ended December 31, 2011, 2010 and 2009 and are presented below:

	Six Months Ended June 30,		Year Ended December 31,		
	2012	2011	2011	2010	2009
	(unaudited)		(in thousands)		
Net cash provided by operating activities	\$ 59,963	\$ 66,984	\$ 140,700	\$ 50,768	\$ 10,595
Net cash used in investing activities	(184,245)	(102,302)	(242,771)	(139,618)	(75,215)
Net cash provided by financing activities	128,627	33,856	97,498	96,414	65,759
Net change in cash	\$ 4,345	\$ (1,462)	\$ (4,573)	\$ 7,564	\$ 1,139
<b>Cash Flows Provided by Operating Activities</b>					

Net cash provided by operating activities was \$60.0 million and \$67.0 million for the six months ended June 30, 2012 and June 30, 2011, respectively. The decrease in net cash provided by operating activities was primarily the result of a decrease in realized oil, natural gas and NGL prices offset by a slight increase in production and favorable working capital changes in the 2012 period as compared to the same period of 2011. Net cash provided by operating activities was \$140.7 million, \$50.8 million and \$10.6 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increases in net cash provided by operating activities for the year ended December 31, 2011 compared to the year ended December 31, 2010 and for the year ended December 31, 2010 compared to the year ended December 31, 2009 were primarily the result of an increase in oil, natural gas, and NGLs production as well as an increase in realized oil prices.

Our operating cash flows are sensitive to a number of variables, the most significant of which is the volatility of oil and gas prices. Regional and worldwide economic activity, weather, infrastructure capacity to reach markets and other variable factors significantly impact the prices of these commodities. These factors are beyond our control and are difficult to predict. For additional information on the impact of changing prices on our financial position, see **Quantitative and Qualitative Disclosures About Market Risk**.

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### **Cash Flows Used in Investing Activities**

We had net cash used in investing activities of \$184.2 million and \$102.3 million during the six months ended June 30, 2012 and June 30, 2011, respectively, as a result of our capital expenditures for drilling, development and acquisition costs. The increase in net cash used in investing activities during first six months of 2012 compared to first six months of 2011 is attributable to continued expansion of our drilling programs, and acreage position, as well as growth of our business. We had net cash used in investing activities of \$242.8 million, \$139.6 million and \$75.2 million during the years ended December 31, 2011, 2010 and 2009, respectively, as a result of our capital expenditures for drilling, development and acquisition costs. The increases in net cash used in investing activities during the year ended December 31, 2011 compared to the year ended December 31, 2010 and during the year ended December 31, 2010 compared to the year ended December 31, 2009 were attributable to continued expansion of our drilling programs and growth of our business.

We expect our 2012 capital expenditure budget to be \$365 million, which is a 38% increase over the \$264 million incurred for 2011. Capital expenditures in the six months ended June 30, 2012 were \$206.5 million. Expenditures for exploration and development of oil and natural gas properties are the primary use of our capital resources. Our capital budget may be adjusted as business conditions warrant. The amount, timing and allocation of capital expenditures is largely discretionary and within our control. If oil and natural gas prices decline or costs increase significantly, we could defer a significant portion of our budgeted capital expenditures until later periods to prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flows. We routinely monitor and adjust our capital expenditures in response to changes in prices, availability of financing, drilling and acquisition costs, industry conditions, the timing of regulatory approvals, the availability of rigs, success or lack of success in drilling activities, contractual obligations, internally generated cash flows and other factors both within and outside our control.

### **Cash Flows Provided by Financing Activities**

Net cash provided by financing activities was \$128.6 million and \$33.9 million for the six months ended June 30, 2012 and June 30, 2011, respectively. For these periods, cash sourced through financing activities was provided primarily by proceeds from the completion of our initial public offering (April 2012) and borrowings under our revolving credit facilities. Our outstanding amounts under the revolving credit facility at June 30, 2012 and June 30, 2011 were \$151.7 million and \$146.6 million, respectively. During the 2012 period, we completed our initial public offering which resulted in net proceeds of \$213.8 million, of which \$99.0 million was used to repay a portion of our revolving credit facility and \$65.0 million was used to redeem the preferred units held by an affiliate of First Reserve. Net cash provided by financing activities was \$97.5 million, \$96.4 million and \$65.8 million for the years ended December 31, 2011, 2010 and 2009, respectively. For these years, cash sourced through financing activities was provided primarily by First Reserve and members of our management and borrowings under our prior revolving credit facility. Our long-term debt was \$151.7 million at June 30, 2012. Our long-term debt was \$234.8 million, \$89.6 million and \$29.8 million at December 31, 2011, 2010 and 2009, respectively.

### **Reserve-based Credit Facility**

As of August 30, 2012, we had a \$500 million reserve-based revolving credit facility with a borrowing base of \$235 million, after giving effect to the amendment described below. The facility matures in June 2017. The borrowing base under our revolving credit facility will be subject to redetermination on a semi-annual basis, effective September 1 and March 1, beginning March 1, 2013, and up to one additional time per six month period following each scheduled borrowing base redetermination, as may be requested by either us or the administrative agent, acting at the direction of lenders holding at least two-thirds of the outstanding loans and other obligations. The borrowing base will be determined by the lenders in good faith and consistent with their usual and customary oil and gas lending criteria in existence at that particular time. Our revolving credit facility is available for general corporate purposes, including, without limitation, working capital for exploration and production operations.



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In connection with the execution of the Acquisition Agreement, on August 11, 2012, we entered into a commitment letter with (after giving effect to certain subsequent joinders) each of the initial purchasers and/or their affiliates to, among other things, provide a commitment to amend our revolving credit facility to increase the borrowing base to \$250 million, as further described below, and accommodate the issuance, incurrence and/or compliance with the terms of the Preferred Stock and the \$550 million aggregate principal amount of senior unsecured notes that may be issued by us and Midstates Sub. The effectiveness of the amended revolving credit facility is subject to the consummation of the Eagle Energy Acquisition and other customary conditions.

If entered into, the amended revolving credit facility would mature on the fifth anniversary of the entrance into the facility and the aggregate amount available under the credit facility would increase to \$250 million, subject to reduction in the event that the amount of assets acquired in connection with the Eagle Energy Acquisition is less than expected. In addition, it would increase the allowance for the incurrence of certain unsecured indebtedness, without a corresponding reduction in the borrowing base, from \$275 million to \$500 million. We are in discussions with our lenders to increase this threshold to \$550 million, thereby permitting the incurrence of the \$550 million aggregate principal amount of senior unsecured notes that may be issued by us and Midstates Sub without causing a \$0.25 reduction in the borrowing base for every \$1 of debt incurred or issued up to \$550 million.

In addition, on August 11, 2012, we entered into a second commitment letter with SunTrust Bank, SunTrust Robinson Humphrey, Inc., Bank of America N.A. and Merrill Lynch, Pierce Fenner & Smith Incorporated to have an amendment to the existing secured revolving facility underwritten which provides for \$35 million of non-conforming borrowing base loans (thereby increasing the borrowing base under the existing secured revolving credit facility from \$200 million to \$235 million) and waives the requirement to comply with the minimum current ratio financial covenant for the quarters ending September 30, 2012 and December 31, 2012. The availability of non-conforming borrowing base loans would end upon the earliest to occur of (i) the closing of the Eagle Energy Acquisition, (ii) the issuance of certain issued debt permitted under the existing revolving credit facility and (iii) the scheduled March 2013 borrowing base redetermination. Thereafter, subject to the other commitments contemplated by the other commitment letter discussed above, the borrowing base would reduce to \$200 million and loans would be permitted subject to the \$200 million borrowing base. Borrowings under the terms of the amended revolving credit facility would bear interest at the same rates applicable to our existing revolving credit facility, provided that if borrowing base usage exceeded \$200 million the amount of applicable margin would increase to up to 3.00% in the case of base rate loans and 4.00% in the case of LIBOR loans. Similarly, commitment fees would be the same rates applicable to our existing revolving credit facility subject to an increase up to 0.625% if borrowing base usage exceeded \$200 million. The effectiveness of this amended revolving credit facility is not subject to the consummation of the Eagle Energy Acquisition.

On September 7, 2012, we entered into an amendment that contemplates the arrangements set forth in each of the above mentioned commitment letters. Upon the effectiveness of the amendment, as further amended the borrowing base increased to \$235 million and the changes contemplated by the second commitment letter occurred. The increase of the borrowing base to \$250 million, as further described above, and other amendments to the revolving credit facility to, among other things, (a) accommodate the issuance, incurrence and/or compliance with the terms of the Preferred Stock and the issuance of \$600 million aggregate principal amount of senior notes and (b) increase the allowance for the incurrence of certain unsecured indebtedness from \$275 million to \$600 million without a corresponding reduction in the borrowing base will happen subsequently upon the satisfaction of customary conditions found in acquisition financings. These conditions include (1) the consummation of the Eagle Energy Acquisition in accordance with the terms of the Acquisition Agreement (subject to any changes which are materially adverse to the lenders being approved by the parties to the first commitment letter), (2) the absence of a Seller Material Adverse Effect as defined in the Acquisition Agreement since 12:01 a.m. (CST) June 1, 2012, (3) the delivery of a reserve report in respect of the assets of Eagle Energy to be transferred pursuant to the Acquisition Agreement, (4) the consummation of the issuance of the Preferred Stock, (5) the delivery of a solvency certificate, (6) the accuracy in all material respects of specified representations in our existing revolving credit facility and in the Acquisition Agreement and (7) the release of

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liens on the assets to be transferred pursuant to the Acquisition Agreement. After each of the effectiveness of the amendment and the satisfaction of the conditions giving rise to, among other things, the increase in the borrowing base to \$250 million, the revolving credit facility will contain representations and warranties, affirmative, negative and financial covenants and events of default similar to those set forth in our existing revolving credit facility. After the borrowing base is increased to \$250 million, we will need to satisfy certain covenants related to transfer of assets of Eagle Energy, such as the delivery of mortgages in respect of certain transferred oil and gas properties.

Our obligations under our revolving credit facility are secured by substantially all of our and our subsidiary's assets.

As of August 30, 2012, we had \$191.7 million outstanding under our revolving credit facility.

At our election, interest is generally determined by reference to:

the London interbank offered rate, or LIBOR, plus an applicable margin between 1.75% and 2.75% per annum; or

the higher of (x) a domestic bank prime rate, (y) the federal funds rate plus 0.50% and (z) one-month LIBOR plus 1.00%, plus an applicable margin between 0.75% and 1.75% per annum.

Interest is generally payable quarterly for bank rate loans and on the last day of the applicable interest period for LIBOR loans, but not less frequently than quarterly.

Our revolving credit facility contains certain covenants that, among other things, limit our ability to:

incur indebtedness;

grant liens other than liens created pursuant to the revolving credit facility and certain permitted liens;

make certain loans, advances and investments;

make dividends, distributions or redemptions;

merge or consolidate;

engage in certain asset dispositions, including a sale of all or substantially all of our or our subsidiary's assets;

enter into certain sale or leaseback arrangements;

enter into certain transactions with affiliates;

grant negative pledges or agree to restrict dividends or distributions from subsidiaries;

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allow gas imbalances, take-or-pay or other prepayments with respect to oil and gas properties that would require us to deliver hydrocarbons in the future without then or thereafter receiving full payment therefor; or

enter into certain derivative arrangements.

Our revolving credit facility also contains covenants that, among other things, require us to maintain specified ratios or conditions as follows:

a current ratio, consisting of consolidated current assets, including the unused amount of the total commitments, to consolidated current liabilities, excluding non-cash derivative assets and liabilities, of not less than 1.0 to 1.0, as of the last day of any fiscal quarter; and

a debt coverage ratio, consisting of consolidated debt minus all unrestricted cash and cash equivalents (in an amount not to exceed \$15 million) to EBITDA, of not more than 4.00 to 1.0 for the four quarters ended on the last day of each fiscal quarter.

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We believe that we are in compliance with the terms of our revolving credit facility. If an event of default exists under the credit agreement, the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies. Each of the following will be an event of default:

failure to pay any principal or interest due under the revolving credit facility or any amount of principal under any letter of credit when due or, failure to pay within a certain grace period, any fees or other amount payable under the credit agreement;

a representation or warranty is proven to be incorrect in any material respect on or as of the date made or deemed made;

failure to perform or otherwise comply with the covenants in the credit agreement or other loan documents, subject, in certain instances, to certain grace periods;

default by us on the payment of any other indebtedness in excess of 5.0% of the borrowing base currently in effect, or any other event occurs that permits or causes the acceleration of such indebtedness;

bankruptcy or insolvency events involving us or our subsidiary;

the entry of one or more judgments, orders, decrees, or arbitration awards involving in the aggregate a liability as to any single or related series of transactions, incidents or conditions in excess of 5.0% of the borrowing base currently in effect that remains unsatisfied, unvacated and unstayed pending appeal for a period of thirty days after the entry thereof; and

a change of control, as defined in the credit agreement.

The foregoing description of our revolving credit facility does not purport to be complete and is qualified in its entirety by reference to the full text of such document, which was publicly filed on June 13, 2012.

## **Potential Bridge Credit Facility**

The commitment letter described above also provides for an unsecured bridge credit facility in the amount of up to \$500 million. The availability of loans under the bridge credit facility is subject to the consummation of the Eagle Energy Acquisition and other customary conditions. The proceeds of the bridge credit facility may be used solely to fund the Eagle Energy Acquisition, to pay transaction costs and expenses in connection therewith or repay outstanding debt under the existing revolving credit facility. If entered into, the bridge credit facility will initially bear interest at LIBOR, subject to a 1.50% floor, plus 9.0% and thereafter such 9.0% margin is subject to increases. The bridge credit facility matures on the first anniversary of the closing date of the Eagle Energy Acquisition and contains customary terms regarding the conversion of the bridge loans into other debt instruments subject to certain caps on yield, the highest of which is set at 13.25%. The obligations under the bridge credit facility would be guaranteed by the same entities that guaranty the existing secured revolving credit facility. If entered into, the amended revolving credit facility would mature on the fifth anniversary of the entrance into the facility and the aggregate amount available under the credit facility would increase to \$250 million, subject to reduction in the event that the amount of assets acquired in connection with the Eagle Energy Acquisition is less than expected. In addition, it would increase the allowance for the incurrence of certain unsecured indebtedness, without a corresponding reduction in the borrowing base, from \$275 million to \$600 million thereby permitting the incurrence of the bridge loans or the issuance of other debt without causing a \$0.25 reduction in the borrowing base for every \$1 of debt incurred or issued above \$275 million. The definitive loan documentation for the bridge loan facility will contain representations and warranties, affirmative, negative and financial covenants and events of default similar to those in other similar transactions and will otherwise be similar to the terms set forth in the existing secured revolving credit facility. The definitive loan documentation for the amended revolving credit facility contains representations and warranties, affirmative, negative and financial covenants and events of default similar to the terms set forth in the existing secured revolving credit facility and which address the above mentioned accommodations and allowances.



**Table of Contents****Commodity Derivative Contracts**

Due to the inherent volatility in oil and gas prices, we use commodity derivative instruments, such as collars, swaps, puts, and basis differential swaps to hedge price risk associated with a significant portion of our anticipated oil and gas production. By removing a majority of the price volatility associated with future production, we expect to reduce, but not eliminate, the potential effects of variability in cash flow from operations due to fluctuations in commodity prices. We have not elected hedge accounting on these derivatives and, therefore, the unrealized gains and losses on open positions are reflected currently in earnings. At each period end, we estimate the fair value of our commodity derivatives and recognize an unrealized gain or loss. For a summary of our commodity derivative contracts as of June 30, 2012, please see Quantitative and Qualitative Disclosures About Market Risk Commodity price exposure.

**Obligations and Commitments**

We have the following contractual obligations and commitments as of June 30, 2012 (in thousands):

	Total	Payments due by period (1)			More than 5 years
		Less than 1 year	1 - 3 years	3 - 5 years	
<b>Contractual Obligations</b>					
Revolving credit facility	\$ 151,700	\$	\$ 151,700	\$	\$
Drilling contracts (2)	6,150	6,150			
Operating leases (2)	8,436	634	2,857	2,939	2,006
Seismic contracts (2)	8,824	8,324	500		
Asset retirement obligations (3)	9,398				9,398
Other (2)	1,110	1,110			
Total contractual cash obligations	\$ 185,618	\$ 16,218	\$ 155,057	\$ 2,939	\$ 11,404

- (1) Less than 1 year represents amounts for the remainder of 2012 (July 1 through December 31), 1-3 years represents amounts for 2013 and 2014, 3-5 years represents amounts for 2015 and 2016, and more than 5 years represents amounts after 2016.
- (2) See Note 12 in the Notes to the Unaudited Condensed Consolidated Financial Statements for a description of operating lease, drilling contract, seismic contract and other contract obligations.
- (3) Amounts represent our estimate of future asset retirement obligations on an undiscounted basis. Because these costs typically extend many years into the future, estimating these future costs requires management to make estimates and judgments that are subject to future revisions based upon numerous factors, including the rate of inflation, changing technology and the political and regulatory environment. See Note 5 in the Notes to the Unaudited Condensed Consolidated Financial Statements.

Amounts related to our derivative financial instruments are not included in the table above. See Note 4 to our Condensed Consolidated Financial Statements as of and for the six months ended June 30, 2012.

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

We prepare our financial statements and the accompanying notes in conformity with GAAP, which requires our management to make estimates and assumptions about future events that affect the reported amounts in our financial statements and the accompanying notes. We identify certain accounting policies as critical based on, among other things, their impact on the portrayal of our financial condition, results of operations or liquidity and the degree of difficulty, subjectivity and complexity in their deployment. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. Our management routinely discusses the development, selection and disclosure of each of the critical accounting policies. Following is a discussion of our most critical accounting policies:

**Reserves Estimates.** Effective December 31, 2009, we adopted revised oil and gas disclosure requirements set forth by the SEC in Release No. 33-8995, *Modernization of Oil and Gas Reporting* and as codified by the Financial Accounting Standards Board (FASB) in Accounting Standards Codification (ASC) Topic 932, *Extractive Industries - Oil and Gas*. The rules include changes to the pricing used to estimate reserves, the option to disclose probable and possible reserves, revised definitions for proved reserves, additional disclosures with respect to undeveloped reserves, and other revised definitions and disclosures.

Proved oil and gas reserves are the estimated quantities of natural gas, crude oil and NGLs that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing operating conditions and government regulations.

Proved undeveloped reserves include those reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Undeveloped reserves may be classified as proved reserves on undrilled acreage directly offsetting development areas that are reasonably certain of production when drilled, or where reliable technology provides reasonable certainty of economic producibility. Undrilled locations may be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless specific circumstances justify a longer time.

Despite the inherent imprecision in these engineering estimates, our reserves are used throughout our financial statements. For example, since we use the units-of-production method to amortize our oil and gas properties, the quantity of reserves could significantly impact our DD&A expense. Our oil and gas properties are also subject to a ceiling limitation based in part on the quantity of our proved reserves. Finally, these reserves are the basis for our supplemental oil and gas disclosures.

Reserves as of December 31, 2011, 2010 and 2009 were calculated using an unweighted arithmetic average of commodity prices in effect on the first day of each month, held flat for the life of the production, except where prices are defined by contractual arrangements.

We have elected not to disclose probable and possible reserves or reserve estimates in this information statement.

**Revenue Recognition.** Our revenue recognition policy is significant because revenue is a key component of the results of operations and of the forward-looking statements contained in the analysis of liquidity and capital resources. We record revenue in the month our production is delivered to the purchaser, but payment is generally received 30 to 90 days after the date of production. At the end of each month, we estimate the amount of production that was delivered to the purchaser and the price that will be received. We use our knowledge of our properties, their historical performance, the anticipated effect of weather conditions during the month of production, NYMEX and local spot market prices and other factors as the basis for these estimates. We record the variances between our estimates and the actual amounts received in the month payment is received.

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**Share-Based Compensation.** We account for share-based compensation awards in accordance with FASB ASC 718, Compensation Stock Compensation. We measure stock-based compensation cost at fair value and generally recognize the corresponding compensation expense on a straight-line basis over the service period during which awards are expected to vest. We include share-based compensation expense in General and administrative expense in our consolidated statements of operations.

For the periods presented, we recognized compensation expense prior to our initial public offering related to purchases and grants of shares of common stock in Midstates Petroleum Holdings, Inc., a subchapter S corporation ( Petroleum Inc. ), through which our founders, management and certain of our employees held their equity interest in us, and purchases of units of Midstates Petroleum Holdings LLC during 2011 by certain employees and members of management. In connection with the audit of our financial statements, we restated our historical financial statements to account for certain share-based awards made in prior years under liability accounting as required by FASB ASC 718. As a result, we were required upon the occurrence of certain events to determine the fair value of outstanding shares of Petroleum Inc. common stock and units of Midstates Petroleum Holdings LLC purchased or granted in 2011 and previous years still held by certain members of management and employees in order to mark-to-market the liability associated with those share-based awards. In November 2011, all outstanding restricted shares in Petroleum Inc. were vested. In December 2011, the provisions of certain employment and other agreements that required our share-based awards to be accounted for under liability accounting were either amended or terminated, and, as a result, we now apply equity accounting for all share-based awards.

**Financial Instruments.** Our financial instruments consist of cash and cash equivalents, receivables, payables, debt, and commodity derivatives. Commodity derivatives are recorded at fair value. The carrying amount of our other financial instruments approximate fair value because of the short-term nature of the items or variable pricing.

Derivative financial instruments are recorded in our consolidated balance sheets as either an asset or liability measured at estimated fair value. Changes in the derivative s fair value are recognized currently in earnings as gains and losses in the period of change. The gains or losses are recorded within revenues in Gains (losses) on commodity derivative contracts net. The related cash flow impact is reflected within cash flows from operating activities.

**Asset Retirement Obligations.** We have significant obligations to remove tangible equipment and facilities associated with our oil and natural gas wells, and to restore land at the end of oil and natural gas production operations. The removal and restoration obligations are associated with plugging and abandoning wells. Estimating the future restoration and removal costs is difficult and requires us to make estimates and judgments because most of the removal obligations are many years in the future and contracts and regulations often have vague descriptions of what constitutes removal. Asset removal technologies and costs are constantly changing, as are regulatory, political, environmental, safety and public relations considerations. Inherent in the present value calculations are numerous assumptions and judgments including the ultimate settlement amounts, inflation factors, credit adjusted discount rates, timing of settlements and changes in the legal, regulatory, environmental and political environments.

## **Inflation**

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations for the years ended December 31, 2011, 2010 and 2009. Although the impact of inflation has been insignificant in recent years, it is still a factor in the United States economy and we tend to experience inflationary pressure on the cost of oilfield services and equipment as increasing oil and gas prices increase drilling activity in our areas of operations.



**Table of Contents****Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to a variety of market risks including commodity price risk, interest rate risk and counterparty and customer risk. We address these risks through a program of risk management including the use of derivative instruments.

**Commodity price exposure.** We are exposed to market risk as the prices of oil and natural gas fluctuate due to changes in supply and demand. To partially reduce price risk caused by these market fluctuations, we have hedged in the past and expect to hedge a significant portion of our future production.

We utilize derivative financial instruments to manage risks related to changes in oil prices. As of June 30, 2012, we utilized fixed price swaps, collars, deferred-premium puts and basis differential swaps to reduce the volatility of oil prices on a portion of our future expected oil production.

For derivative instruments recorded at fair value, the credit standing of our counterparties is analyzed and factored into the fair value amounts recognized on the balance sheet.

The following is a summary of our commodity derivative contracts as of June 30, 2012:

	<b>Hedged Volume</b>	<b>Weighted-Average Fixed Price (\$)</b>
<b>Oil (Bbls):</b>		
WTI Swaps 2012	411,100	\$ 84.36
WTI Swaps 2013	679,125	84.73
WTI Swaps 2014	262,450	83.00
WTI Collars 2012	82,800	85.00 127.28
WTI Deferred Premium Puts 2012 (1)	276,000	79.01
WTI Basis Differential Swaps 2012 (2)	505,300	9.73
WTI Basis Differential Swaps 2013 (2)	679,125	6.30
Louisiana Light Sweet Swaps 2012	315,180	116.55
Brent Crude Swaps 2013	1,021,749	111.89
		<b>Six Months Ended June 30, 2012 (in thousands)</b>
Derivative fair value at period end asset (included in the balance sheet)		\$ 17,925
Realized net (loss) gain (included in the statement of operations)		\$ (11,679)
Unrealized net (loss) gain (included in the statement of operations)		\$ 35,157

- (1) 2012 deferred premium puts represent the net effective floor price of a put with a strike price of \$85.00/Bbl and a deferred premium of \$5.99/Bbl. The premiums for these instruments are paid each month, concurrently with the settlement of the monthly put contracts.
- (2) We enter into swap arrangements intended to capture the positive differential between LLS pricing and NYMEX WTI pricing. As of June 30, 2012, December 31, 2011, 2010 and 2009, assets and liabilities recorded at fair value in the balance sheets were categorized based upon the level of judgment associated with the inputs used to measure their value. Our only financial assets and liabilities that are measured at fair value as of December 31, 2011, 2010 and 2009 are the derivative instruments discussed above. At June 30, 2012, December 31, 2011 and 2010, all of our commodity derivative contracts were with three, two and one bank counterparties, respectively, and are all classified as Level 2. Our policy is to net derivative liabilities and assets where there is a legally enforceable master netting agreement with the counterparty.

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In July 2012, we entered into several commodity derivative transactions to closely align the reference prices of our commodity derivative prices to the actual prices received for oil production. On August 10, 2012, we had the following open commodity positions:

	Hedged Volume	Weighted-Average Fixed Price (\$)
Oil (Bbls):		
WTI Swaps 2012	644,130	\$ 95.75
WTI Swaps 2013	1,700,874	95.55
WTI Swaps 2014	262,450	83.00
WTI Collars 2012	68,850	85.00 to 127.28
WTI Deferred Premium Puts 2012 (1)	229,500	79.01
WTI Basis Differential Swaps 2012 (2)	789,480	9.81
WTI Basis Differential Swaps 2013 (2)	1,700,874	5.91

(1) 2012 deferred premium puts represent the net effective floor price of a put with a strike price of \$85.00/Bbl and a deferred premium of \$5.99/Bbl. The premiums for these instruments are paid each month, concurrently with the settlement of the monthly put contracts.

(2) We enter into swap arrangements intended to capture the positive differential between LLS pricing and NYMEX WTI pricing.

**Interest rate risk.** At June 30, 2012, we had indebtedness outstanding under our credit facility of \$151.7 million, which bore interest at floating rates. The average annual interest rate incurred on this indebtedness for the three months ended June 30, 2012 and June 30, 2011 was approximately 2.5% and 3.0%, respectively. The average annual interest rate incurred on this indebtedness for the six months ended June 30, 2012 and June 30, 2011 was approximately 2.9% and 2.8%, respectively. The average annual interest rate incurred on this indebtedness for the years ended December 31, 2011, 2010 and 2009 was approximately 3.2%, 3.0% and 3.3%, respectively. A 1.0% increase in each of the average LIBOR and federal funds rate for the three months ended June 30, 2012 and three months ended June 30, 2011 would have resulted in an estimated \$0.4 million and \$0.3 million, respectively, increase in interest expense, of which a portion may be capitalized. A 1.0% increase in each of the average LIBOR and federal funds rate for the six months ended June 30, 2012 and six months ended June 30, 2011 would have resulted in an estimated \$1.0 million and \$0.5 million, respectively, increase in interest expense, of which a portion may be capitalized. A 1.0% increase in each of the average LIBOR and federal funds rate for the years ended December 31, 2011 and 2010 would have resulted in an estimated \$1.5 million and \$0.6 million, respectively, increase in interest expense, of which a portion may be capitalized.

We may utilize interest rate derivatives to alter interest rate exposure in an attempt to reduce interest rate expense related to existing debt issues. Interest rate derivatives are used solely to modify interest rate exposure and not to modify the overall leverage of the debt portfolio.

**Counterparty and customer credit risk.** Joint interest receivables arise from billing entities which own partial interest in the wells we operate. These entities participate in our wells primarily based on their ownership in leases on which we wish to drill. We have limited ability to control participation in our wells. We are also subject to credit risk due to concentration of our oil and natural gas receivables with several significant customers. See Business Marketing and Major Customers for further detail about our significant customers. The inability or failure of our significant customers to meet their obligations to us or their insolvency or liquidation may adversely affect our financial results. In addition, our oil and natural gas derivative arrangements expose us to credit risk in the event of nonperformance by counterparties.

While we do not require our customers to post collateral and we do not have a formal process in place to evaluate and assess the credit standing of our significant customers for oil and gas receivables and the counterparties on our derivative instruments, we do evaluate the credit standing of such counterparties as we

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deem appropriate under the circumstances. This evaluation may include reviewing a counterparty's credit rating, latest financial information and, in the case of a customer with which we have receivables, their historical payment record, the financial ability of the customer's parent company to make payment if the customer cannot and undertaking the due diligence necessary to determine credit terms and credit limits. The counterparties on our derivative instruments currently in place are lenders under our revolving credit facility with investment grade ratings, and we are likely to enter into any future derivative instruments with these or other lenders under our revolving credit facility which also carry investment grade ratings. Several of our significant customers for oil and gas receivables have a credit rating below investment grade or do not have rated debt securities. In these circumstances, we have considered the lack of investment grade credit rating in addition to the other factors described above.

**Off-Balance Sheet Arrangements**

Currently, we do not have any off-balance sheet arrangements.

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**WHERE YOU CAN FIND MORE INFORMATION**

We file periodic reports, proxy and information statements and other information with the SEC in accordance with the requirements of the Exchange Act. Our SEC filings are available to the public over the Internet at the SEC's web site at [www.sec.gov](http://www.sec.gov). You also may read and copy any document we file at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room. Our Common Stock is listed and traded on the New York Stock Exchange under the trading symbol MPO.

You may request a copy of our filings with the SEC at no cost, by making written or telephone requests for such copies to:

**Midstates Petroleum Company, Inc.**

**Attention: Investor Relations**

**4400 Post Oak Parkway**

**Suite 1900**

**Houston, Texas 77027**

**(713) 595-9400**

You should rely only on the information provided in this filing. You should not assume that the information in this information statement is accurate as of any date other than the date of this document. We have not authorized anyone else to provide you with any information.

**STOCKHOLDERS SHARING AN ADDRESS**

We will deliver only one information statement to multiple stockholders sharing an address unless we have received contrary instructions from one or more of the stockholder. We undertake to deliver promptly, upon written or oral request, a separate copy of this information statement to a stockholder at a shared address to which a single copy of the information statement is delivered. A stockholder can notify us that the stockholder wishes to receive a separate copy of the information statement by contacting us at the address or phone number set forth above. Conversely, if multiple stockholders sharing an address receive multiple information statements and wish to receive only one, such stockholders can notify us at the address or phone number set forth above.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors of

Midstates Petroleum Company, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of Midstates Petroleum Holdings, LLC and subsidiary (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, members' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Midstates Petroleum Holdings, LLC and subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the Company adopted new accounting guidance on December 31, 2009 related to the estimation of oil and gas reserves.

As discussed in Note 11, the accompanying 2009, 2010 and 2011 financial statements have been restated to correct an error.

/s/ DELOITTE & TOUCHE LLP

Houston, Texas

February 1, 2012

(April 9, 2012 as to the note on Subsequent Events and the effect of the restatement of the 2009, 2010 and 2011 financial statements discussed in Note 11)

**Table of Contents****Midstates Petroleum Holdings LLC****Consolidated Balance Sheets**

	December 31, 2011	December 31, 2010
	(In thousands) (As restated) (1)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 7,344	\$ 11,917
Accounts receivable:		
Oil and gas sales	23,792	14,141
Severance tax refund	3,413	
Other	249	537
Prepayments	2,642	383
Inventory	5,713	1,173
Commodity derivative contracts	4,957	
<b>Total current assets</b>	<b>48,110</b>	<b>28,151</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas properties, on the basis of full-cost accounting:		
Proved properties	644,393	351,544
Unevaluated properties	76,857	101,366
Other property and equipment	1,672	1,360
Less accumulated depreciation, depletion, and amortization	(148,843)	(57,144)
<b>Net property and equipment</b>	<b>574,079</b>	<b>397,126</b>
<b>OTHER ASSETS:</b>		
Commodity derivative contracts	588	
Security deposit and other noncurrent assets	1,879	1,727
<b>Total other assets</b>	<b>2,467</b>	<b>1,727</b>
<b>TOTAL</b>	<b>\$ 624,656</b>	<b>\$ 427,004</b>
<b>LIABILITIES AND MEMBERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued liabilities	\$ 73,255	\$ 42,619
Commodity derivative contracts	12,599	12,657
<b>Total current liabilities</b>	<b>85,854</b>	<b>55,276</b>
<b>LONG-TERM LIABILITIES:</b>		
Asset retirement obligations	7,627	2,859
Commodity derivative contracts	10,178	16,464
Long-term debt	234,800	89,600
Other long-term liabilities	695	6,926
<b>Total long-term liabilities</b>	<b>253,300</b>	<b>115,849</b>

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COMMITMENTS AND CONTINGENCIES (Note 10)		
MEMBERS EQUITY (including \$0 and \$47 million of preferred units, respectively)	285,502	255,879
<b>TOTAL</b>	<b>\$ 624,656</b>	<b>\$ 427,004</b>
Unaudited pro forma amount of undistributed earnings to be reclassified to paid to capital upon completion of the offering	\$ 17,122	

(1) See Note 11.

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

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**Table of Contents****Midstates Petroleum Holdings LLC****Consolidated Statements of Operations**

	Years ended December 31,		
	2011	2010	2009
	(As restated) (1)	(As restated) (1)	(As restated) (1)
<b>REVENUES:</b>			
Oil sales	\$ 177,464	\$ 75,875	\$ 27,347
Natural gas sales	20,665	10,505	2,683
Natural gas liquid sales	15,683	2,731	103
Losses on commodity derivative contracts net	(4,844)	(26,268)	(5,987)
Other	465	209	108
<b>Total revenues</b>	<b>209,433</b>	<b>63,052</b>	<b>24,254</b>
<b>EXPENSES:</b>			
Lease operating	15,234	8,733	5,312
Workover	2,101	4,683	5,226
Severance tax	12,422	6,431	2,849
Asset retirement accretion	334	175	120
General and administrative	68,915	16,847	5,886
Depreciation, depletion, and amortization	91,699	41,827	12,322
Impairment in carrying value of oil and natural gas properties			4,297
<b>Total expenses</b>	<b>190,705</b>	<b>78,696</b>	<b>36,012</b>
<b>OPERATING INCOME (LOSS)</b>	<b>18,728</b>	<b>(15,644)</b>	<b>(11,758)</b>
<b>OTHER INCOME</b>			
Interest income	23	9	6
Interest expense net of amounts capitalized	(2,094)		
<b>NET INCOME (LOSS)</b>	<b>\$ 16,657</b>	<b>\$ (15,635)</b>	<b>\$ (11,752)</b>
<b>Unaudited pro forma income tax provision (benefit)</b>	<b>\$ 23,156</b>	<b>\$ (6,318)</b>	<b>\$ (4,592)</b>
<b>Unaudited pro forma net loss</b>	<b>\$ (6,499)</b>	<b>\$ (9,317)</b>	<b>\$ (7,160)</b>
<b>Unaudited pro forma basic and diluted loss per share</b>	<b>\$ (0.10)</b>	<b>\$ (0.14)</b>	<b>\$ (0.11)</b>
<b>Unaudited pro forma basic and diluted weighted average shares outstanding</b>	<b>65,634,353</b>	<b>65,634,353</b>	<b>65,634,353</b>

(1) See Note 11.

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

**Table of Contents****Midstates Petroleum Holdings LLC****Consolidated Statement of Members' Equity**

<b>BALANCE January 1, 2009</b>	\$ 192,006
Members' contribution (net of \$3.0 million related to the issuance of unrestricted shares in Petroleum Inc. for cash and initially treated as a liability award. See Note 7)	55,080
Net loss	(11,752)
<b>BALANCE December 31, 2009 (As restated, see Note 11)</b>	235,334
Members' contribution (net of \$2.17 million related to the issuance of unrestricted shares in Petroleum Inc. for cash and initially treated as a liability award. See Note 7)	
Preferred equity units issued (see Note 7)	36,180
Preferred units converted from common units (see Note 7)	5,080
Common units converted to preferred units (see Note 7)	(5,080)
Net loss	(15,635)
<b>BALANCE December 31, 2010 (As restated, see Note 11)</b>	255,879
Distribution to members' preferred equity units	(47,000)
Distribution to members' return on preferred equity units	(3,572)
Members' contribution (includes \$2.7 million related to the issuance of unrestricted units of the Company for cash and initially treated as a liability award. See Note 7)	2,870
Reclassification of liability for share-based awards related to the transition from liability to equity accounting (see Note 7)	60,668
Net income	16,657
<b>BALANCE December 31, 2011 (As restated, see Note 11)</b>	\$ 285,502

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

**Table of Contents****Midstates Petroleum Holdings LLC****Consolidated Statements of Cash Flows**

	Years ended December 31,		
	2011	2010	2009
	(As restated) (1)	(As restated) (1)	(As restated) (1)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 16,657	\$ (15,635)	\$ (11,752)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Unrealized (gains) losses on commodity derivative contracts, net	(11,889)	25,398	7,283
Asset retirement accretion	334	175	120
Depreciation, depletion, and amortization	91,699	41,827	12,363
Impairment in carrying value of oil and natural gas properties			4,297
Share-based compensation	53,744	1,518	234
Change in operating assets and liabilities:			
Accounts receivable - oil and gas sales	(9,651)	(10,355)	(1,459)
Accounts receivable - other	(3,125)	(452)	515
Prepayments and other assets	(2,259)	2,290	(2,645)
Inventory	(4,540)	(65)	568
Accounts payable, accrued liabilities, and other	9,730	5,753	1,071
Other		314	
Net cash provided by operating activities	140,700	50,768	10,595
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Investment in property and equipment	(242,619)	(139,618)	(72,237)
Investment in acquired property			(3,017)
Other (including escrowed deposit)	(152)		39
Net cash used in investing activities	(242,771)	(139,618)	(75,215)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from long-term borrowings	145,200	60,000	13,000
Repayment of long-term borrowings		(200)	(5,000)
Cash received for units	2,870	38,350	58,080
Distributions to members	(50,572)		
Other		(1,736)	(321)
Net cash provided by financing activities	97,498	96,414	65,759
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(4,573)	7,564	1,139
Cash and cash equivalents, beginning of year	11,917	4,353	3,214
Cash and cash equivalents, end of year	\$ 7,344	\$ 11,917	\$ 4,353
<b>SUPPLEMENTAL INFORMATION:</b>			
Non-cash transactions - investments in property and equipment accrued not paid	\$ 61,590	\$ 36,022	\$ 8,688
	\$ 1,594	\$	\$

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Cash paid for interest net of capitalized interest of \$2.6 million, \$1.7 million, and \$0.8 million, respectively

Reclassification of liability for share-based compensation to member s equity (see Note 7)	\$	6,924	\$	\$
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(1) See Note 11.

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

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

**1. Organization and Business**

Midstates Petroleum Holdings LLC (the Company) and its wholly owned subsidiary, Midstates Petroleum Company LLC (Subsidiary), engages in the business of the drilling for and production of oil, natural gas and natural gas liquids. The Company currently has oil and gas operations solely in the state of Louisiana.

At December 31, 2011, the Company is 76.73% owned by FR Midstates Holdings LLC (FR Midstates) and 22.64% owned by Midstates Petroleum Holdings, Inc. (Petroleum Inc.), through which the Company's founders, management and certain employees hold their equity interests, and 0.63% owned by certain members of management and employees.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

The accompanying consolidated financial statements of the Company include the accounts of the Company and Subsidiary. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and reflect, in the opinion of the Company's management, all adjustments necessary to present fairly the financial position as of, and the results of operations for, the periods presented. All intercompany transactions have been eliminated in consolidation.

The Company operates its oil and natural gas properties as one business segment: the exploration, development and production of oil and natural gas. The Company's management evaluates performance based on one business segment as there are not different economic environments within the operation of the Company's oil and natural gas properties.

***Use of Estimates***

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

Significant estimates include, but are not limited to, the amount of recoverable oil and natural gas reserves; depreciation, depletion, and amortization of proved oil and natural gas properties; future cash flows from oil and natural gas properties; the fair value of commodity derivative contracts; the fair value of share-based compensation; and the valuation of future asset retirement obligations.

***Cash and Cash Equivalents***

The Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

***Accounts Receivable and Allowance for Doubtful Accounts***

Accounts receivable are stated at the historical carrying amount net of allowance for uncollectible accounts. The carrying amount of the Company's accounts receivable approximate fair value because of the short-term nature of the instruments. The Company accrues a reserve on a receivable when, based on the judgment of management, it is probable that a receivable will not be collected and the amount of any reserve may be reasonably estimated. As of December 31, 2011 and 2010, the Company had no allowance for doubtful accounts.

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

***Oil and Natural Gas Properties***

The Company uses the full-cost method of accounting for its exploration and development activities. Under this method of accounting, the cost of both successful and unsuccessful exploration and development activities are capitalized as property and equipment. This includes any internal costs that are directly related to exploration and development activities, but does not include any costs related to production, general corporate overhead or similar activities. Historically, total capitalized internal costs in any given period have not been material to total oil and gas costs capitalized in such period. Proceeds from the sale or disposition of oil and gas properties are accounted for as a reduction to capitalized costs unless a significant portion (greater than 25 percent) of the Company's reserve quantities are sold, in which case a gain or loss is generally recognized in income.

For the years ended December 31, 2011, 2010 and 2009, depletion expense related to oil and gas properties was \$91.4 million, \$41.6 million and \$12.1 million, respectively and \$33.40, \$29.85 and \$19.79 per barrel of oil equivalent ( Boe ), respectively.

***Unevaluated Property***

Oil and gas unevaluated properties and properties under development include costs that are not being depleted or amortized. These costs represent investments in unproved properties. The Company excludes these costs until proved reserves are found, until it is determined that the costs are impaired or until major development projects are placed in service, at which time the costs are moved into oil and natural gas properties subject to amortization. All unproved property costs are reviewed at least annually to determine if impairment has occurred.

***Oil and Gas Reserves***

Proved oil and natural gas reserves utilized in the preparation of the consolidated financial statements are estimated in accordance with the rules established by the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB), which subsequent to December 31, 2008 require that reserve estimates be prepared under existing economic and operating conditions using a 12-month average price with no provision for price and cost escalations in future years except by contractual arrangements. The Company's reserve estimates at December 31, 2011, 2010 and 2009 were prepared by a third-party petroleum engineer, Netherland, Sewell & Associates, Inc. ( NSAI ). Reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. The Company depletes its oil and gas properties using the units-of-production method. Capitalized costs of oil and natural gas properties subject to amortization are depleted over proved reserves. It is possible that, because of changes in market conditions or the inherent imprecision of reserve estimates, the estimates of future cash inflows, future gross revenues, the amount of oil and natural gas reserves, the remaining estimated lives of oil and natural gas properties, or any combination of the above may be increased or reduced. Increases in recoverable economic volumes generally reduce per unit depletion rates while decreases in recoverable economic volumes generally increase per unit depletion rates.

***Other Property and Equipment***

Other property and equipment consists of vehicles, furniture and fixtures, and computer hardware and software and are carried at cost. Depreciation is provided principally using the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Maintenance and repairs are charged to expense as incurred, while renewals and betterments are capitalized. For the years ended December 31, 2011, 2010 and 2009, depreciation expense related to other property and equipment was \$0.3 million, \$0.2 million and \$0.2 million, respectively.

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

***Impairment of Oil and Gas Properties/Ceiling Test***

The Company's historical policy as a privately-owned company has been to perform a ceiling test on an annual basis. However, beginning September 30, 2011, the ceiling test is performed on a quarterly basis. The test establishes a limit (ceiling) on the book value of oil and gas properties. The capitalized costs of proved oil and gas properties, net of accumulated depreciation, depletion and amortization (DD&A) and the related deferred income taxes, may not exceed this ceiling. The ceiling limitation is equal to the sum of: (i) the present value of estimated future net revenues from the projected production of proved oil and gas reserves, excluding future cash outflows associated with settling asset retirement obligations accrued on the balance sheet, calculated using the average oil and natural gas sales price received by the Company as of the first trading day of each month over the preceding twelve months (such prices are held constant throughout the life of the properties) and a discount factor of 10%; (ii) the cost of unproved and unevaluated properties excluded from the costs being amortized; (iii) the lower of cost or estimated fair value of unproved properties included in the costs being amortized; and (iv) related income tax effects. If capitalized costs exceed this ceiling, the excess is charged to expense in the accompanying consolidated statements of operations.

For the year ended December 31, 2011 and 2010, capitalized costs did not exceed the ceiling and no impairment to oil and gas properties was required. In calculating the ceiling test for the year ended December 31, 2009, the Company identified that capitalized costs exceeded the ceiling and impaired oil and gas properties by \$4.3 million.

***Depreciation, Depletion, and Amortization (DD&A)***

DD&A of oil and gas properties is calculated using the Units of Production Method (UOP). The UOP calculation, in its simplest terms, multiplies the percentage of estimated proved reserves produced by the cost of those reserves. The result is to recognize expense at the same pace that the reservoirs are estimated to be depleting. The amortization base in the UOP calculation includes the sum of proved property costs net of accumulated DD&A, estimated future development costs (future costs to access and develop proved reserves) and asset retirement costs that are not already included in oil and gas property, less related salvage value.

***Revenue Recognition***

Oil and gas revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred and collection of the revenues is reasonably assured. Cash received relating to future revenues is deferred and recognized when all revenue recognition criteria are met.

The Company follows the sales method of accounting for oil and gas revenues, whereby revenue is recognized for all oil and gas sold to purchasers regardless of whether the sales are proportionate to the Company's ownership interest in the property. Production imbalances are recognized as a liability to the extent an imbalance on a specific property exceeds the Company's share of remaining proved oil and gas reserves. The Company had no significant imbalances at December 31, 2011 or 2010.

***Income Taxes***

The Company is not a taxpaying entity for federal income tax purposes and, accordingly, it does not recognize any expense for such taxes. The income tax liability resulting from the Company's activities is the responsibility of the Company's members. In the event of an examination of the Company's tax return, the tax liability of the members could be changed if an adjustment of the Company's income or loss is ultimately sustained by the taxing authorities.

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

The unaudited pro forma income tax provision (benefit) on the consolidated statements of operations reflects the effect of the Company's anticipated initial public offering. After consummation, the Company will be subject to U.S. federal and certain state income taxes. The 2011 pro forma effective tax rate of 139% differs from the expected federal statutory rate of 35% due to state income taxes of up to 8.0% (or 5.2%, net of the federal benefit for the year ended December 31, 2011) and certain permanent differences related to the valuation of share-based compensation expense. The 2010 and 2009 pro forma effective tax rate reflected herein differs from the expected federal statutory rate of 35% due to state income taxes of up to 8.0% (or 3.9%, net of federal benefit, for the years ended December 31, 2010 and 2009.). For 2010 and 2009, presented, there were no material permanent differences, with the exception of the year ended December 31, 2010, which included an adjustment for percentage of depletion for tax purposes in excess of book of approximately 2.9%. No valuation allowance was deemed necessary due to the presence of future net taxable amounts in excess of deferred tax assets; management placed no reliance on other future taxable income.

The Company, on a pro forma basis, would have recorded a tax provision during the year ended December 31, 2011 of \$23.2 million (unaudited). The Company, on a pro forma basis, would have recorded a tax benefit during the years ended December 31, 2010 and 2009 of \$(6.3) million (unaudited) and \$(4.6) million (unaudited), respectively.

In addition, on a pro forma basis, a recalculation of the ceiling test during the year ended December 31, 2010 on an after-tax basis would have resulted in an impairment of \$36.3 million (unaudited). The pro forma recalculation of the ceiling test for the years ended December 31, 2011 and 2009 on an after tax basis did not indicate any additional impairment.

***Financial Instruments***

The Company's financial instruments consist of cash and cash equivalents, receivables, payables, debt, and commodity derivative contracts. Commodity derivative contracts are recorded at fair value (see Note 3). The carrying amount of floating-rate debt approximates fair value because the interest rates are variable and reflective of market rates. The carrying amount of the Company's other financial instruments approximate fair value because of the short-term nature of the items or variable pricing.

Derivative financial instruments are recorded in the consolidated balance sheets as either an asset or liability measured at estimated fair value. Changes in the derivative's fair value are recognized currently in earnings as gains and losses in the period of change. The gains or losses are recorded in Gains (losses) on commodity derivative contracts - net. The related cash flow impact is reflected within cash flows from operating activities.

***Asset Retirement Obligations***

The legal obligations associated with the retirement of long-lived assets are recognized at estimated fair value at the time that the obligation is incurred. Oil and gas producing companies incur such a liability upon acquiring or drilling a well. The Company estimates the fair value of an asset retirement obligation in the period in which the obligation is incurred and can be reliably measured. The corresponding asset retirement cost is capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depreciated over the useful life of the related asset. If the liability is settled for an amount other than the recorded amount, any adjustment is recorded in the full cost pool. See Note 5.



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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

***Capitalized Interest***

Interest from external borrowings is capitalized on unevaluated properties using the weighted-average cost of outstanding borrowings until the project is substantially complete and ready for its intended use, which for oil and gas assets is at the first production from the field. Capitalized interest is depleted over the useful lives of the assets in the same manner as the depletion of the underlying assets. For the years ended December 31, 2011, 2010 and 2009, interest capitalized to unevaluated properties was \$2.6 million, \$1.7 million and \$0.8 million, respectively.

***Pro Forma Financial Information***

The pro forma balance sheet information as of December 31, 2011 reflects the pro forma reclassification of undistributed gains to paid-in capital as a result of the Company no longer being a limited liability company upon closing of the offering. Simultaneously with the closing of the offering, all members' equity will be exchanged for common stock of Midstates Petroleum Company, Inc. through a constructive distribution to the owners, followed by a contribution to capital of the corporate entity.

The pro forma statements of operations information for all periods presented reflects the impact of Midstates' change in capital structure as if it had occurred at the beginning of the earliest period presented. Pro forma net income (loss) per basic and diluted share is determined by dividing the pro forma net income (loss) by the number of common shares expected to be outstanding immediately following the offering.

***Subsequent Events***

The Company has evaluated subsequent events through February 1, 2012, the date the consolidated financial statements were issued.

**3. Fair Value Measurements of Financial Instruments**

The Company uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources; whereas, unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further divided into the following fair value input hierarchy:

**Level 1** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

**Level 2** Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are commodity derivative contracts with fair values based on inputs from actively quoted markets. The Company uses a market approach to estimate the fair values of its commodity derivative contracts, utilizing commodity futures price strips for the underlying commodities provided by a reputable third-party.

**Level 3** Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

**Derivative Instruments** Commodity derivative contracts reflected in the consolidated balance sheets are recorded at estimated fair value.

At December 31, 2011 and 2010, all of the Company's commodity derivative contracts were with two and one bank counterparties, respectively, and are classified as Level 2.

	Fair Value Measurements at December 31, 2011			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
<b>Assets:</b>				
Commodity derivative oil swaps	\$	\$	\$	\$
Commodity derivative deferred premium puts		1,673		1,673
Commodity derivative collars		397		397
Commodity derivative differential swaps		4,200		4,200
Total assets		6,270		6,270
<b>Liabilities:</b>				
Commodity derivative oil swaps		23,162		23,162
Commodity derivative deferred premium puts		340		340
Commodity derivative collars				
Commodity derivative differential swaps				
Total liabilities	\$	\$ 23,502	\$	\$ 23,502

	Fair Value Measurements at December 31, 2010			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in thousands)			
<b>Assets:</b>				
Commodity derivative oil swaps	\$	\$	\$	\$
Commodity derivative deferred premium puts				
Commodity derivative collars				
Total assets				
<b>Liabilities:</b>				
Commodity derivative oil swaps		27,735		27,735
Commodity derivative deferred premium puts		1,386		1,386

Commodity derivative collars

Total liabilities	\$	\$	29,121	\$	\$ 29,121
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Derivative instruments listed above are presented gross and include collars, swaps, and put options that are carried at fair value. The Company records the net change in the fair value of these positions in Gains (losses) on commodity derivative contracts net in the Company's consolidated statements of operations. The Company is able to value the assets and liabilities based on observable market data for similar instruments, which resulted in the Company classifying its derivatives as Level 2 instruments. This observable data includes the forward curve for commodity prices based on quoted markets prices and implied volatility factors related to changes in the forward curves.

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

For additional information on the Company's derivative instruments and balance sheet presentation, see Note 4.

***Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities are reported at fair value on a nonrecurring basis in the Company's consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

***Asset Retirement Obligations (ARO's)*** The Company estimates the fair value of ARO's based on discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, the amount and timing of settlements, the credit-adjusted risk-free rate and inflation rates. See Note 5 for a summary of changes in ARO's.

**4. Risk Management and Derivative Instruments**

The Company is exposed to fluctuations in crude oil and natural gas prices on its production. Management believes it is prudent to manage the variability in cash flows by entering into derivative financial instruments to economically hedge a portion of its crude oil and natural gas production. The Company utilizes various types of derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices. These derivative contracts are generally placed with major financial institutions that the Company believes are minimal credit risks. The oil and gas reference prices, upon which the commodity derivative contracts are based, reflect various market indices that have a high degree of historical correlation with actual prices received by the Company for its oil and gas production.

Inherent in the Company's portfolio of commodity derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that the price of the commodity will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not require collateral from its counterparties but does attempt to minimize its credit risk associated with derivative instruments by entering into derivative instruments only with counterparties that are large financial institutions, which management believes present minimal credit risk. In addition, to mitigate its risk of loss due to default, the Company has entered into agreements with its counterparties on its derivative instruments that allow the Company to offset its asset position with its liability position in the event of default by the counterparty. Had the Company's counterparties failed to perform under existing commodity derivative contracts, the maximum loss at December 31, 2011 would have been approximately \$5.5 million.

***Commodity Derivative Contracts***

The Company uses commodity derivative contracts to manage its exposure to commodity price volatility.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements**

As of December 31, 2011, the Company had the following open commodity positions:

		Hedged Volume	Weighted- Average Fixed Price	
Oil (Bbls):				
Swaps	2012	893,400	\$	84.16
Swaps	2013	679,125		84.73
Swaps	2014	262,450		83.00
Collars	2012	164,700	\$ 85.00	\$127.28
Deferred Premium Puts	2012 (1)	549,000	\$	79.01
Basis Differential Swaps	2012 (2)	1,134,600	\$	9.78
Basis Differential Swaps	2013 (2)	182,500		7.50

- (1) 2012 deferred premium puts represent the net effective floor price of a put with a strike price of \$85.00/Bbl and a deferred premium of \$5.99/Bbl. The premiums for these instruments are paid each month, concurrently with the settlement of the monthly put contracts.
- (2) We enter into swap arrangements intended to capture the positive differential between LLS pricing and NYMEX WTI pricing.

**Balance Sheet Presentation**

The following table summarizes the gross fair value of derivative instruments by the appropriate balance sheet classification, even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the Company's consolidated balance sheets at December 31, 2011 and 2010, respectively (in thousands):

Type	Balance Sheet Location (1)		December 31, 2011	December 31, 2010
Oil Swaps	Derivative financial instruments	Current Assets	\$	
Oil Swaps	Derivative financial instruments	Non-Current Assets		
Oil Swaps	Derivative financial instruments	Current Liabilities	(13,046)	(11,394)
Oil Swaps	Derivative financial instruments	Non-Current Liabilities	(10,116)	(16,341)
Deferred Premium Puts	Derivative financial instruments	Current Assets	1,673	
Deferred Premium Puts	Derivative financial instruments	Non-Current Assets		
Deferred Premium Puts	Derivative financial instruments	Current Liabilities	(278)	(1,263)
Deferred Premium Puts	Derivative financial instruments	Non-Current Liabilities	(62)	(123)
Collars	Derivative financial instruments	Current Assets	397	
Collars	Derivative financial instruments	Non-Current Assets		
Collars	Derivative financial instruments	Current Liabilities		
Collars	Derivative financial instruments	Non-Current Liabilities		
Basis Differential Swaps	Derivative financial instruments	Current Assets	3,612	
Basis Differential Swaps	Derivative financial instruments	Non-Current Assets	588	
Basis Differential Swaps	Derivative financial instruments	Current Liabilities		
Basis Differential Swaps	Derivative financial instruments	Non-Current Liabilities		
Total			\$ (17,232)	\$ (29,121)



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- (1) The fair value of derivative instruments reported in the Company's consolidated balance sheets are subject to netting arrangements and qualify for net presentation. The following table reports the net derivative fair values as reported in the Company's consolidated balance sheets as of December 31, 2011 and 2010, respectively (in thousands):

	December 31, 2011	December 31, 2010
Consolidated balance sheet classification:		
Current derivative instruments:		
Assets	\$ 4,957	\$
Liabilities	(12,599)	(12,657)
Non-current derivative instruments:		
Assets	588	
Liabilities	(10,178)	(16,464)

***Gains (Losses) on Commodity Derivative Contracts***

The Company does not designate its commodity derivative contracts as hedging instruments for financial reporting purposes. Accordingly, all gains and losses, including unrealized gains and losses from changes in the derivative instruments' fair values, have been recorded in Gains (losses) on commodity derivative contracts net, within revenues in the consolidated statements of operations.

For the years ended December 31, 2011, 2010 and 2009, the Company realized net gains (losses) of (\$16.7) million, (\$0.9) million and \$1.3 million, respectively.

For the years ended December 31, 2011, 2010 and 2009, the Company recorded net unrealized gains (losses) of \$11.9 million, (\$25.4) million and (\$7.3) million, respectively, related to the change in fair value of the derivative financial instruments in Gains (losses) on commodity derivative contracts net.

**5. Asset Retirement Obligation**

For the Company, asset retirement obligations represent the future abandonment costs of tangible assets, such as wells, service assets and other facilities. The fair value of the asset retirement obligation at inception is capitalized as part of the carrying amount of the related long-lived assets. Asset retirement obligations approximated \$7.6 million and \$2.9 million as of December 31, 2011 and 2010, respectively.

The liability has been accreted to its present value as of December 31, 2011 and 2010. The Company evaluated its wells and determined a range of abandonment dates through 2058.

The following table details the change in the asset retirement obligations for the years ended December 31, 2011, 2010 and 2009, respectively (in thousands):

	Year ended December 31, 2011	Year ended December 31, 2010	Year ended December 31, 2009
Asset retirement obligations at the beginning of the year	\$ 2,859	\$ 2,274	\$ 1,828
Liabilities incurred	1,294	474	341
Revisions	3,196		

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Liabilities settled	(56)	(64)	(15)
Current period accretion expense	334	175	120
Asset retirement obligations at the end of the year	\$ 7,627	\$ 2,859	\$ 2,274

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**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements**

Revisions during the year ended December 31, 2011 were due to an increase in estimated future abandonment costs based upon actual well abandonment costs incurred during the year that were higher than previous estimates due to higher oilfield service pricing.

**6. Long-Term Debt**

The Company's long-term debt as of December 31, 2011 and 2010, is as follows (in thousands):

	December 31, 2011	December 31, 2010
Credit Facility senior loan facility	\$ 234,800	\$ 89,600

As of December 31, 2011, the Company's credit facility consisted of a \$300 million senior revolving credit facility (the Facility) with a borrowing base of \$235 million. The Facility has a maturity date of December 10, 2014. Borrowings under the Facility are secured by substantially all of the Company's oil and natural gas properties. Borrowings under the Facility currently bear interest at LIBOR plus an applicable margin between 2.00% and 2.75% per annum. At December 31, 2011 and 2010, the weighted-average interest rate was 3.2% and 3.0%, respectively.

In addition to interest expense, the credit agreement requires the payment of a commitment fee each quarter. The commitment fee is computed at the rate of 0.5% per annum based on the average daily amount by which the borrowing base exceeds the outstanding borrowings during each quarter.

The borrowing base is subject to semiannual redeterminations in March and September. The terms of the Facility can require monthly repayments to the extent that monthly borrowing base reductions or borrowing base redeterminations cause the outstanding borrowings to exceed the availability under the Facility.

The Facility contains financial covenants, which, among other things, set a maximum ratio of debt to earnings before income tax, depletion, depreciation, and amortization (EBITDA) of not more than 3.75 to 1, a minimum current ratio (as defined therein) of not less than 1.0 to 1.0 and various other standard affirmative and negative covenants including, but not limited to, restrictions on our ability to make any dividends, distributions or redemptions.

The Company is in compliance with the financial debt covenants set forth in the credit agreement.

**7. Members Equity and Share-Based Compensation*****Common and Preferred Units***

The Company, FR Midstates, and Petroleum Inc. are parties to a Third Amended and Restated Limited Liability Company Agreement (the Third Amended LLC Agreement) entered into as of December 15, 2011, under which certain common and mandatorily redeemable convertible preferred units (the New Preferred Units) of the Company are authorized for issuance. Common and New Preferred Units each have the same voting rights. New Preferred Units require an investment of \$1,000 per unit. Common units may be issued at a price determined by the Board in its sole discretion, provided that, as long as there are New Preferred Units outstanding that may be converted into common units, such price will not be less than \$1,000 per common unit.

During the year ended December 31, 2010, there were 255,138 common units issued and outstanding. During the year ended December 31, 2011, 1,604 common units were purchased for cash by members of management and no units were retired, resulting in 256,742 common units issued and outstanding at December 31, 2011.



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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

*Second Amended and Restated Limited Liability Agreement*

Prior to December 15, 2011, the Company, FR Midstates, and Petroleum Inc. were parties to the Second Amended and Restated Limited Liability Agreement which allowed for the issuance of common and preferred units. At January 1, 2010, there were no preferred units issued or outstanding. In June 2010, the Company authorized the issuance of redeemable convertible preferred units (the Preferred Units ) and concurrently, 5,080 common units previously issued in 2009 were converted to Preferred Units. Any outstanding Preferred Units were classified as members' equity in the Company's consolidated balance sheets as they are not mandatorily redeemable.

During the year ended December 31, 2010, 47,000 Preferred Units were issued and outstanding. During the year ended December 31, 2011, all 47,000 Preferred Units issued and outstanding were retired by payment of a distribution to members, including interest, of approximately \$50.6 million. There were no additional issuances of Preferred Units during the year ended December 31, 2011, and there were no Preferred Units outstanding at December 31, 2011.

*Third Amended and Restated Limited Liability Agreement*

Pursuant to the Third Amended LLC Agreement, the Company may issue up to 40,000 New Preferred Units, or \$40,000,000 in aggregate value, between December 15, 2011 and June 10, 2015. The New Preferred Units have a liquidation value of \$1,000 per unit and bear interest, compounded quarterly, at a rate of 8% plus the greater of LIBOR or 1.5%. The New Preferred Units are convertible on or after the one year anniversary of the date of issuance into a number of common units with a fair market value (as determined by the Board) equal to the liquidation value plus any accrued interest and are redeemable for cash at any time at the option of the Company, but are mandatorily redeemable for cash on June 10, 2015, unless otherwise converted. In addition, a fixed interest charge of 1.5% of the aggregate capital invested in the New Preferred Units is payable upon redemption or conversion. At December 31, 2011, there were no New Preferred Units issued or outstanding. Due to the mandatory redemption feature, any future issuances of New Preferred Units will be classified as a liability in the Company's consolidated balance sheets.

***Share-Based Compensation***

During the periods presented, certain restricted and unrestricted shares in Petroleum Inc., certain unrestricted units in the Company, and certain units in Midstates Incentive Holdings, LLC ( Midstates Incentive ) had been issued to employees of the Company.

Prior to December 5, 2011, due to certain rights to call shares and units in the Company for cash, the Company's share-based payments awarded to employees were accounted for as liability awards pursuant to ASC Topic 718, Compensation - Stock Compensation. As such, the Company calculated the fair value of the share-based awards on a quarterly basis using the Company's estimated market value and the total fair value of the awards was recorded within Other long-term liabilities in the Company's consolidated balance sheets. Any changes in the fair value of the liability awards was recorded as share-based compensation expense within General and administrative expense in the Company's consolidated statements of operations, which was the same line item as cash compensation paid to the same employees.

Historically, the Company's determination of the fair value of each of the units was affected by: i) the Company's risk adjusted proved, possible, and probable reserves; ii) internal assessment of long-term commodity prices; iii) current values of the Company's non-oil and gas assets and liabilities; and iv) a number of complex

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and subjective variables. Although the fair value of the share-based payments is determined in accordance with GAAP, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

Effective as of November 22, 2011 (the *Effective Date*), the Board of Directors of Petroleum Inc. accelerated the vesting of all restricted stock in Petroleum Inc. The vesting resulted in the recognition of previously unrecognized share-based compensation expense at the estimated fair market value of the restricted stock held by employees at the *Effective Date*. Petroleum Inc. determined the fair market value of Petroleum Inc.'s common stock based on management's estimates.

On December 5, 2011, Employment Agreements with employees of Subsidiary, a Stockholders' Agreement by and among stockholders in Petroleum Inc. and a Unitholders' Agreement by and among the members of the Company were either terminated or amended such that, following such terminations and amendments, no purchase option of Petroleum Inc. or the Company will be exercisable before 6 months and a day after the employee has been exposed to the risks and rewards of ownership of either the common stock of Petroleum Inc. or common units of the Company, and any such repurchase will be executed at fair value on the date of repurchase. The result of these terminations and amendments is a transition as of December 5, 2011 from liability accounting to equity accounting for the Company's share-based compensation plans and accordingly, the Company will no longer recognize changes in estimated fair value of outstanding share based awards in the income statement. The Company increased members' equity by a total of \$63.4 million (comprised of \$60.7 million related to shares and units issued prior to 2011, and \$2.7 million related to units issued during 2011 and included in Members' contributions in the Consolidated Statement of Members' Equity), which represented the estimated fair value of the awards as of December 5, 2011, and decreased other long-term liabilities by the same amount to account for the change to equity accounting.

The following table summarizes share-based compensation expense recognized by the Company for shares in Petroleum Inc. and the Company's common units for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31, 2011	Year Ended December 31, 2010	Year Ended December 31, 2009
Restricted and unrestricted shares and units and Acceleration of vesting of restricted units Incentive units	\$ 53,744	\$ 1,518	\$ 234
Total non-cash compensation expense	\$ 53,744	\$ 1,518	\$ 234

*Restricted Shares.*

Restricted shares in Petroleum Inc. were awarded at no cost to the recipient with a vesting period that commenced on the grant date and terminated on the fifth anniversary or upon certain changes in control of the Company, including but not limited to mergers, acquisitions, or a public offering (a *Triggering Event*).

As a result of the vesting discussed above, there is no unrecognized compensation cost and there are no outstanding restricted shares in Petroleum Inc. as of December 31, 2011.

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The table below summarizes activity relating to the restricted shares held in Petroleum, Inc. During all periods presented, there were no restricted common units of the Company outstanding:

	<b>Restricted Shares</b>
Outstanding at January 1, 2009	
Granted	59.1
Vested	
Forfeited	
Outstanding at December 31, 2009	59.1
Granted	42.7
Vested	
Forfeited	
Outstanding at December 31, 2010	101.8
Granted	24.6
Vested (see above)	(115.6)
Forfeited	(10.8)
Outstanding at December 31, 2011	

*Unrestricted Shares and Units.*

Unrestricted shares and Company units are purchased by the recipient on the grant date and are fully vested upon purchase, or represent restricted shares which have vested. For shares and Company units purchased, any difference between the recipient's purchase price and the grant date fair value is recognized as compensation expense on the grant date.

The following table summarizes the weighted average grant-date fair value and intrinsic value of the vested unrestricted shares and units outstanding as of December 31, 2011 and 2010. There are no restricted units in the Company:

	<b>December 31, 2011</b>	<b>December 31, 2010</b>
<b>Unrestricted Shares (held in Petroleum Inc.)</b>		
Number of vested shares	196.8	71.5
Weighted average grant date fair value per share	\$ 75,908	\$ 74,825
Aggregate net change from grant date fair value	\$ 44,138,021	\$ 391,463
Total value	\$ 59,076,715	\$ 3,530,954
<b>Unrestricted Units (held in the Company)</b>		
Number of vested units	1,605	
Weighted average grant date fair value per unit	\$ 791	\$
Aggregate net change from grant date fair value	\$ 3,494,420	\$
Total value	\$ 4,763,817	\$

*Incentive Units.*

As of December 31, 2011, 1,666 Class A and Class B incentive units were issued and outstanding. Upon the occurrence of certain changes of control of the Company, including a sale by FR Midstates of 100% of its interest in the Company, a sale of all or substantially all of the assets of the Company, or a merger resulting in a change in majority ownership (each, a Vesting Event), holders of incentive units shall receive out of

proceeds

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**Midstates Petroleum Holdings LLC**

**Notes to Consolidated Financial Statements**

otherwise distributable to FR Midstates a percentage interest in the amounts distributed to FR Midstates in excess of certain multiples of FR Midstates' aggregate capital contributions and investment expenses ( FR Midstates' Profits ). Although any future payments to the incentive unit holders will be made out of the proceeds otherwise distributable to FR Midstates and not by the Company, the Company will be required to record a non-cash compensation charge in the period any payment is made related to the Class A and Class B incentive units. To date, no compensation expense related to the incentive units has been recognized by the Company, as the occurrence of a Vesting Event is not considered probable, and thus, the amount of FR Midstates' Profits, if any, cannot be determined.

**8. Related Party Transactions**

A minority owner of Petroleum Inc. is a significant owner of one of the Company's vendors. For the years ended December 31, 2011, 2010 and 2009, the amount paid to this vendor was \$2.0 million, \$1.0 million and \$0.6 million, respectively. The amount payable at December 31, 2011 and 2010 was \$0.1 million and \$0.1 million, respectively.

**9. Concentrations of Credit Risk and Significant Customers**

Financial instruments which potentially subject the Company to credit risk consist primarily of cash balances, accounts receivable and derivative financial instruments.

The Company maintains cash and cash equivalents in bank deposit accounts which, at times, may exceed the federally insured limits. The Company has not experienced any significant losses from such investments. The Company attempts to limit the amount of credit exposure to any one financial institution or company.

The Company normally sells production to a relatively small number of purchasers, as is customary in the exploration, development and production business. The Company typically sells a substantial portion of production under short-term (usually one month) contracts tied to a local index. The Company does not have any long-term, fixed-price sales contracts. For the year ended December 31, 2011, two purchasers accounted for 39% and 38%, respectively, of the Company's revenue. For the year ended December 31, 2010, three purchasers accounted for 66%, 19% and 12%, respectively, of the Company's revenue. For the year ended December 31, 2009, two purchasers accounted for 66% and 14%, respectively, of the Company's revenue.

Substantially all of the Company's accounts receivable result from the sale of oil, natural gas and natural gas liquids. At December 31, 2011, three purchasers accounted for approximately 46%, 32% and 15%, respectively, of the accounts receivable balance. At December 31, 2010, three purchasers accounted for approximately 49%, 28% and 15%, respectively, of the accounts receivable balance.

Derivative financial instruments are generally executed with major financial institutions that expose the Company to market and credit risks and which may, at times, be concentrated with certain counterparties. The credit worthiness of the counterparties is subject to continual review. The Company also has netting arrangements in place with counterparties to reduce credit exposure. The Company has not experienced any losses from such instruments.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements****10. Commitments and Contingencies*****Contractual Obligations***

At December 31, 2011, contractual obligations for drilling contracts, long-term operating leases and seismic contracts are as follows:

	<b>Total</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015 and beyond</b>
Drilling contracts	\$ 7,210	\$ 7,210	\$	\$	\$
Non-cancellable office lease commitments	1,339	581	606	152	
Seismic contracts	7,213	7,213			

Net minimum commitments	\$ 15,762	\$ 15,004	\$ 606	\$ 152	\$
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For the years ended December 31, 2011, 2010 and 2009, the Company expensed \$0.6 million, \$0.6 million and \$0.4 million, respectively, for office rent.

***Litigation***

The Company is a defendant in an action brought by Clovelly Oil Company, or the plaintiff, in the 13th Judicial District Court in Louisiana in May 2009. The plaintiff alleges that the Company is subject to an unrecorded Joint Operating Agreement ( JOA ) dated July 16, 1972, as a result of the Company s 2007 purchase of a 43.75% working interest in certain acreage. The plaintiff alleges that the Company is bound by the 1972 JOA and that the Plaintiff is entitled to 56.25% of the Company s 242.28-acre Crowell Land & Mineral lease. The Company was not a party to the JOA, and believes that it is protected by the Louisiana Public Records Doctrine, which generally holds that instruments involving real property are without effect as to third parties unless the instrument is filed of record in the appropriate mortgage or conveyance records of the parish in which such property is located.

The Company made a motion for summary judgment on all of the plaintiff s claims, and the 13th Judicial District Court granted that motion on August 14, 2009. The plaintiff appealed the district court s decision to the Third Circuit Court of Appeal, and on April 7, 2010, the Third Circuit Court of Appeal reversed and remanded the case back to the district court for trial. On August 9, 2010, the plaintiff amended its original petition to add Wells Fargo Bank, National Association, which holds a mortgage on the acreage as a defendant.

In December 2010, the Company filed a Motion for Partial Summary Judgment asking the district court to declare that the JOA does not apply to any new leases acquired after July 16, 1972 that are not extension or renewal leases. On September 27, 2011, the district court granted the Company s motion for partial summary judgment. The district court also granted a motion for summary judgment filed by Wells Fargo Bank, National Association asserting that, as a mortgage holder of a mortgage covering the applicable lease, Wells Fargo Bank, National Association is protected by the Public Records Doctrine.

On October 17, 2011, the plaintiff filed an appeal to the Third Circuit Court of Appeal. The Third Circuit Court of Appeals has agreed to hear oral arguments in May 2012.

Although the outcome of a lawsuit cannot be predicted with certainty, the Company does not believe the ultimate outcome of this case will result in a material impact on its financial position, results of operations or cash flows.



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The Company is involved in other disputes or legal actions arising in the ordinary course of business. The Company does not believe the outcome of such disputes or legal actions will result in a material impact on the Company's financial position, results of operations, or cash flows.

**11. Restatement****For the year ended December 31, 2009**

The Company restated its consolidated financial statements for the year ended December 31, 2009. Subsequent to issuing its 2009 financial statements, the Company determined that certain errors were made as follows:

An overstatement of \$1.4 million in the impairment in carrying value of oil and natural gas properties resulting from the transfer of \$2.4 million of unevaluated properties to proved properties that should have remained in unevaluated properties, and a calculation error in the ceiling test of \$1.0 million. The net effect of this adjustment reduced the 2009 operating loss and net loss by \$1.4 million.

The Company's share-based compensation plan, which grants restricted and unrestricted shares, should have been accounted for as a liability plan rather than an equity plan due to the existence of certain Company call options on equity share-based compensation. As a result, the Company transferred \$3.2 million from members' equity to other long-term liabilities, with no effect on operating loss for the year.

Net cash provided by operating activities and net cash used in investing activities were both overstated by \$2.8 million as a result of the inclusion in the statement of cash flows of the change in the balance of certain investments in property and equipment that were accrued, but not paid. Related to this correction, the Company corrected the disclosure of supplemental cash flow information (presented on the statement of cash flows) of investments in property and equipment that were accrued, but not paid, as of December 31, 2009 from \$0.5 million to \$8.7 million.

The following table presents the impact of the errors on previously reported amounts (in thousands):

	As Originally Reported	Adjustment	Restated
Effectuated income statement items:			
Impairment in carrying value of oil and natural gas properties	\$ 5,719	\$ (1,422)	\$ 4,297
Total expenses	37,434	(1,422)	36,012
Operating loss	(13,180)	1,422	(11,758)
Net income (loss)	(13,174)	1,422	(11,752)
Unaudited pro forma income tax benefit	(5,138)	546	(4,592)
Unaudited pro forma net loss	(8,036)	876	(7,160)
Unaudited pro forma basic and diluted loss per share	\$ (0.12)	\$ 0.01	\$ (0.11)
Effectuated members' equity items:			
Net income (loss)	(13,174)	1,422	(11,752)
Members' equity	237,146	(1,812)	235,334

Effectuated cash flow items:

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Net income (loss)	(13,174)	1,422	(11,752)
Impairment in carrying value of oil and natural gas properties	5,719	(1,422)	4,297
Accounts payable and accrued liabilities	3,893	(2,822)	1,071
Net cash provided by operating activities	13,417	(2,822)	10,595
Investment in property and equipment	(75,059)	2,822	(72,237)
Net cash used in investing activities	(78,037)	2,822	(75,215)
Non cash transactions investments in property and equipment accrued, but not paid	456	8,232	8,688

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**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements****For the year ended December 31, 2010**

The Company restated its consolidated financial statements for the year ended December 31, 2010. Subsequent to issuing its 2010 financial statements, the Company determined that certain errors were made as follows:

The Company's share-based compensation plan, which grants restricted and unrestricted shares, should have been accounted for as a liability plan rather than an equity plan due to the existence of certain Company call options on equity share-based compensation. As a result, the Company transferred \$6.9 million from members' equity to other long-term liabilities, and increased the operating loss and net loss by \$0.5 million for the year.

Net cash provided by operating activities was understated by \$0.3 million and net cash provided by financing activities was overstated by an equivalent amount as a result of the inclusion of the amortization of debt issuance costs in net cash provided by financing activities rather than net cash provided by operating activities. The Company recorded an adjustment to decrease the line item other (cash flows from financing activities) by \$0.3 million and to increase the line item other (cash flows from operating activities) by \$0.3 million.

The following table presents the impact of the errors on previously reported amounts (in thousands):

	As Originally Reported	Adjustment	Restated
<b>Effectuated income statement items:</b>			
General and administrative	\$ 16,358	\$ 489	\$ 16,847
Total expenses	78,207	489	78,696
Operating loss	(15,155)	(489)	(15,644)
Net loss	(15,146)	(489)	(15,635)
Unaudited pro forma income tax benefit	(6,120)	(198)	(6,318)
Unaudited pro forma net loss	(9,026)	(291)	(9,317)
Unaudited pro forma basic and diluted loss per share	\$ (0.13)	\$ (0.01)	\$ (0.14)
<b>Effectuated balance sheet items:</b>			
Other long-term liabilities	2	6,924	6,926
Total long-term liabilities	108,925	6,924	115,849
<b>Effectuated members' equity items:</b>			
Net loss	(15,146)	(489)	(15,635)
Members' equity	263,817	(7,938)	255,879
<b>Effectuated cash flow items:</b>			
Net loss	(15,146)	(489)	(15,635)
Share-based compensation	1,029	489	1,518
Other		314	314
Net cash provided by operating activities	50,454	314	50,768
Other:	(1,422)	(314)	(1,736)
Net cash provided by financing activities	96,728	(314)	96,414



**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements****For the year ended December 31, 2011**

The Company has restated its consolidated financial statements for the year ended December 31, 2011. Subsequent to filing Amendment No. 6 to Form S-1 Registration Statement on March 6, 2012, the Company determined that the equity valuation originally used to record the estimated fair value of share-based compensation expense related to the final "mark to market" of the Company's equity awards upon the transition from liability accounting to equity accounting on December 5, 2011 did not properly consider the increased probability of the Company's successful consummation of an initial public offering in the near term and the related impact on the Company's valuation in the public market attributable to increased liquidity in the Company's shares and a higher emphasis on forward looking multiples. The Company's revised equity valuation resulted in an increase in share-based compensation expense included in general and administrative expense in the accompanying income statement.

The following table presents the impact of the error on previously reported amounts (in thousands):

	As Originally Reported	Adjustment	Restated
<b>Effected income statement items:</b>			
General and administrative	\$ 27,970	\$ 40,945	\$ 68,915
Total expenses	149,760	40,945	190,705
Operating income	59,673	(40,945)	18,728
Net income	57,602	(40,945)	16,657
Unaudited pro forma income tax provision	23,156		23,156
Unaudited pro forma net income (loss)	34,446	(40,945)	(6,499)
Unaudited pro forma basic and diluted earnings (loss) per share	\$ 0.52	\$ (0.62)	\$ (0.10)
<b>Effected members' equity items:</b>			
Share-based compensation	19,723	40,945	60,668
Net income	57,602	(40,945)	16,657
Members' equity	285,502		285,502
<b>Effected cash flow items:</b>			
Net income	57,602	(40,945)	16,657
Share-based compensation	12,799	40,945	53,744
Net cash from operating activities	140,700		140,700

**12. Supplemental Oil and Gas Disclosures - unaudited**

The supplemental data presented herein reflects information for all of the Company's oil and natural gas producing activities.

**Capitalized Costs**

The following table sets forth the capitalized costs related to the Company's oil and natural gas producing activities at December 31, 2011 and 2010 (in thousands):

	December 31, 2011	December 31, 2010
Proved properties	\$ 644,393	\$ 351,544

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Less: Accumulated depreciation, depletion, amortization and impairment	(148,187)	(56,781)
Proved properties, net	496,206	294,763
Unproved properties	76,857	101,366
Total oil and gas properties, net	\$ 573,063	\$ 396,129

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**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements*****Costs Incurred in Oil and Natural Gas Property Acquisition, Exploration and Development Activities***

The following table sets forth costs incurred related to the Company's oil and natural gas activities for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	<b>For the Year Ended December 31, 2011</b>	<b>For the Year Ended December 31, 2010</b>	<b>For the Year Ended December 31, 2009</b>
Acquisition costs:			
Proved properties	\$	\$	\$ 3,017
Unproved properties			
Exploration costs	16,900	6,754	3,144
Development costs	249,419	164,748	74,090
Asset retirement costs	5,444	175	120
<b>Total costs incurred</b>	<b>\$ 271,763</b>	<b>\$ 171,677</b>	<b>\$ 80,371</b>

***Costs Not Being Amortized***

The following table sets forth a summary of oil and gas property costs not being amortized at December 31, 2011, by the year in which such costs were incurred. There are no individually significant properties or significant development projects included in costs not being amortized. The evaluation activities are expected to be completed within three to five years.

	<b>Total</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008 and Prior</b>
Property acquisition costs, net	\$ 63,752	\$ (35,132)	\$ (12,688)	\$ (14,547)	\$ 126,119
Exploration and development costs	8,023	8,023			
Capitalized interest	5,082	2,600	1,305	830	347
<b>Total</b>	<b>\$ 76,857</b>	<b>\$ (24,509)</b>	<b>\$ (11,383)</b>	<b>\$ (13,717)</b>	<b>\$ 126,466</b>

The property acquisition cost data includes the original purchase price allocation at the time of First Reserve's investment in August 2008. Subsequently, net reductions represent the reclassification of unevaluated costs into the full cost pool, offset by current lease acquisition costs of unevaluated properties.

***Estimated Quantities of Proved Oil and Natural Gas Reserves***

The reserve estimates at December 31, 2011, 2010 and 2009 presented in the table below are based on reports prepared by Netherland Sewell and Associates, Inc., independent reserve engineers, in accordance with the FASB's authoritative guidance on oil and gas reserve estimation and disclosures. At December 31, 2011, all of the Company's oil and natural gas producing activities were conducted within the continental United States.

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The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries and undeveloped locations are more imprecise than estimates of established proved producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available. Proved oil and natural gas reserves are the estimated quantities of oil and natural gas which geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions (i.e., prices and costs) existing at the time the estimate is made. Proved developed oil and natural gas reserves are proved reserves that can be expected to be recovered through existing wells and equipment in place and under operating methods being utilized at the time the estimates were made.

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**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements**

The following table sets forth the Company's net proved, proved developed and proved undeveloped reserves at December 31, 2011, 2010 and 2009 (1):

	Oil (MBbl)	Gas (MMcf)	NGL (MBbl)	MBoe
<b>2009</b>				
<b>Proved reserves</b>				
Beginning balance	4,788	5,087		5,636
Revisions of previous estimates	(804)	1,110	61	(558)
Extensions, discoveries and other additions	3,513	7,089	37	4,732
Sales of reserves in place				
Purchases of reserves in place	577	662	9	696
Production	(497)	(690)	(2)	(614)
<b>Net proved reserves at December 31, 2009</b>	<b>7,577</b>	<b>13,258</b>	<b>105</b>	<b>9,892</b>
<b>Proved developed reserves, December 31, 2009</b>	<b>2,786</b>	<b>4,392</b>	<b>19</b>	<b>3,536</b>
<b>Proved undeveloped reserves, December 31, 2009</b>	<b>4,791</b>	<b>8,866</b>	<b>86</b>	<b>6,356</b>
<b>2010</b>				
<b>Proved reserves</b>				
Beginning balance	7,577	13,258	105	9,892
Revisions of previous estimates	(2,220)	(1,043)	49	(2,346)
Extensions, discoveries and other additions	7,515	17,944	234	10,740
Sales of reserves in place				
Purchases of reserves in place				
Production	(945)	(2,253)	(74)	(1,394)
<b>Net proved reserves at December 31, 2010</b>	<b>11,927</b>	<b>27,906</b>	<b>314</b>	<b>16,892</b>
<b>Proved developed reserves, December 31, 2010</b>	<b>5,392</b>	<b>14,203</b>	<b>141</b>	<b>7,900</b>
<b>Proved undeveloped reserves, December 31, 2010</b>	<b>6,535</b>	<b>13,703</b>	<b>173</b>	<b>8,992</b>
<b>2011</b>				
<b>Proved reserves</b>				
Beginning balance	11,927	27,906	314	16,892
Revisions of previous estimates	(2,650)	(6,500)	1,661	(2,072)
Extensions, discoveries and other additions	8,049	22,204	2,364	14,114
Sales of reserves in place				
Purchases of reserves in place				
Production	(1,610)	(4,918)	(308)	(2,738)
<b>Net proved reserves at December 31, 2011</b>	<b>15,716</b>	<b>38,692</b>	<b>4,031</b>	<b>26,196</b>
<b>Proved developed reserves, December 31, 2011</b>	<b>6,479</b>	<b>17,987</b>	<b>1,802</b>	<b>11,279</b>
<b>Proved undeveloped reserves, December 31, 2011</b>	<b>9,237</b>	<b>20,705</b>	<b>2,229</b>	<b>14,917</b>

(1) The following table sets forth the benchmark prices used to determine our estimated proved reserves from proved oil and gas reserves for the periods indicated.



**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements**

	At December 31,		
	2011	2010	2009
<b>Oil and Natural Gas Prices (1):</b>			
Oil (per barrel ( Bbl ))	\$ 92.71	\$ 75.96	\$ 57.65
Natural gas (per million British thermal units ( MMBtu ))	\$ 4.118	\$ 4.376	\$ 3.866

- (1) Benchmark prices for oil and natural gas at December 31, 2011, 2010 and 2009 reflect the unweighted arithmetic average first-day-of-the-month prices for the prior 12 months, using Plains WTI posted prices for oil and Platts Gas Daily Henry Hub prices for natural gas.

*Purchases of Reserves in Place*

An acquisition of an interest in three producing wells and various leases from Sandridge Energy Inc. in the North Cowards Gully field was closed in June 2009. As of year-end 2009, 696 MBoe of proved reserves were attributable to the acquired assets.

*Extensions, Discoveries and Other Additions*

In 2011, the Company had a total of 14,114 MBoe of additions from extensions and discoveries as a result of infill drilling and field delineation activities. Approximately 6,200 MBoe were from Pine Prairie, 5,500 MBoe were from West Gordon, 2,200 MBoe were from South Bearhead Creek/Oretta and 200 MBoe were from a new expansion area.

In 2010, the Company had a total of 10,740 MBoe of additions from extensions and discoveries as a result of infill drilling and field delineation activities. Approximately 4,400 MBoe were from South Bearhead Creek/Oretta, 3,300 Mboe were from Pine Prairie, 2,600 Mboe were from North Cowards Gully and 400 MBoe were from a new expansion area.

In 2009, the Company had a total of 4,732 MBoe of additions from extensions and discoveries as a result of infill drilling and field delineation activities. Approximately 1,940 Mboe were from Pine Prairie, 1,700 were from South Bearhead Creek/Oretta, 860 Mboe were from West Gordon and 230 Mboe were from North Cowards Gully.

*Sales of Reserves in Place*

There were no sales of reserves in place since January 1, 2009.

*Revision of Previous Estimates*

In 2011, the Company had net negative revisions of 2,072 MBoe primarily due to production performance in South Bearhead Creek and North Cowards Gully, partially offset by positive revisions in Pine Prairie.

In 2010, the Company had net negative revisions of 2,346 MBoe primarily due to production performance in West Gordon and North Cowards Gully and the removal of proved reserves in our Pine Prairie field associated with horizons in operated and non-operated wells that fell outside a five year development window. These reductions were partially offset by positive revisions in South Bearhead Creek/Oretta.

In 2009, the Company had net negative revisions of 558 MBoe primarily due to production performance in Pine Prairie and North Cowards Gully.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements*****Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Natural Gas Reserves***

The Standardized Measure represents the present value of estimated future cash inflows from proved oil and natural reserves, less future development, production, plugging and abandonment costs and income tax expenses, discounted at 10% per annum to reflect timing of future cash flows. Production costs do not include depreciation, depletion and amortization of capitalized acquisition, exploration and development costs.

Our estimated proved reserves and related future net revenues and Standardized Measure were determined using index prices for oil and natural gas, without giving effect to derivative transactions, and were held constant throughout the life of the properties. The unweighted arithmetic average first-day-of-the-month prices for the prior 12 months were \$57.65/Bbl WTI posted price for oil and \$3.866/MMBtu Platt's Gas Daily Henry Hub for natural gas at December 31, 2009, \$75.96/Bbl WTI posted price for oil and \$4.376/MMBtu Platt's Gas Daily Henry Hub for natural gas at December 31, 2010, and \$92.71/Bbl WTI posted price for oil and \$4.118/MMBtu Platt's Gas Daily Henry Hub for natural gas at December 31, 2011. These prices were adjusted by lease for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead.

The following table sets forth the Standardized Measure of discounted future net cash flows from projected production of the Company's oil and natural gas reserves at December 31, 2011, 2010, and 2009.

	At Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Future cash inflows	\$ 2,141,204	\$ 1,131,970	\$ 506,561
Future production costs	606,265	526,704	148,076
Future development costs	413,155	215,101	83,444
Future income tax expense (1)			
Future net cash flows	1,121,784	390,165	275,041
10% annual discount for estimated timing of cash flows	(429,039)	(92,077)	(116,694)
Standardized measure of discounted future net cash flows	\$ 692,745	\$ 298,088	\$ 158,347

- (1) Does not include the effects of income taxes on future revenues because as of December 31, 2011, 2010 and 2009, the Company was a limited liability company not subject to entity-level taxation. Accordingly, no provision for federal or state corporate income taxes has been provided because taxable income was passed through to the company's equity holders. Following its corporate reorganization, the Company will be a corporation and subject to U.S. federal and state income taxes. If the Company was subject to entity-level taxation, the unaudited pro forma future income tax expense at December 31, 2011, 2010, and 2009 would have been \$127,534, \$25,676 and \$6,561, respectively. The unaudited pro forma Standardized Measure at December 31, 2011, 2010, and 2009 would have been \$565,211, \$272,412, and \$151,785, respectively.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements**

The following table sets forth the changes in the standardized measure of discounted future net cash flows applicable to proved oil and natural gas reserves for the periods presented.

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
January 1,	\$ 298,088	\$ 158,347	\$ 82,895
Net changes in prices and production costs	214,601	3,095	5,852
Net changes in future development costs	(5,446)	(19,123)	366
Sales of oil and natural gas, net	(184,055)	(69,264)	(16,746)
Extensions	361,485	216,006	80,659
Discoveries			
Purchases of reserves in place			8,554
Revisions of previous quantity estimates	(31,833)	(38,117)	(8,897)
Previously estimated development costs incurred	46,691	16,955	
Accretion of discount	29,809	15,835	8,289
Net change in income taxes			
Changes in timing, other	(36,595)	14,354	(2,625)
Period End	\$ 692,745	\$ 298,088	\$ 158,347

**13. Subsequent Events****New Preferred Units**

On December 15, 2011, the Company, FR Midstates, and Petroleum Inc. entered into the Third Amended LLC Agreement under which certain common and New Preferred Units of the Company were authorized for issuance. Pursuant to the Third Amended LLC Agreement, as further amended in March 2012, the Company may issue up to 65,000 New Preferred Units, or \$65,000,000 in aggregate value, between December 15, 2011 and June 10, 2015. The New Preferred Units have a liquidation value of \$1,000 per unit, bear interest, compounded quarterly, at a rate of 8% plus the greater of LIBOR or 1.5%, and are convertible on or after the one year anniversary of the date of issuance into a number of common units with a fair market value (as determined by our board of directors) equal to the liquidation value plus any accrued interest. The New Preferred Units are redeemable at any time at the option of the Company, but are mandatorily redeemable for cash on June 10, 2015, unless otherwise converted. In addition, a fixed interest charge of 1.5% of the aggregate capital invested in the New Preferred Units is payable upon redemption or conversion.

On January 4, 2012, and again on February 9, 2012, the Company issued 20,000 New Preferred Units (for a total of 40,000 New Preferred Units) to FR Midstates for aggregate cash proceeds of \$40,000,000. On April 3, 2012, the Company issued an additional 25,000 New Preferred Units (for a total of 65,000 New Preferred Units outstanding) to FR Midstates for additional cash proceeds of \$25,000,000. Due to the mandatory redemption feature, any issuances of New Preferred Units will be classified as a liability in the Company's consolidated balance sheets.

**Table of Contents****Midstates Petroleum Holdings LLC****Notes to Consolidated Financial Statements****Reserved-based credit facility**

In connection with the March 2012 redetermination, our borrowing base was reduced from \$235 million to \$210 million. Under the terms of our revolving credit facility and as a result of the reduction in our borrowing base, we are required to repay the amount by which the principal balance of our outstanding loans and our letter of credit obligations exceed our borrowing base. Under the terms of the revolving credit facility, we are permitted to make such repayment in six equal successive monthly payments commencing 30 days following the administrative agent's notice to us regarding such borrowing base reduction. However, we intend to use a portion of the proceeds from this offering to repay a substantial portion of the outstanding indebtedness under our revolving credit facility.

**14. Unaudited Quarterly Information**

	Year Ended December 31, 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$ 13,159	\$ 64,664	\$ 92,458	\$ 39,152
Operating income (loss)	(16,140)	23,679	49,110	(37,921)
Net income (loss)	(16,132)	23,549	48,512	(39,272)
Basic income (loss) per share	N/A	N/A	N/A	N/A
Shares used in basic per share computation	N/A	N/A	N/A	N/A
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Shares used in diluted per share computation	N/A	N/A	N/A	N/A

	Year Ended December 31, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$ 10,157	\$ 30,720	\$ 11,151	\$ 11,024
Operating income (loss)	(2,012)	12,643	(10,729)	(15,546)
Net income (loss)	(2,011)	12,646	(10,727)	(15,543)
Basic income (loss) per share	N/A	N/A	N/A	N/A
Shares used in basic per share computation	N/A	N/A	N/A	N/A
Diluted income (loss) per share	N/A	N/A	N/A	N/A
Shares used in diluted per share computation	N/A	N/A	N/A	N/A

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**MIDSTATES PETROLEUM COMPANY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In thousands, except share amounts)

	June 30, 2012	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 11,689	\$ 7,344
Accounts receivable:		
Oil and gas sales	18,777	23,792
Severance tax refund	275	3,413
Other	515	249
Prepayments	5,350	2,642
Inventory	6,496	5,713
Commodity derivative contracts	12,038	4,957
<b>Total current assets</b>	<b>55,140</b>	<b>48,110</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Oil and gas properties, on the basis of full-cost accounting:		
Proved properties	833,172	644,393
Unevaluated properties	95,600	76,857
Other property and equipment	2,168	1,672
Less accumulated depreciation, depletion, and amortization	(204,752)	(148,843)
<b>Net property and equipment</b>	<b>726,188</b>	<b>574,079</b>
<b>OTHER ASSETS:</b>		
Commodity derivative contracts	6,247	588
Security deposit and other noncurrent assets	3,660	1,879
<b>Total other assets</b>	<b>9,907</b>	<b>2,467</b>
<b>TOTAL</b>	<b>\$ 791,235</b>	<b>\$ 624,656</b>
<b>LIABILITIES AND MEMBERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 27,122	\$ 35,731
Accrued liabilities	62,985	37,524
Commodity derivative contracts	360	12,599
<b>Total current liabilities</b>	<b>90,467</b>	<b>85,854</b>
<b>LONG-TERM LIABILITIES:</b>		
Asset retirement obligations	9,398	7,627
Commodity derivative contracts		10,178
Long-term debt	151,700	234,800
Deferred income taxes	168,917	
Other long-term liabilities	614	695
<b>Total long-term liabilities</b>	<b>330,629</b>	<b>253,300</b>

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COMMITMENTS AND CONTINGENCIES (Note 12)

STOCKHOLDERS /MEMBERS EQUITY

Capital contributions		322,496
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding, respectively		
Common stock, \$0.01 par value, 300,000,000 shares authorized, 66,549,563 shares issued and outstanding, respectively	665	
Additional paid-in-capital	536,352	
Retained deficit/accumulated loss	(166,878)	(36,994)
Total stockholders /members equity	370,139	285,502
<b>TOTAL</b>	<b>\$ 791,235</b>	<b>\$ 624,656</b>

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



**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In thousands, except per share amounts)**

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
<b>REVENUES:</b>				
Oil sales	\$ 48,056	\$ 45,994	\$ 93,138	\$ 81,577
Natural gas sales	2,379	4,962	5,829	9,035
Natural gas liquid sales	3,901	3,171	10,173	5,216
Gains (Losses) on commodity derivative contracts net	48,143	10,477	23,478	(18,119)
Other	103	60	207	114
<b>Total revenues</b>	<b>102,582</b>	<b>64,664</b>	<b>132,825</b>	<b>77,823</b>
<b>EXPENSES:</b>				
Lease operating and workover	5,921	3,669	12,388	6,275
Severance and other taxes	6,272	5,370	11,648	9,495
Asset retirement accretion	164	39	298	86
General and administrative	4,956	10,641	11,019	14,544
Depreciation, depletion, and amortization	27,882	21,266	55,909	39,884
<b>Total expenses</b>	<b>45,195</b>	<b>40,985</b>	<b>91,262</b>	<b>70,284</b>
<b>OPERATING INCOME</b>	<b>57,387</b>	<b>23,679</b>	<b>41,563</b>	<b>7,539</b>
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	143	4	150	12
Interest expense net of amounts capitalized	(990)	(134)	(2,680)	(134)
<b>Total other income (expense)</b>	<b>(847)</b>	<b>(130)</b>	<b>(2,530)</b>	<b>(122)</b>
<b>INCOME BEFORE TAXES</b>	<b>56,540</b>	<b>23,549</b>	<b>39,033</b>	<b>7,417</b>
Income tax expense	168,917		168,917	
<b>NET INCOME (LOSS)</b>	<b>\$ (112,377)</b>	<b>\$ 23,549</b>	<b>\$ (129,884)</b>	<b>\$ 7,417</b>
<b>Pro forma loss per share:</b>				
Basic and Diluted (Note 10)	\$ (1.85)	N/A	\$ (2.39)	N/A
<b>Pro forma weighted average shares outstanding:</b>				
Basic and Diluted (Note 10)	60,887	N/A	54,261	N/A

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

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## MIDSTATES PETROLEUM COMPANY, INC.

## CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS /MEMBERS EQUITY

(Unaudited)

(In thousands)

	Common Stock		Capital Contributions	Additional Paid- in-Capital	Retained Deficit/ Accumulated Loss	Total Stockholders / Members Equity
	Number of Shares	Amount				
<b>Balance as of December 31, 2011</b>		\$	\$ 322,496	\$	\$ (36,994)	\$ 285,502
Issuance of common stock	47,634,353	476	(476)			
Reclassification of members' contributions			(322,020)	322,020		
Proceeds from the sale of common stock	18,000,000	180		213,659		213,839
Stock-based compensation	915,210	9		673		682
Net loss					(129,884)	(129,884)
<b>Balance as of June 30, 2012</b>	<b>66,549,563</b>	<b>\$ 665</b>	<b>\$</b>	<b>\$ 536,352</b>	<b>\$ (166,878)</b>	<b>\$ 370,139</b>

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

**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In thousands)**

	<b>Six months ended June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (129,884)	\$ 7,417
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Unrealized (gains) losses on commodity derivative contracts, net	(35,157)	9,982
Asset retirement accretion	298	86
Depreciation, depletion, and amortization	55,909	39,884
Share-based compensation	682	7,949
Deferred income taxes	168,917	
Amortization of deferred financing costs	376	383
Change in operating assets and liabilities:		
Accounts receivable oil and gas sales	5,015	(1,181)
Accounts receivable other	2,872	305
Prepayments and other assets	(2,708)	117
Inventory	(783)	(104)
Accounts payable	(3,077)	(6,920)
Accrued liabilities	(2,371)	9,069
Other	(126)	(3)
Net cash provided by operating activities	\$ 59,963	\$ 66,984
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment in property and equipment	(184,245)	(102,302)
Net cash used in investing activities	\$ (184,245)	\$ (102,302)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term borrowings	20,067	57,000
Repayment of long-term borrowings	(103,167)	
Proceeds from issuance of mandatorily redeemable convertible preferred units	65,000	
Repayment of mandatorily redeemable convertible preferred units	(65,000)	
Proceeds from sale of common stock, net of initial public offering expenses of \$6.1 million	213,839	
Deferred loan costs	(2,112)	(500)
Cash received for units		170
Distributions to members		(22,811)
Other		(3)
Net cash provided by financing activities	\$ 128,627	\$ 33,856
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>4,345</b>	<b>(1,462)</b>
Cash and cash equivalents, beginning of period	7,344	11,917
Cash and cash equivalents, end of period	\$ 11,689	\$ 10,455

**SUPPLEMENTAL INFORMATION:**

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Non-cash transactions investments in property and equipment accrued not paid	\$ 79,400	\$ 28,800
Cash paid for interest, net of capitalized interest of \$2.4 million and \$1.3 million, respectively	\$ 2,763	\$ 158

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

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**MIDSTATES PETROLEUM COMPANY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**1. Organization and Business**

Midstates Petroleum Company, Inc., through its wholly owned subsidiary Midstates Petroleum Company LLC, engages in the business of drilling for, and production of, oil, natural gas and natural gas liquids, and currently has oil and gas operations solely in the state of Louisiana. Midstates Petroleum Company, Inc. was incorporated pursuant to the laws of the State of Delaware on October 25, 2011 to become a holding company for Midstates Petroleum Company LLC, which was previously a wholly-owned subsidiary of Midstates Petroleum Holdings LLC. Pursuant to the terms of a corporate reorganization that was completed in connection with the closing of Midstates Petroleum Company, Inc.'s initial public offering, all of the interests in Midstates Petroleum Holdings LLC were exchanged for newly issued common shares Midstates Petroleum Company, Inc., and as a result, Midstates Petroleum Company LLC became a wholly-owned subsidiary of Midstates Petroleum Company, Inc. and Midstates Petroleum Holdings LLC ceased to exist as a separate entity. The terms the Company, we, us, our, and similar terms when used in the present tense, prospectively or for historical periods since April 25, 2012, refer to Midstates Petroleum Company, Inc. and its subsidiary, and for historical periods prior to April 25, 2012, refer to Midstates Petroleum Holdings LLC and its subsidiary, unless the context indicates otherwise. The term Holdings LLC refers solely to Midstates Petroleum Holdings LLC prior to the corporate reorganization.

On April 25, 2012, the Company completed its initial public offering of common stock pursuant to a registration statement on Form S-1 (File 333-177966), as amended and declared effective by the SEC on April 19, 2012. Pursuant to the registration statement, the Company registered the offer and sale of 27,600,000 shares of \$0.01 par value common stock, which included 6,000,000 shares of stock sold by the selling shareholders and 3,600,000 shares of common stock sold by the selling stockholders pursuant to an option granted to the underwriters to cover over-allotments. The Company's sale of the shares in its initial public offering closed on April 25, 2012 and its initial public offering terminated upon completion of the closing.

The proceeds of the Company's initial public offering, based on the public offering price of \$13.00 per share, were approximately \$358.8 million. After subtracting underwriting discounts and commissions of \$21.5 million and the net proceeds to the selling stockholders of \$117.3 million, the Company received net proceeds of approximately \$220.0 million from the registration and sale of 18,000,000 common shares (or \$213.8 million net of offering expenses paid directly by the Company). The Company used \$67.1 million of the net proceeds to redeem convertible preferred units in Holdings LLC, including interest and other charges, and \$99.0 million to pay down a portion of the borrowings under its revolving credit facility. The Company used the remaining \$47.7 million to fund the execution of its growth strategy through its drilling program. The Company did not receive any of the proceeds from the sale of the 9,600,000 shares by the selling stockholders. Immediately after the initial public offering and exercise of the option, First Reserve Midstates Interholding LP and its affiliates own approximately 41.4% of the Company's outstanding common stock.

At June 30, 2012, the Company operated oil and natural gas properties as one reportable segment: the exploration, development and production of oil, natural gas and natural gas liquids. The Company's management evaluated performance based on one reportable segment as there were not different economic environments within the operation of its oil and natural gas properties.

All pro forma and per share information presented in the accompanying unaudited financial statements have been adjusted to reflect the effects of the Company's initial public offering.

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**MIDSTATES PETROLEUM COMPANY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

**2. Summary of Significant Accounting Policies**

***Basis of Presentation***

These interim financial statements are unaudited and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) regarding interim financial reporting. Certain disclosures have been condensed or omitted from these financial statements. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ( GAAP ) for complete consolidated financial statements, and should be read in conjunction with the audited consolidated financial statements and notes thereto included in MPC's Registration Statement on Form S-1, as amended (Registration No. 333-177966).

All intercompany transactions have been eliminated in consolidation. Certain reclassifications have been made to the prior year's consolidated financial statements and related footnotes to conform them to the current year presentation. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary to fairly present the financial position as of, and the results of operations for, all periods presented. In preparing the accompanying condensed consolidated financial statements, management has made certain estimates and assumptions that affect reported amounts in the condensed consolidated financial statements and disclosures of contingencies. Actual results may differ from those estimates. The results for interim periods are not necessarily indicative of annual results.

***Recent Accounting Pronouncements***

The Company reviewed recently issued accounting pronouncements that became effective during the six months ended June 30, 2012, and determined that none would have a material impact on the Company's condensed consolidated financial statements.

**3. Fair Value Measurements of Financial Instruments**

The Company uses a valuation framework based upon inputs that market participants use in pricing an asset or liability, which are classified into two categories: observable inputs and unobservable inputs. Observable inputs represent market data obtained from independent sources; whereas, unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. These two types of inputs are further divided into the following fair value input hierarchy:

**Level 1** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

**Level 2** Inputs, other than quoted prices included in Level 1, are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar instruments in active markets, and inputs other than quoted prices that are observable for the asset or liability. Fair value assets and liabilities that are generally included in this category are commodity derivative contracts with fair values based on inputs from actively quoted markets. The Company uses a market approach to estimate the fair values of its commodity derivative contracts, utilizing commodity futures price strips for the underlying commodities provided by a reputable third-party.

**Level 3** Inputs are unobservable for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

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Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

**Derivative Instruments** Commodity derivative contracts reflected in the condensed consolidated balance sheets are recorded at estimated fair value. At June 30, 2012 and December 31, 2011, all of the Company's commodity derivative contracts were with three and two bank counterparties, respectively, and are classified as Level 2.

	Fair Value Measurements at June 30, 2012			Total
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
<b>Assets:</b>				
Commodity derivative oil swaps	\$	\$ 14,799	\$	\$ 14,799
Commodity derivative deferred premium puts		1,015		1,015
Commodity derivative collars		380		380
Commodity derivative differential swaps		7,371		7,371
<b>Total assets</b>		<b>23,565</b>		<b>23,565</b>
<b>Liabilities:</b>				
Commodity derivative oil swaps	\$	\$ 4,397	\$	\$ 4,397
Commodity derivative deferred premium puts		180		180
Commodity derivative collars		10		10
Commodity derivative differential swaps		1,053		1,053
<b>Total liabilities</b>	\$	<b>5,640</b>	\$	<b>\$ 5,640</b>

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	Quoted Prices in Active Markets (Level 1)	Fair Value Measurements at December 31, 2011		Total
		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(in thousands)				
<b>Assets:</b>				
Commodity derivative oil swaps	\$	\$	\$	\$
Commodity derivative deferred premium puts		1,673		1,673
Commodity derivative collars		397		397
Commodity derivative differential swaps		4,200		4,200
<b>Total assets</b>		<b>6,270</b>		<b>6,270</b>
<b>Liabilities:</b>				
Commodity derivative oil swaps	\$	\$ 23,162	\$	\$ 23,162
Commodity derivative deferred premium puts		340		340
Commodity derivative collars				
Commodity derivative differential swaps				
<b>Total liabilities</b>	\$	\$ <b>23,502</b>	\$	\$ <b>23,502</b>

Derivative instruments listed above are presented gross and include collars, swaps, and put options that are carried at fair value. The Company records the net change in the fair value of these positions in Gains (losses) on commodity derivative contracts net in the Company's unaudited condensed consolidated statements of operations. The Company is able to value the assets and liabilities based on observable market data for similar instruments, which resulted in the Company classifying its derivatives as Level 2 instruments. This observable data includes the forward curve for commodity prices based on quoted market prices and implied volatility factors related to changes in the forward curves.

For additional information on the Company's derivative instruments and balance sheet presentation, see Note 4.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Certain assets and liabilities are reported at fair value on a nonrecurring basis in the Company's condensed consolidated balance sheets. The following methods and assumptions were used to estimate the fair values:

**Asset Retirement Obligations (ARO's)** The Company initially estimates the fair value of ARO's based on discounted cash flow projections using numerous estimates, assumptions and judgments regarding such factors as the existence of a legal obligation for an ARO, the amount and timing of settlements, the credit-adjusted risk-free rate and inflation rates. See Note 5 for a summary of changes in ARO's.

**4. Risk Management and Derivative Instruments**

The Company is exposed to fluctuations in crude oil and natural gas prices on its production. The Company believes it is prudent to manage the variability in cash flows by entering into derivative financial instruments to economically hedge a portion of its crude oil and natural gas production. The Company utilizes various types of



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derivative financial instruments, including swaps and options, to manage fluctuations in cash flows resulting from changes in commodity prices. These derivative contracts are generally placed with major financial institutions that the Company believes are minimal credit risks. The oil and gas reference prices, upon which the commodity derivative contracts are based, reflect various market indices that management believes have a high degree of historical correlation with actual prices received by the Company for its oil and gas production.

Inherent in the Company's portfolio of commodity derivative contracts are certain business risks, including market risk and credit risk. Market risk is the risk that the price of the commodity will change, either favorably or unfavorably, in response to changing market conditions. Credit risk is the risk of loss from nonperformance by the Company's counterparty to a contract. The Company does not require collateral from its counterparties but does attempt to minimize its credit risk associated with derivative instruments by entering into derivative instruments only with counterparties that are large financial institutions, which management believes present minimal credit risk. In addition, to mitigate its risk of loss due to default, the Company has entered into agreements with its counterparties on its derivative instruments that allow the Company to offset its asset position with its liability position in the event of default by the counterparty. Due to the netting arrangements, had the Company's counterparties failed to perform under existing commodity derivative contracts, the maximum loss at June 30, 2012 would have been approximately \$18.3 million.

**Commodity Derivative Contracts**

As of June 30, 2012, the Company had the following open commodity positions:

	Hedged Volume	Weighted-Average Fixed Price
Oil (Bbls):		
WTI Swaps 2012	411,100	\$ 84.36
WTI Swaps 2013	679,125	84.73
WTI Swaps 2014	262,450	83.00
WTI Collars 2012	82,800	\$ 85.00 - 127.28
WTI Deferred Premium Puts 2012 (1)	276,000	\$ 79.01
WTI Basis Differential Swaps 2012 (2)	505,300	\$ 9.73
WTI Basis Differential Swaps 2013 (2)	679,125	6.30
LLS Swaps 2012	315,180	\$ 116.55
Brent Swaps 2013	1,021,749	\$ 111.89

- (1) 2012 deferred premium puts represent the net effective floor price of a put with a strike price of \$85.00/Bbl and a deferred premium of \$5.99/Bbl. The premiums for these instruments are paid each month, concurrently with the settlement of the monthly put contracts.
- (2) The Company enters into swap arrangements intended to capture the positive differential between the Louisiana Light Sweet ( LLS ) pricing and West Texas Intermediate ( NYMEX WTI ) pricing.

**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****Notes to Unaudited Condensed Consolidated Financial Statements****Balance Sheet Presentation**

The following table summarizes the gross fair value of derivative instruments by the appropriate balance sheet classification, even when the derivative instruments are subject to netting arrangements and qualify for net presentation in the Company's condensed consolidated balance sheets at June 30, 2012 and December 31, 2011, respectively (in thousands):

Type	Balance Sheet Location (1)	June 30, 2012	December 31, 2011
Oil Swaps	Derivative financial instruments Current Assets	\$ 6,633	\$
Oil Swaps	Derivative financial instruments Non-Current Assets	8,166	
Oil Swaps	Derivative financial instruments Current Liabilities	(2,225)	(13,046)
Oil Swaps	Derivative financial instruments Non-Current Liabilities	(2,172)	(10,116)
Deferred Premium Puts	Derivative financial instruments Current Assets	1,015	1,673
Deferred Premium Puts	Derivative financial instruments Non-Current Assets		
Deferred Premium Puts	Derivative financial instruments Current Liabilities	(180)	(278)
Deferred Premium Puts	Derivative financial instruments Non-Current Liabilities		(62)
Collars	Derivative financial instruments Current Assets	380	397
Collars	Derivative financial instruments Non-Current Assets		
Collars	Derivative financial instruments Current Liabilities	(10)	
Collars	Derivative financial instruments Non-Current Liabilities		
Basis Differential Swaps	Derivative financial instruments Current Assets	7,060	3,612
Basis Differential Swaps	Derivative financial instruments Non-Current Assets	311	588
Basis Differential Swaps	Derivative financial instruments Current Liabilities	(996)	
Basis Differential Swaps	Derivative financial instruments Non-Current Liabilities	(57)	
<b>Total</b>		<b>\$ 17,925</b>	<b>\$ (17,232)</b>

- (1) The fair value of derivative instruments reported in the Company's condensed consolidated balance sheets are subject to netting arrangements and qualify for net presentation. The following table reports the net derivative fair values as reported in the Company's condensed consolidated balance sheets as of June 30, 2012 and December 31, 2011, respectively (in thousands):

	June 30, 2012	December 31, 2011
<b>Consolidated balance sheet classification:</b>		
Current derivative instruments:		
Assets	12,038	4,957
Liabilities	(360)	(12,599)
<b>Non-current derivative instruments:</b>		
Assets	6,247	588
Liabilities		(10,178)

**Gains/Losses on Commodity Derivative Contracts**

The Company does not designate its commodity derivative contracts as hedging instruments for financial reporting purposes. Accordingly, all gains and losses, including unrealized gains and losses from changes in the derivative instruments' fair values, have been recorded in Gains (losses) on commodity derivative contracts net, within revenues in the condensed consolidated statements of operations.



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The following table presents realized net gains (losses) and unrealized net gains (losses) recorded by the Company related to the change in fair value of the derivative financial instruments in Gains (losses) on commodity derivative contracts net for the periods presented (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Realized net gains (losses)	(5,180)	(6,130)	(11,679)	(8,137)
Unrealized net gains (losses)	53,323	16,607	35,157	(9,982)

**5. Asset Retirement Obligations**

Asset retirement obligations represent the future abandonment costs of tangible assets, such as wells, service assets and other facilities. The fair value of the asset retirement obligation at inception is capitalized as part of the carrying amount of the related long-lived assets. Asset retirement obligations approximated \$9.4 million and \$7.6 million as of June 30, 2012 and December 31, 2011, respectively.

The liability has been accreted to its present value as of June 30, 2012 and December 31, 2011. The Company evaluated its wells and determined a range of abandonment dates through 2058.

The following table reflects the changes in the Company's asset retirement obligations for the six months ended June 30, 2012 (in thousands):

Asset retirement obligations at January 1, 2012	\$ 7,627
Liabilities incurred	1,470
Revisions	3
Liabilities settled	
Current period accretion expense	298
<b>Asset retirement obligations at June 30, 2012</b>	<b>\$ 9,398</b>

**6. Long-Term Debt**

The Company's long-term debt as of June 30, 2012 and December 31, 2011 is as follows (in thousands):

	June 30, 2012	December 31, 2011
Revolving credit facility	\$ 151,700	\$ 234,800
Less: current maturities of debt		
<b>Long-term debt</b>	<b>\$ 151,700</b>	<b>\$ 234,800</b>

On June 8, 2012, Midstates Petroleum Company LLC entered into a Second Amended and Restated Credit Agreement among Midstates Petroleum Company LLC, as borrower, the Company, as guarantor, the lenders party thereto and SunTrust Bank, as the new administrative agent (the Amended Credit Agreement).

The Amended Credit Agreement increased the size of the revolving credit facility from \$300 million to \$500 million, added additional lenders to the bank group and set the initial borrowing base at \$200 million. In addition, the lenders under the Amended Credit Agreement have agreed that there will be no reduction in the Company's borrowing base under the Amended Credit Agreement for the issuance of up to \$275 million of senior unsecured notes. In the event that the Company elects to issue senior unsecured notes in excess of \$275



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**Notes to Unaudited Condensed Consolidated Financial Statements**

million, the borrowing base will be reduced by 25% of the face value (without giving effect to any original issue discount) of such notes in excess of \$275 million. The Amended Credit Agreement also extended the maturity date of the revolving credit facility from December 10, 2014 to June 8, 2017. At the closing of the Amended Credit Agreement, the Company borrowed \$20.0 million under the revolving credit facility.

Borrowings under the Amended Credit Agreement continue to be secured by substantially all of the Company's oil and natural gas properties and currently bear interest at LIBOR plus an applicable margin between 1.75% and 2.75% per annum. At June 30, 2012 and December 31, 2011, the weighted-average interest rate was 2.9% and 3.2%, respectively.

In addition to interest expense, the Amended Credit Agreement requires the payment of a commitment fee each quarter. The commitment fee is computed at the rate of either 0.375% or 0.50% per annum based on the average daily amount by which the borrowing base exceeds the outstanding borrowings during each quarter.

The borrowing base under the Amended Credit Agreement is subject to semiannual redeterminations in March and September and up to one additional time per six month period following each scheduled borrowing base redetermination, as may be requested by the Company or the administrative agent, acting on behalf of lenders holding at least two-thirds of the outstanding loans and other obligations.

Under the terms of the revolving credit facility, the Company is required to repay the amount by which the principal balance of its outstanding loans and its letter of credit obligations exceed its redetermined borrowing base. The Company is permitted to make such repayment in six equal successive monthly payments commencing 30 days following the administrative agent's notice regarding such borrowing base reduction.

The revolving credit facility contains financial covenants, which, among other things, set a maximum ratio of debt to earnings before interest, income tax, depletion, depreciation, and amortization (EBITDA) of not more than 4.0 to 1, a minimum current ratio (as defined therein) of not less than 1.0 to 1.0 and various other standard affirmative and negative covenants including, but not limited to, restrictions on the Company's ability to make any dividends, distributions or redemptions. As of June 30, 2012, the Company is in compliance with the financial debt covenants set forth in the Amended Credit Agreement.

In connection with the Amended Credit Agreement, the Company incurred legal fees and fees payable to the lending banks of approximately \$2.1 million, which together with the remaining unamortized fees associated with the revolving credit facility prior to the amendment, will be amortized as additional interest expense over the new maturity date of June 8, 2017.

The Company's credit facility at December 31, 2011 and through June 7, 2012, consisted of a \$300 million senior revolving credit facility (the Facility) with a borrowing base, as redetermined in March 2012, of \$210 million. Prior to the amendment, the revolving credit facility had a maturity date of December 10, 2014 and bore interest at LIBOR plus an applicable margin between 2.00% and 2.75% per annum. In April 2012, the Company repaid \$103.2 million of the outstanding Facility balance.

The Company believes the carrying amount of the Amended Credit Agreement at June 30, 2012 approximates its fair value (Level 2) due to the variable nature of the applicable interest rate.

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**MIDSTATES PETROLEUM COMPANY, INC.**

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**7. Mandatorily Redeemable Convertible Preferred Units**

In December 2011, Holdings LLC, FR Midstates Holdings LLC ( FR Midstates ) and Midstates Petroleum Holdings, Inc. ( Petroleum Inc. ) entered into an amended and restated limited liability company agreement, which was later amended in March 2012, to provide for the issuance of up to 65,000, or \$65 million in aggregate value, of certain mandatorily redeemable convertible preferred units (the Preferred Units ) between December 15, 2011 and June 10, 2015. The Preferred Units had a liquidation value of \$1,000 per unit and bore interest, compounded quarterly, at a rate of 8% plus the greater of LIBOR or 1.5%. The Preferred Units were convertible into units of Holdings LLC on or after the one year anniversary of the date of issuance into a number of common units with a fair market value (as determined by the Board of Directors) equal to the liquidation value plus any accrued interest and were redeemable for cash at any time at the option of Holdings LLC, but were mandatorily redeemable for cash on June 10, 2015, unless otherwise converted. In addition, a fixed interest charge of 1.5% of the aggregate capital invested in the Preferred Units was payable upon redemption or conversion.

On January 4, 2012, and again on February 9, 2012, Holdings LLC issued 20,000 Preferred Units (for a total of 40,000 Preferred Units) to FR Midstates for aggregate cash proceeds of \$40.0 million. On April 3, 2012, Holdings LLC issued an additional 25,000 preferred units to FR Midstates for aggregate cash proceeds of \$25.0 million.

On April 26, 2012, Midstates Petroleum Company, Inc. used \$67.1 million of the proceeds from its initial public offering to redeem the Preferred Units in full, including interest and other charges. As such, at June 30, 2012, the Preferred Units are no longer outstanding. Midstates Petroleum Company, Inc. recorded \$2.1 million related to interest expense associated with these Preferred Units for the six months ended June 30, 2012.

**8. Equity and Share-Based Compensation**

At December 31, 2011, Holdings LLC had 256,742 common units issued and outstanding. On April 24, 2012, in connection with Midstates Petroleum Company, Inc.'s initial public offering, a corporate reorganization occurred and each common unit of Holdings LLC was converted into approximately 185.5 common shares of Midstates Petroleum Company, Inc. and as a result, Midstates Petroleum Company, Inc. issued 47,634,353 shares of its common stock.

On April 25, 2012, Midstates Petroleum Company Inc. completed its initial public offering of common stock pursuant to a registration statement on Form S-1 (File 333-177966), as amended and declared effective by the SEC on April 19, 2012. Pursuant to the registration statement, Midstates Petroleum Company, Inc. registered the offer and sale of 27,600,000 shares of \$0.01 par value common stock, which included 6,000,000 shares of stock sold by the selling shareholders and 3,600,000 shares of common stock sold by the selling stockholders pursuant to an option granted to the underwriters to cover over-allotments. Midstates Petroleum Company, Inc.'s sale of the shares in its initial public offering closed on April 25, 2012.

After the corporate reorganization and the completion of its initial public offering discussed above, Midstates Petroleum Company, Inc. is authorized to issue up to a total of 300,000,000 shares of its common stock with a par value \$0.01 per share, and 50,000,000 shares of its preferred stock with a par value of \$0.01 per share. Holders of Midstates Petroleum Company, Inc.'s common shares are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and to receive ratably in proportion to the shares of common stock held by them any dividends declared from time to time by the board of directors. The common shares have no preferences or rights of conversion, exchange, pre-exemption or other subscription rights. At June 30, 2012, Midstates Petroleum Company, Inc. had 66,549,563 shares of its common stock issued and outstanding.

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With respect to preferred shares, Midstates Petroleum Company, Inc. is authorized, without further stockholder approval, to establish and issue from time to time one or more classes or series of preferred stock with such powers, preferences, rights, qualifications, limitations and restrictions as determined by its board of directors. At June 30, 2012, no preferred shares were issued or outstanding.

***Share-Based Compensation, pre Initial Public Offering***

During the six months ended June 30, 2011, certain restricted and unrestricted shares in Petroleum Inc., through which Holdings LLC's founders, members of management and certain employees previously held their equity interests, certain unrestricted units in Holdings LLC, and certain units in Midstates Incentive Holdings, LLC (Midstates Incentive) had been issued to employees of Holdings LLC.

Additionally, in March 2011, Holdings LLC's Chief Executive Officer, in connection with the commencement of his employment, purchased 17.3 shares of common stock of Petroleum Inc. and contemporaneously received a grant of 24.6 shares of common stock in Petroleum Inc. that vested as described further below. No other shares or units were issued during the 2011 period. The Company determined the grant date fair value of the share based award to be \$80,013 per Petroleum Inc. share (\$3.4 million in aggregate), or after taking into account the corporate reorganization attributable to the initial public offering completed on April 25, 2012, \$4.26 per share of Midstates Petroleum Company, Inc. common stock. The Company recognized stock compensation in accordance with ASC Topic 718, Compensation Stock Compensation based upon the grant date fair value and immediately expensed the difference between the grant date fair value and the price paid for the purchased shares of Petroleum Inc., as well as additional compensation expense related to the liability accounting for the Company's share-based awards discussed below.

Prior to December 5, 2011, due to certain rights to call shares and units in Holdings LLC for cash, Holdings LLC's share-based payments awarded to employees were accounted for as liability awards pursuant to ASC Topic 718, Compensation Stock Compensation. As such, Holdings LLC calculated the fair value of the share-based awards on a quarterly basis using estimated market value and the total fair value of the awards was recorded within Other long-term liabilities in Holding LLC's condensed consolidated balance sheets. Any change in the fair value of the liability awards was recorded as share-based compensation expense within General and administrative expense in Holdings LLC's condensed consolidated statements of operations, which was the same line item as cash compensation paid to the same employees.

Historically, Holdings LLC's determination of the fair value of each of the units was affected by: i) Holdings LLC's risk adjusted proved, possible, and probable reserves; ii) internal assessment of long-term commodity prices; iii) current values of Holdings LLC's non-oil and gas assets and liabilities; and iv) a number of complex and subjective variables. Although the fair value of the share-based payments is determined in accordance with GAAP, that value may not be indicative of the fair value observed in a market transaction between a willing buyer and a willing seller.

Effective as of November 22, 2011, the Board of Directors of Petroleum Inc. accelerated the vesting of all restricted stock in Petroleum Inc. The vesting resulted in the recognition of previously unrecognized share-based compensation expense at the estimated fair market value of the restricted stock held by employees at November 22, 2011. Petroleum Inc. determined the fair market value of Petroleum Inc.'s common stock based on management's estimates.

On December 5, 2011, Employment Agreements with employees of Midstates Petroleum Company LLC, a Stockholders' Agreement by and among stockholders in Petroleum Inc. and a Unitholders' Agreement by and



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among the members of Holdings LLC were either terminated or amended such that the rights within those agreements to call shares in Petroleum Inc. and units in Holdings LLC for cash no longer required Holdings LLC's share-based payments awarded to employees to be accounted for as liability awards. As a result the Company transitioned as of December 5, 2011 from liability accounting to equity accounting for the Company's share-based compensation plans and accordingly, the Company no longer recognized changes in the estimated fair value of outstanding share-based awards in the statements of operations.

*Restricted Shares.*

Restricted shares in Petroleum Inc. were awarded at no cost to the recipient with a vesting period that commenced on the grant date and terminated on the fifth anniversary or upon certain changes in control of Holdings LLC, including but not limited to mergers, acquisitions, or a public offering (a Triggering Event).

As a result of the vesting on November 22, 2011, as discussed above, there is no unrecognized compensation cost and as a result of the corporate reorganization in April 2012, each share of Petroleum Inc. was converted into 18,762 shares of common stock of Midstates Petroleum Company, Inc. As a result, there are no outstanding restricted shares in Petroleum Inc. as of June 30, 2012.

*Unrestricted Shares and Units.*

Unrestricted shares in Petroleum Inc. and units of Holdings LLC were purchased by the recipient on the grant date and were fully vested upon purchase, or represented restricted shares which have vested. For shares of Petroleum Inc and units of Holdings LLC purchased, any difference between the recipient's purchase price and the grant date fair value was recognized as compensation expense on the grant date. As a result of the corporate reorganization in April 2012, each share of Petroleum, Inc. and each unit of Holdings LLC were converted into 18,762 and 185.5 shares respectively, of Midstates Petroleum Company, Inc. common stock. As a result, at June 30, 2012, there are no Petroleum, Inc. shares or Holdings LLC units outstanding.

*Incentive Units.*

At June 30, 2012, 1,659 incentive units were issued and outstanding. In connection with the corporate reorganization that occurred immediately prior to our initial public offering, these incentive units held in the Company were contributed to FR Midstates Interholding, LP (FRMI) in exchange for incentive units in FRMI. Holders of FRMI incentive units will receive, out of proceeds otherwise distributable to FRMI, a percentage interest in the amounts distributed to FRMI in excess of certain multiples of FRMI's aggregate capital contributions and investment expenses (FRMI Profits). Although any future payments to the incentive unit holders will be made out of the proceeds otherwise distributable to FRMI and not by the Company, the Company will be required to record a non-cash compensation charge in the period any payment is made related to the FRMI incentive units. To date, no compensation expense related to the incentive units has been recognized by the Company, as any payout under the incentive units is not considered probable, and thus, the amount of FRMI Profits, if any, cannot be determined.

***Share-based Compensation, Post-Initial Public Offering***

*2012 Long Term Incentive Plan*

On April 20, 2012, Midstates Petroleum Company, Inc. established the 2012 Long Term Incentive Plan (the 2012 LTIP) and filed a Form S-8 with the SEC, registering 6,563,435 shares for future issuance under the terms of the 2012 LTIP. The 2012 LTIP provides a means for the Company to attract and retain employees,

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directors and consultants, and a method whereby employees, directors and consultants of the Company who contribute to its success can acquire and maintain stock ownership or awards, the value of which is tied to the performance of the Company, thereby strengthening their concern for the welfare of the Company and their desire to remain employed.

The 2012 LTIP provides for the granting of Options (Incentive and other), Restricted Stock Awards, Restricted Stock Units, Stock Appreciation Rights, Dividend Equivalents, Bonus Stock, Other Stock-Based Awards, Annual Incentive Awards, Performance Awards, or any combination of the foregoing (the Awards). Subject to certain limitations as defined in the 2012 LTIP, the terms of each Award are as determined by the Compensation Committee of the Board of Directors. A total of 6,563,435 common share Awards are authorized for issuance under the 2012 LTIP and shares of stock subject to an Award that expire, or are canceled, forfeited, exchanged, settled in cash or otherwise terminated, will again be available for future Awards under the 2012 LTIP.

*Non-vested Stock Awards.*

Subsequent to the completion of the Company's initial public offering and pursuant to the 2012 LTIP, the Company issued 916,594 shares of restricted common stock to directors, management and employees. Shares granted under the LTIP vest ratably over a period of three years (one-third on each anniversary of the grant).

The fair value of restricted stock grants is based on the value of the Company's common stock on the date of grant. Compensation expense is recognized ratably over the requisite three year service period. As of June 30, 2012, the Company assumed no annual forfeiture rate because of the Company's lack of turnover and history for this type of award.

The following table summarizes the Company's non-vested share award activity for the six months ended June 30, 2012:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares outstanding at December 31, 2011		
Granted	916,594	\$ 13.16
Vested		\$
Forfeited	(1,384)	\$ 13.00
Non-vested shares outstanding at June 30, 2012	915,210	\$ 13.16

Unrecognized expense as of June 30, 2012 for all outstanding restricted stock awards was \$11.4 million and will be recognized over a weighted average period of 2.8 years.

At June 30, 2012, 5,648,225 shares remain available for issuance under the terms of the 2012 LTIP.

**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****Notes to Unaudited Condensed Consolidated Financial Statements**

The following table summarizes share-based compensation costs recognized by the Company for the periods presented (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Restricted and unrestricted Petroleum Inc. shares and Holdings LLC units	\$	\$ 7,299	\$	\$ 7,949
Incentive units				
2012 LTIP restricted shares	682		682	
Total share-based compensation expense	682	7,299	682	7,949

**9. Income Taxes**

Prior to its corporate reorganization (See Note 1), the Company was a limited liability company and not subject to federal income tax or state income tax (in most states). Accordingly, no provision for federal or state income taxes was recorded prior to the corporate reorganization as the Company's equity holders were responsible for income tax on the Company's profits. In connection with the closing of the Company's IPO, the Company merged into a corporation and became subject to federal and state income taxes. The Company's book and tax basis in assets and liabilities differed at the time of the corporate reorganization due primarily to different cost recovery periods utilized for book and tax purposes for the Company's oil and natural gas properties. In the second quarter of 2012, the Company recorded a net deferred tax expense of \$149.5 million to recognize a deferred tax liability related to the Company's initial book and tax basis differences due to its change in tax status.

Subsequent to the corporate reorganization, the Company's effective tax rate is expected to be 49.7%. The Company's effective tax rate differs from the federal statutory rate of 35% due to: (i) the inability to use pre-IPO losses to offset post-IPO earnings, and (ii) state income taxes. The Company expects to incur a tax loss in the current year (due principally to the ability to expense certain intangible drilling and development costs under current law) and thus no current income taxes are anticipated to be paid. This tax loss is expected to result in a Net Operating Loss carryforward at year-end; however, no valuation allowance has been recorded as management believes that there is sufficient future taxable income to fully utilize all tax attributes. This future taxable income arises from reversing temporary differences due to the excess of the book carrying value of oil and gas properties over their corresponding tax bases. Management is not relying on other sources of taxable income in concluding that no valuation allowance is needed.

As of June 30, 2012, the Company has not recorded a reserve for any uncertain tax positions.

**10. Earnings (Loss) Per Share**

The Company's nonvested stock awards, which are granted as part of the 2012 LTIP, contain nonforfeitable rights to dividends and as such, are considered to be participating securities and are included in the computation of basic and diluted earnings (loss) per share, pursuant to the two-class method. In the calculation of basic earnings (loss) per share attributable to common shareholders, participating securities are allocated earnings based on actual dividend distributions received plus a proportionate share of undistributed net income attributable to common shareholders, if any, after recognizing distributed earnings. The Company's participating securities do not participate in undistributed net losses because they are not contractually obligated to do so.

**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****Notes to Unaudited Condensed Consolidated Financial Statements**

The computation of diluted earnings per share attributable to common shareholders reflects the potential dilution that could occur if securities or other contracts to issue common shares that are dilutive were exercised or converted into common shares (or resulted in the issuance of common shares) and would then share in the earnings of the Company. During the periods in which the Company records a loss from continuing operations attributable to common shareholders, securities would not be dilutive to net loss per share and conversion into common shares is assumed to not occur. Diluted net income per share attributable to common shareholders is calculated under both the two-class method and the treasury stock method; the more dilutive of the two calculations is presented.

The following table is a calculation of the pro forma basic and diluted weighted-average shares outstanding for the three and six months ended June 30, 2012.

	Income	For the Three Months Ended June 30,		2011		Per Share	
		2012	Per Share	Income	Shares		
		Shares			Shares		
		(in thousands, except per share amounts)					
Net Loss	\$ (112,377)						
Loss Allocable to Nonvested Restricted Stock (1)							
Basic Net Loss Attributable to Common Stock	\$ (112,377)	60,887	\$ (1.85)	N/A	N/A	N/A	
Effect of Dilutive Securities:							
N/A (2)							
Diluted Net Loss Attributable to Common Stock	\$ (112,377)	60,887	\$ (1.85)	N/A	N/A	N/A	

	Income	For the Six Months Ended June 30,		2011		Per Share	
		2012	Per Share	Income	Shares		
		Shares			Shares		
		(in thousands, except per share amounts)					
Net Loss	\$ (129,884)						
Loss Allocable to Nonvested Restricted Stock (1)							
Basic Net Loss Attributable to Common Stock	\$ (129,884)	54,261	\$ (2.39)	N/A	N/A	N/A	
Effect of Dilutive Securities:							
N/A (2)							
Diluted Net Loss Attributable to Common Stock	\$ (129,884)	54,261	\$ (2.39)	N/A	N/A	N/A	

(1) Due to the basic net loss attributable to common shareholders for the three and six months ended June 30, 2012, the Company excluded 626,921 and 313,460 weighted-average outstanding nonvested restricted stock, respectively, from the computations of net loss per share because these securities do not participate in undistributed net losses.

(2) At June 30, 2012, there were no other dilutive securities outstanding to consider for the periods presented as unvested restricted stock grants had already been considered as part of the two-class method.

The aggregate number of common and nonvested restricted shares outstanding at June 30, 2012 was 65,634,353 and 915,210, respectively.



**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****Notes to Unaudited Condensed Consolidated Financial Statements****11. Related Party Transactions**

At June 30, 2012, a minority owner of Petroleum Inc. was also a significant owner of one of the Company's vendors. For the three and six months ended June 30, 2012, the amount paid to this vendor was \$0.8 million and \$1.5 million, respectively. For the three and six months ended June 30, 2011, the amount paid to this vendor was \$0.8 million and \$1.1 million, respectively.

The amount payable at June 30, 2012 and December 31, 2011 was \$0.2 million and \$0.1 million, respectively.

**12. Commitments and Contingencies****Contractual Obligations**

At June 30, 2012, contractual obligations for drilling contracts, long-term operating leases, seismic contracts and other are as follows (in thousands):

	Total	2012 (remainder)	2013	2014	2015	2016 and beyond
Drilling contracts	\$ 6,150	6,150				
Non-cancellable office lease commitments (1)	\$ 8,436	634	1,418	1,439	1,459	3,486
Seismic contracts	\$ 8,824	8,324	500			
Other	\$ 1,110	1,110				
Net minimum commitments	\$ 24,520	\$ 16,218	\$ 1,918	\$ 1,439	\$ 1,459	\$ 3,486

- (1) On June 4, 2012, the Company executed an amendment to its office space lease agreement for relocation to a new floor within its current office building. Under the terms of the amendment, the Company's obligation for its existing premises on two floors will terminate and rental obligations for the new premises will begin upon substantial completion of the remodeling work in the new premises, which is projected to be October 2012, and when the Company will take possession of the new premises. The amended lease agreement will have a term of 66 months.

**Litigation****Clovelly Oil Company.**

The Company is a defendant in an action brought by Clovelly Oil Company (the Plaintiff or Clovelly) in the 13th Judicial District Court in Louisiana in May 2009. The Plaintiff alleges that the Company is subject to an unrecorded Joint Operating Agreement (JOA) dated July 16, 1972, as a result of the Company's 2007 purchase of a 43.75% working interest in certain acreage. The Plaintiff further alleges that the Company is bound by the 1972 JOA and that the Plaintiff is entitled to 56.25% of the Company's 242.28-acre Crowell Land & Mineral lease. The Company was not a signatory to the JOA, and believes that it is protected by the Louisiana Public Records Doctrine, which generally provides that instruments involving real property are without effect as to third parties unless the instrument is filed of record in the appropriate mortgage or conveyance records of the parish in which such property is located.

The Company made a motion for summary judgment on all of the Plaintiff's claims, and the 13th Judicial District Court granted that motion on August 14, 2009. The Plaintiff appealed the district court's decision to the Third Circuit Court of Appeal, and on April 7, 2010, the Third Circuit Court of Appeal reversed and remanded the case to the district court for trial. On August 9, 2010, the Plaintiff amended its original petition to add Wells Fargo Bank, N. A., which holds a mortgage on the acreage, as a defendant.



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**MIDSTATES PETROLEUM COMPANY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

In December 2010, the Company filed a Motion for Partial Summary Judgment asking the district court to declare that the JOA does not apply to any new leases acquired after July 16, 1972 which are not extension or renewal leases. On September 27, 2011, the district court granted the Company's motion for partial summary judgment. The district court also granted a motion for summary judgment filed by Wells Fargo asserting that, as a mortgage holder of a mortgage covering the applicable lease, Wells Fargo is protected by the Public Records Doctrine. The Plaintiff again appealed.

On June 6, 2012, the Third Circuit Court of Appeal reversed the district court's partial summary judgment decision that the JOA does not apply to any new leases. It held that, if the Company is subject to the JOA, then the JOA applies to leases acquired by the Company after the 2007 purchase that are within the acreage covered by the JOA. Separately, the Court of Appeal upheld the district court's decision that Wells Fargo is protected by the Public Records Doctrine. The Court of Appeal then remanded the case to the district court for a determination of whether the Company had assumed the obligations under the JOA.

The Company timely filed an Application for Rehearing of the June 6 decision, and the Court of Appeal has not yet ruled on the application. If appropriate relief is not obtained from the Court of Appeal on rehearing, the Company will evaluate whether to file a writ of certiorari to the Louisiana Supreme Court seeking review and reversal of the Court of Appeal's decision.

A final adverse court decision that the Company is subject to the JOA could entitle Clovelly to a 56.25% interest in the leases affected by the litigation. Approximately 2.0 MMBOE of the Company's 26.2 MMBOE of total proved reserves as of December 31, 2011 are attributable to properties that would potentially be subject to Clovelly's interest. Such an adverse court decision could result in a material adverse effect on our financial condition, future planned operations and/or cash flow.

The Company disputes the allegations and intends to continue to vigorously defend against this litigation.

*Other.*

We are involved in other disputes or legal actions arising in the ordinary course of our business. We may not be able to predict the timing or outcome of these or future claims and proceedings with certainty, and an unfavorable resolution of one or more of such matters could have a material adverse effect on our financial condition, results of operations or cash flows. Currently, we are not party to any legal proceedings that, individually or in the aggregate, are reasonably expected to have a material adverse effect on our financial position, results of operations, or cash flows.



**Table of Contents****MIDSTATES PETROLEUM COMPANY, INC.****Notes to Unaudited Condensed Consolidated Financial Statements****13. Subsequent Events***New Commodity Hedges*

In July 2012, the Company entered into several commodity derivative transactions to more closely align the reference prices of its commodity derivative prices to the actual prices received for oil production. On August 10, 2012, the Company had the following open commodity positions:

	Hedged Volume	Weighted-Average Fixed Price	
Oil (Bbls):			
Swaps 2012	644,130	\$	95.77
Swaps 2013	1,700,874		95.55
Swaps 2014	262,450		83.00
Collars 2012	68,850	\$	85.00 - \$127.28
Deferred Premium Puts 2012 (1)	229,500	\$	79.01
Basis Differential Swaps 2012 (2)	789,480	\$	9.81
Basis Differential Swaps 2013 (2)	1,700,874	\$	5.91

*Long-term Debt*

On July 13, 2012, the Company borrowed an additional \$20.0 million pursuant to the terms of the Amended Credit Facility.

*Eagle Acquisition*

On August 11, 2012, the Company and Midstates Petroleum Company, LLC ( Midstates Sub ), a wholly owned subsidiary of the Company, entered into an Asset Purchase Agreement (the Agreement ) with Eagle Energy Production, LLC ( Eagle ), pursuant to which Midstates Sub agreed to acquire certain interests in producing oil and natural gas assets, unevaluated leasehold acreage in Oklahoma and Kansas and the related hedging instruments (the Eagle Acquisition ). The aggregate purchase price, subject to adjustment as provided in the Agreement, consists of (a) \$325 million in cash and (b) 325,000 shares of Series A Preferred Stock of the Company with an initial liquidation preference of \$1,000 per share.

Eagle, the Company and Midstates Sub have made customary representations, warranties and covenants in the Agreement. Eagle has made certain additional customary covenants, including, among others, covenants to conduct its business in the ordinary course between the execution of the Agreement and the closing of the Eagle Acquisition and not to engage in certain kinds of transactions during that period, subject to certain exceptions. The Company has agreed not to take certain specified actions without Eagle s consent during the time between execution of the Agreement and the closing of the Eagle Acquisition.

Consummation of the Eagle Acquisition is subject to various conditions, including, among others, (1) the accuracy of representations and warranties of the parties as of the closing date, including the absence of any material adverse effect with respect to each of Eagle s business and the Company s business, (2) the release of certain liens in connection with the repayment of Eagle s indebtedness, (3) the execution of certain ancillary documents and (4) other customary closing conditions. The Eagle Acquisition will be effective June 1, 2012 and closing is expected to occur on or about October 1, 2012. The Agreement may be terminated under customary circumstances.

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**MIDSTATES PETROLEUM COMPANY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

The Series A Preferred Stock will not become convertible into shares of the Company's common stock until the 21st day after the date on which the Company mails to its stockholders an information statement regarding the issuance of the Series A Preferred Stock, and the holders of the Series A Preferred Stock may not convert before the first anniversary of the closing date of the Eagle Acquisition. After such time, the Series A Preferred Stock may be converted, in whole but not in part, at the option of the holders of a majority of the outstanding shares of Series A Preferred Stock, into a number of shares of the Company's common stock calculated by dividing the then-current liquidation preference by the conversion price of \$13.50 per share. In addition, the Series A Preferred Stock will be subject to mandatory conversion into shares of the Company's common stock on September 30, 2015 at a conversion price no greater than \$13.50 per share and no less than \$11.00 per share. Dividends on the Series A Preferred Stock will accrue at a rate of 8.0% per annum, payable semi-annually, at the sole option of the Company, in cash or through an increase in the liquidation preference. The Series A Preferred Stock will also have the other rights and terms set forth on the Certificate of Designation, including voting rights that are similar to those belonging to holders of the Company's common stock on an as-converted basis (except with respect to the election of directors and the approval of certain transactions where the holders of the Series A Preferred Stock would be entitled to consideration at least equal to the liquidation preference) until such time as holders of the Series A Preferred Stock are permitted to convert their shares into common stock and the market price of the Company's common stock is above the conversion price for 15 consecutive trading days. In addition, the holders of the Series A Preferred Stock will have the right, subject to the terms and conditions set forth in the Certificate of Designations, to elect one member of the board of directors, and to approve certain corporate actions. The Series A Preferred Stock will rank senior to the Company's common stock with respect to dividend rights. The issuance of the Series A Preferred Stock to Eagle pursuant to the Agreement has been approved by stockholders holding a majority of the outstanding shares of the Company's common stock.

The purchase will be accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values at the Closing Date. The excess of the purchase price over those fair values, if any, is recorded as goodwill. Disclosures required by ASC 805, Business Combinations, will be provided once the closing occurs and the initial accounting for the acquisition is complete.

***Commitment for Bridge Credit Facility and Amendment to Revolver***

In connection with the execution of the Agreement, on August 11, 2012, the Company and Midstates Sub entered into a commitment letter with (after giving effect to certain subsequent joinders) Bank of America, N.A., Merrill Lynch, Pierce Fenner & Smith Incorporated, SunTrust Bank and SunTrust Robinson Humphrey, Inc., Goldman Sachs Lending Partners LLC and Morgan Stanley Senior Funding, Inc. to, among other things, (A) provide for an unsecured bridge credit facility in the amount of up to \$500 million and (B) provide a commitment to amend the existing secured revolving credit facility to increase the borrowing base to \$250 million and to accommodate, among other things, the issuance, incurrence and/or compliance with the terms of the Preferred Stock, bridge loans and other debt securities that may be issued or loans that may be incurred in lieu of, or in connection with the replacement of the bridge loans, including senior unsecured notes. The availability of loans under the bridge credit facility and the effectiveness of the amended revolving credit facility are subject to the consummation of the Eagle Acquisition and other customary conditions. The proceeds of the bridge credit facility may be used solely to fund the Eagle Acquisition, to pay transaction costs and expenses in connection therewith or repay existing outstanding debt under the existing revolving credit facility. If entered into, the bridge credit facility will initially bear interest at LIBOR, subject to a 1.50% floor, plus 9.0% and thereafter such 9.0% margin is subject to increases. The bridge credit facility matures on the first anniversary of the closing date of the Eagle Acquisition and contains customary terms regarding the conversion of the bridge loans into other debt instruments subject to certain caps on yield, the highest of which is set at 13.25%.  
The

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**MIDSTATES PETROLEUM COMPANY, INC.**

**Notes to Unaudited Condensed Consolidated Financial Statements**

obligations under the bridge credit facility would be guaranteed by the same entities that guaranty the existing secured revolving credit facility. If entered into, the amended revolving credit facility would mature on the fifth anniversary of the entrance into the facility and the aggregate amount available under the credit facility would increase to \$250 million, subject to reduction in the event that the amount of assets acquired in connection with the Eagle Acquisition is less than expected. In addition, it would increase the allowance for the incurrence of certain unsecured indebtedness, without a corresponding reduction in the borrowing base, from \$275 million to \$500 million thereby permitting the incurrence of the bridge loans or the issuance of other debt without causing a \$0.25 reduction in the borrowing base for every \$1 of debt incurred or issued above \$275 million. The definitive loan documentation for the bridge loan facility will contain representations and warranties, affirmative, negative and financial covenants and events of default similar to those in other similar transactions and will otherwise be similar to the terms set forth in the existing secured revolving credit facility. The definitive loan documentation for the amended revolving credit facility will contain representations and warranties, affirmative, negative and financial covenants and events of default similar to the terms set forth in the existing secured revolving credit facility and which address the above mentioned accommodations.

In addition, on August 11, 2012, the Company and Midstates Sub entered into a second commitment letter with SunTrust Bank, SunTrust Robinson Humphrey, Inc., Bank of America N.A. and Merrill Lynch, Pierce Fenner & Smith Incorporated to underwrite an amendment to the existing secured revolving facility which provides for \$35 million of non-conforming borrowing base loans (thereby increasing the borrowing base under the existing secured revolving credit facility from \$200 million to \$235 million) and waives the requirement to comply with the minimum current ratio financial covenant for the quarters ending September 30, 2012 and December 31, 2012. This amendment is not dependent upon the consummation of the Eagle Acquisition. The availability of non-conforming borrowing base loans will end upon the earliest to occur of (i) the closing of the Eagle Acquisition, (ii) the issuance of certain unsecured indebtedness permitted under the existing secured revolving credit facility and (iii) the scheduled March 2013 borrowing base redetermination. Thereafter, subject to the other commitments contemplated by the other commitment letter discussed above, the borrowing base would reduce to \$200 million and loans would be permitted subject to the \$200 million borrowing base. Borrowings under the terms of the amended revolving credit facility would bear interest at the same rates applicable to the existing secured revolving credit facility, provided that if borrowing base usage exceeded \$200 million the amount of applicable margin would increase to up to 3.00% in the case of base rate loans and 4.00% in the case of LIBOR loans. Similarly, commitment fees would be the same rates applicable to the existing secured revolving credit facility subject to an increase up to 0.625% if borrowing base usage exceeded \$200 million. The definitive loan documentation for this amended revolving credit facility will be effective upon the satisfaction of customary conditions and contain representations and warranties, affirmative, negative and financial covenants and events of default substantially the same as the terms set forth in the existing secured revolving credit facility.

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**Report of Independent Auditors**

The Board of Directors and Members of

Eagle Energy Company of Oklahoma, LLC

We have audited the accompanying consolidated balance sheets of Eagle Energy Company of Oklahoma, LLC as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in members' equity, and cash flows for the years ended December 31, 2011, and 2010, and the period from December 11, 2009 (Inception) to December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Eagle Energy Company of Oklahoma, LLC at December 31, 2011 and

2010, and the consolidated results of its operations and its cash flows for the years ended December 31,

2011, and 2010, and the period from December 11, 2009 (Inception) to December 31, 2009, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Tulsa, Oklahoma

April 13, 2012

**Table of Contents****Eagle Energy Company of Oklahoma, LLC****Consolidated Balance Sheets**

	<b>December 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>	
<b>Assets</b>		
Cash	\$ 9,986	\$ 3,675
Accounts receivable	20,052	13,674
Derivative assets, net	6,435	3,163
Prepaid expenses and other current assets	778	818
Total current assets	37,251	21,330
Properties and equipment, net successful efforts method	205,198	140,347
Noncurrent derivative assets, net	28	2,643
Other noncurrent assets	3,960	2,115
Total assets	\$ 246,437	\$ 166,435
<b>Liabilities and members equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	21,717	8,235
Total current liabilities	21,717	8,235
Long-term debt	114,000	86,500
Asset retirement obligations	1,545	780
Contingent liabilities and commitments ( <i>Note 8</i> )		
Members equity	109,175	70,920
Total liabilities and members equity	\$ 246,437	\$ 166,435

*See accompanying notes.*

**Table of Contents****Eagle Energy Company of Oklahoma, LLC****Consolidated Statement of Income**

	Years Ended December 31,		For the Period
	2011	2010	December 11, 2009 (Inception) to December 31, 2009
	(In Thousands)		
<b>Revenues:</b>			
Oil and gas sales	\$ 73,446	\$ 30,340	\$ 945
Realized and unrealized gains (losses) on derivatives	4,240	9,893	(354)
<b>Total revenues</b>	<b>77,686</b>	<b>40,233</b>	<b>591</b>
<b>Expenses:</b>			
Lease operating	12,130	9,173	83
Production taxes	3,090	2,195	67
Depletion, depreciation, and amortization	18,889	9,739	80
Impairment of oil and gas properties	6,338	2,188	
Exploration	804		
General and administrative	5,074	3,441	1,919
Other	813	31	30
<b>Total expenses</b>	<b>47,138</b>	<b>26,767</b>	<b>2,179</b>
<b>Operating income (loss)</b>	<b>30,548</b>	<b>13,466</b>	<b>(1,588)</b>
<b>Other income (expenses):</b>			
Interest expense	(6,965)	(4,021)	(83)
Other	(27)	(258)	(8)
<b>Total other income (expenses)</b>	<b>(6,992)</b>	<b>(4,279)</b>	<b>(91)</b>
<b>Net income (loss)</b>	<b>\$ 23,556</b>	<b>\$ 9,187</b>	<b>\$ (1,679)</b>

See accompanying notes.

**Table of Contents****Eagle Energy Company of Oklahoma, LLC**

	<b>Total Members Equity (In Thousands)</b>
Members' equity at December 11, 2009 (Inception)	\$
Contributions	35,000
Distributions	(1,048)
Net income	(1,679)
Members' equity at December 31, 2009	\$ 32,273
Contributions	30,000
Distributions	(540)
Net income	9,187
Members' equity at December 31, 2010	\$ 70,920
Contributions	15,000
Distributions	(301)
Net income	23,556
Members' equity at December 31, 2011	\$ 109,175

*See accompanying notes.*

**Table of Contents****Eagle Energy Company of Oklahoma, LLC****Consolidated Statement of Cash Flows**

	For the Years Ended December 31,		For the period
	2011	2010	December 11, 2009 (Inception) to December 31, 2009
	(In Thousands)		
<b>Operating activities</b>			
Net income (loss)	\$ 23,556	\$ 9,187	\$ (1,679)
Adjustments to reconcile to cash provided by operations:			
Depletion, depreciation and amortization	18,889	9,739	80
Amortization of debt financing costs	1,182	934	30
Impairment of oil and gas properties	6,338	2,188	
Cash provided (used) by changes in current assets and liabilities:			
Accounts receivable	(6,378)	(11,680)	(4,082)
Prepaid expenses and other current assets	37	(787)	(31)
Accounts payable	5,797	2,918	790
Changes in current and noncurrent derivative assets, net	(657)	(6,160)	354
Net cash provided by operating activities	48,764	6,339	(4,538)
<b>Investing activities</b>			
Acquisitions of oil and gas properties	(7,600)	(33,566)	(61,565)
Capital expenditures	(74,890)	(46,760)	
Other		(8)	
Net cash used in investing activities	(82,490)	(80,334)	(61,565)
<b>Financing activities</b>			
Borrowings under credit agreements	27,500	43,500	43,000
Debt financing costs	(2,163)	(650)	(2,429)
Contributions by members	15,000	27,000	35,000
Distributions	(300)	(600)	(1,048)
Net cash provided by financing activities	40,037	69,250	74,523
Increase (decrease) in cash	6,311	(4,745)	8,420
Cash at the beginning of the year	3,675	8,420	
Cash at the end of the year	\$ 9,986	\$ 3,675	\$ 8,420
<b>Supplemental non-cash transactions:</b>			
Change in accrued capital expenditures	\$ 1,829	\$ 4,587	\$
Change in asset retirement obligations	\$ 765	\$ 484	\$
Noncash property contribution	\$	\$ 3,000	