

# Cimarex Reports 2014 First Quarter Results

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DENVER, May 6, 2014 /PRNewswire/ -- [Cimarex Energy Co.](#) (NYSE: XEC) today reported 2014 first quarter net income of \$138.5 million, or \$1.59 per diluted share. First quarter 2013 net income was \$89.9 million, or \$1.04 per diluted share. Adjusted 2014 first quarter net income was \$145.3 million, \$1.67 per diluted share(1).

Driven by improved results in the Cana-Woodford shale play, first quarter production grew 12 percent to a record 740 million cubic feet equivalent (MMcfe) per day compared to 2013 first quarter output of 661 MMcfe per day. Oil production grew 18 percent to an average 39,168 barrels per day. Natural gas volumes increased seven percent to 355.3 MMcfe per day and natural gas liquids (NGL) were up 16 percent.

Growth in production and higher product prices resulted in revenues of \$599.2 million versus \$426.4 million for the same period in 2013. Adjusted cash flow from operations was \$408.9 million up 40 percent from \$292.4 million during the same period a year ago(1).

Natural gas prices increased 57 percent to \$5.32 per Mcf in the first quarter of 2014 compared to the first quarter of 2013. Realized oil prices averaged \$92.22 per barrel and NGL prices averaged \$39.94\* per barrel, increases of seven percent and 36 percent, respectively.

Cimarex invested \$467 million on exploration and development in the first quarter. Of these expenditures, 69 percent were on Permian Basin projects and 29 percent on projects in the Mid-Continent.

At March 31, 2014, long-term debt was \$1.025 billion, comprised of \$750 million of senior unsecured notes and \$275 million of bank debt. Debt to total capitalization was 20 percent(2).

## 2014 Outlook

Cimarex now estimates that total production volumes for 2014 will average 822– 847 MMcfe per day, a midpoint increase of 20 percent over 2013. These estimates do not include an estimated 35 MMcfe per day associated with the recently announced Mid-Continent acquisition that is expected to close on June 30. Oil volumes are expected to grow 20 – 23 percent in 2014 and gas volumes 13 – 17 percent. Total company production for the second quarter of 2014 is projected to average 810 – 830 MMcfe per day.

Estimated 2014 exploration and development capital is estimated to be \$1.9 billion with \$1.5 billion directed towards the Permian region.

Expenses per Mcfe of production for 2014 are estimated to be:

Production expense  
\$1.12 - \$1.18  
Transportation, processing and other expense  
0.65 – 0.70\*  
DD&A and ARO accretion  
2.70 - 2.80  
General and administrative expense  
0.29 - 0.33  
Taxes other than income (% of oil and gas revenue)  
5.8 - 6.2%

\*Historically, Cimarex reported realized natural gas and NGL prices net of certain processing fees. Beginning in 2014, these fees are no longer being deducted from revenue but are instead included in transportation, processing and other expense. In the first quarter of 2014, this resulted in higher realized prices of \$0.09 per Mcf of natural gas and \$4.02 per barrel of NGL and an increase to both revenues and expenses of \$12 million (\$0.18 per Mcfe). As a result, Cimarex is increasing guidance for transportation, processing and other expense from \$0.40-\$0.45 per Mcfe to \$0.65-\$0.70 per Mcfe.

## Permian Basin Update

First quarter 2014 production from the Permian Basin averaged 347.0 MMcfe per day, an increase of 26 percent over first quarter 2013. Oil volumes increased 22 percent to 31,624 barrels per day.

Cimarex drilled and completed 34 gross (21 net) Permian Basin wells during the first quarter, including 25 gross (13 net) Bone Spring wells. All were completed as producers. At March 31, 23 gross (15 net) wells were awaiting completion. Cimarex currently has 17 horizontal rigs running in the Permian region.

Cimarex continues to experience good results in the Permian region from the application of its upsized frac design in the Wolfcamp shale play. In Culberson County, Texas, Cimarex now has three wells producing from the Wolfcamp D formation that were completed with an upsized frac. These wells had an average 30-day initial gross production rate of 1,510 BOE per day. In addition, the company now has two long lateral Wolfcamp D wells producing in Culberson County. The newest long lateral, the Gallant Fox 37 LL Unit 1H, had comparable results to the first well with an average 30-day initial gross production rate of 2,516 BOE per day (45% gas, 26% oil and 29% NGL).

During the quarter, Cimarex increased its Wolfcamp acreage position from approximately 180,000 net acres to 225,000 net acres. The company now has 94,000 net prospective acres in the Triple Crown area (Culberson County, TX and Eddy County, NM), 77,000 in Reeves County, TX, and 39,000 in Ward County, TX. This increased acreage position facilitates the drilling of long laterals (greater than 5,000 feet) which the company believes to be optimal in the development of this large asset.

As previously discussed, Cimarex is currently conducting four downspacing pilots consisting of two in Culberson County and two in Reeves County. Results are expected later this year.

### Mid-Continent Update

Mid-Continent production averaged 371.3 MMcfe per day for the first quarter of 2014, a three percent increase over the first quarter 2013 average of 360.6 MMcfe per day. Cana-Woodford represented 255.2 MMcfe per day of the first quarter 2014 total. During the first quarter Cimarex drilled and completed 39 gross (14 net) wells, most of which were in the Cana-Woodford shale play. All were completed as producers.

In the Cana field, Cimarex saw positive results from the testing of a new completion design and workover activities. Both contributed to higher than expected Cana field production for the quarter, which was up 13 percent sequentially. Going forward, Cimarex expects to use the new completion design on all of its Cana wells. At March 31, 37 gross (21 net) Cana-Woodford wells were awaiting completion.

### WELLS DRILLED AND COMPLETED BY REGION

For the Three Months Ended

March 31,

2014

2013

Gross wells

Permian Basin

34

35

Mid-Continent

39

52

Other

1

-

74

87

Net wells

Permian Basin

21

27

Mid-Continent

14

20

Other

1

-

36

47

% Gross wells completed as producers

99%

100%

The company's average daily production by commodity and region is summarized below:

For the Three Months Ended

March 31,

2014

2013

Gas (MMcf per day)

Permian Basin

102.5

82.8

Mid-Continent

243.8

236.2

Other

9.0

13.8

355.3

332.8

Oil (Bbls per day)

Permian Basin

31,624

25,832

Mid-Continent

6,057

6,291

Other

1,487

1,031

39,168

33,154

NGL (Bbls per day)

Permian Basin

9,124

6,239

Mid-Continent

15,196

14,443

Other

708

880

25,028

21,562

Total Equivalent (MMcfe per day)

Permian Basin

347.0

275.2

Mid-Continent

371.3

360.6

Other

22.1

25.3

740.4

661.1

## Other

The company's senior revolving credit facility was amended to extend the maturity to July 14, 2018, increase the borrowing base from \$2.25 billion to \$2.5 billion and reduce the applicable LIBOR margin from LIBOR plus 1.75%-2.5% to 1.50%-2.25%. Credit facility commitments remain unchanged at \$1 billion.

The following table summarizes the company's current open hedge positions:

### Oil Contracts

Weighted Ave. Price  
 Period  
 Type  
 Bbl/day  
 Index(3)  
 Floor  
 Ceiling  
 April 14 – Dec. 14  
 Collar  
 12,000  
 WTI  
 \$85.00  
 \$103.47

### Gas Contracts

Weighted Ave. Price  
 Period  
 Type  
 MMBTU/day  
 Index(3)  
 Floor  
 Ceiling  
 April 14 – Dec. 14  
 Collar  
 80,000  
 PEPL  
 \$3.51  
 \$4.57  
 April 14 – Dec. 14  
 Collar  
 60,000  
 PermEP  
 \$3.65  
 \$4.50

Cimarex accounts for commodity contracts using the mark-to-market (through income) accounting method. First quarter 2014 had \$4.8 million in cash payments on gas collars.

### Conference call and webcast

Cimarex will host a conference call tomorrow, May 7, at 11:00 a.m. Mountain Time (1:00 p.m. Eastern Time). The call will be webcast and accessible on the Cimarex website at [www.cimarex.com](http://www.cimarex.com). To participate in the live, interactive call, please dial 877-870-4263 five minutes before the scheduled start time (international callers dial 1-412-317-0790). A replay will be available for one week following the call by dialing 877-344-7529 (international callers dial 1-412-317-0088); conference I.D. 10042862. The replay will also be available on the company's website or via the Cimarex App.

### Investor Presentation

For more details on Cimarex's results, please refer to the company's investor presentation available at [www.cimarex.com](http://www.cimarex.com).

### About Cimarex Energy

Denver-based Cimarex Energy Co. is an independent oil and gas exploration and production company with principal operations in the Mid-Continent and Permian Basin areas of the U.S.

*This press release contains forward-looking statements, including statements regarding projected results and future events. In particular, the company is providing revised "2014 outlook", which contains projections for certain 2014 operational and financial metrics. These forward-looking statements are based on management's judgment as of the date of this press release and include certain risks and uncertainties. Please refer to the company's Annual Report on Form 10-K for the year ended December 31, 2013, filed with the SEC, and other filings including our Current Reports on Form 8-K and Quarterly Reports on Form 10-Q, for a list of certain risk factors that may affect these forward-looking statements.*

*Actual results may differ materially from company projections and other forward-looking statements and can be affected by a variety of factors outside the control of the company including, among other things: oil, NGL and natural gas price volatility; the ability to complete property sales or other transactions; the ability to receive drilling and other permits and rights-of-way in a timely manner; development drilling and testing results; the potential for production decline rates to be greater than expected; performance of acquired properties and newly drilled wells; costs and availability of third party facilities for gathering, processing, refining and transportation; regulatory approvals, including regulatory restrictions on federal lands; legislative or regulatory changes, including initiatives related to hydraulic fracturing; higher than expected costs and expenses, including the availability and cost of services and materials; unexpected future capital expenditures; economic and competitive conditions; the ability to obtain industry partners to jointly explore certain prospects, and the willingness and ability of those partners to meet capital obligations when requested; declines in the values of our oil and gas properties resulting in impairments; changes in estimates of proved reserves; compliance with environmental and other regulations; derivative and hedging activities; risks associated with operating in one major geographic area; the success of the company's risk management activities; title to properties; litigation; environmental liabilities; and other factors discussed in the company's reports filed with the SEC. Cimarex Energy Co. encourages readers to consider the risks and uncertainties associated with projections and other forward-looking statements. In addition, the company assumes no obligation to publicly revise or update any forward-looking statements based on future events or circumstances.*

(1)

Adjusted net income and adjusted cash flow from operations are non-GAAP financial measures. See the tables below for a reconciliation of the related amounts.

(2)

Reconciliation of debt to total capitalization, which is a non-GAAP measure, is: long-term debt of \$1,025 million divided by long-term debt of \$1,025 million plus stockholders' equity of \$4,148 million.

(3)

WTI refers to West Texas Intermediate oil price as quoted on the New York Mercantile Exchange. PEPL refers to Panhandle Eastern Pipe Line Tex/OK Mid-Continent index and PermEp is El Paso Permian Basin index both as quoted in Platt's Inside FERC.

## RECONCILIATION OF ADJUSTED NET INCOME

For the Three Months Ended

March 31,

2014

2013

(in thousands, net of tax, except per share data)

Net income

\$138,457

\$89,927

Mark-to-market loss of open derivative positions

6,886

1,463

Adjusted net income

\$145,343

\$91,390

Diluted earnings per share

\$1.59

\$1.04

Adjusted diluted earnings per share

\$1.67

\$1.06

Diluted shares attributable to common stockholders and participating securities

87,177  
86,555  
Estimated tax rates utilized  
37.1%  
37.2%

Adjusted net income and adjusted diluted earnings per share excludes the noted items because management believes these items affect the comparability of operating results. The company discloses these non-GAAP financial measures as a useful adjunct to GAAP earnings because:

- a) Management uses adjusted net income to evaluate the company's operational trends and performance relative to other oil and gas exploration and production companies.
- b) Adjusted net income is more comparable to earnings estimates provided by research analysts.

## **RECONCILIATION OF ADJUSTED CASH FLOW FROM OPERATIONS**

For the Three Months Ended  
March 31,  
2014  
2013  
(in thousands)  
Net cash provided by operating activities  
\$348,024  
\$247,078  
Change in operating assets and liabilities  
60,868  
45,343  
Adjusted cash flow from operations  
\$408,892  
\$292,421

Management believes that the non-GAAP measure of adjusted cash flow from operations is useful information for investors because it is used internally and is accepted by the investment community as a means of measuring the company's ability to fund its capital program, without fluctuations caused by changes in current assets and liabilities, which are included in the GAAP measure of cash flow from operating activities. It is also used by professional research analysts in providing investment recommendations pertaining to companies in the oil and gas exploration and production industry.

## **PRICE AND PRODUCTION DATA**

For the Three Months Ended  
March 31,  
2014  
2013  
Gas:  
Total production (MMcf)  
31,973  
29,952  
Daily production (MMcf)  
355  
333  
Price (per Mcf)  
\$5.32  
\$3.38  
Oil:  
Total production (Bbls)  
3,525,129  
2,983,838  
Daily production (Bbls)  
39,168  
33,154  
Price (per Bbl)  
\$92.22  
\$86.31

**NGLs:**

Total production (Bbls)

2,252,479

1,940,574

Daily production (Bbls)

25,028

21,562

Price (per Bbl)

\$39.94

\$29.31

**OIL AND GAS CAPITALIZED EXPENDITURES**

For the Three Months Ended

March 31,

2014

2013

(in thousands)

Acquisitions:

Proved

\$—

\$—

Unproved

—

250

—

250

Exploration and development:

Land and Seismic

65,325

31,310

Exploration and development

401,702

377,297

467,027

408,607

Sale proceeds:

Proved

—

(818)

Unproved

—

(81)

—

(899)

\$467,027

\$407,958

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(unaudited)**

For the Three Months Ended

March 31,

2014

2013

(in thousands, except per share data)

Revenues:

Gas sales

\$170,097

\$101,121

Oil sales

325,071

257,532

NGL sales

89,957

56,875  
 Gas gathering and other, net  
 14,091  
 10,828  
 599,216  
 426,356  
 Costs and expenses:  
 Depreciation, depletion, amortization and accretion  
 177,149  
 138,837  
 Production  
 75,141  
 69,386  
 Transportation, processing, and other operating  
 44,248  
 18,634  
 Gas gathering and other  
 8,784  
 6,156  
 Taxes other than income  
 33,621  
 25,128  
 General and administrative  
 20,712  
 15,577  
 Stock compensation  
 3,724  
 3,605  
 Loss on derivative instruments, net  
 15,735  
 1,603  
 Other operating, net  
 103  
 2,932  
 379,217  
 281,858  
 Operating income  
 219,999  
 144,498  
 Other (income) and expense:  
 Interest expense  
 13,044  
 12,186  
 Amortization of deferred financing costs  
 998  
 1,020  
 Capitalized interest  
 (7,290)  
 (9,195)  
 Other, net  
 (6,955)  
 (2,616)  
 Income before income tax  
 220,202  
 143,103  
 Income tax expense  
 81,745  
 53,176  
 Net income  
 \$138,457  
 \$89,927  
 Earnings per share to common stockholders:  
 Basic  
 \$1.59  
 \$1.04  
 Diluted  
 \$1.59



\$1.04  
 Dividends per share  
 \$0.16  
 \$0.14  
 Shares attributable to common stockholders:  
 Unrestricted common shares outstanding  
 85,443  
 84,920  
 Diluted common shares  
 85,579  
 85,016  
 Shares attributable to common stockholders and participating securities:  
 Basic shares outstanding  
 87,042  
 86,459  
 Fully diluted shares  
 87,177  
 86,555  
 Comprehensive income:  
 Net income  
 \$138,457  
 \$89,927  
 Other comprehensive income:  
 Change in fair value of investments, net of tax  
 40  
 80  
 Total comprehensive income  
 \$138,497  
 \$90,007

#### **CONDENSED CONSOLIDATED CASH FLOW STATEMENTS (unaudited)**

For the Three Months Ended  
 March 31,  
 2014  
 2013  
 (in thousands)  
 Cash flows from operating activities:  
 Net income  
 \$138,457  
 \$89,927  
 Adjustment to reconcile net income to net cash  
 provided by operating activities:  
 Depreciation, depletion, amortization and accretion  
 177,149  
 138,837  
 Deferred income taxes  
 81,745  
 53,176  
 Stock compensation  
 3,724  
 3,605  
 Loss on derivative instruments  
 15,735  
 1,603  
 Settlements on derivative instruments  
 (4,787)  
 726  
 Changes in non-current assets and liabilities  
 (4,207)  
 3,374  
 Amortization of deferred financing costs  
 and other, net  
 1,076  
 1,173  
 Changes in operating assets and liabilities:

Receivables, net  
 (35,529)  
 (30,576)  
 Other current assets  
 (16,772)  
 9,143  
 Accounts payable and accrued liabilities  
 (8,567)  
 (23,910)  
 Net cash provided by operating activities  
 348,024  
 247,078  
 Cash flows from investing activities:  
 Oil and gas expenditures  
 (420,040)  
 (390,669)  
 Sales of oil and gas assets and other assets  
 104  
 975  
 Other expenditures  
 (19,854)  
 (19,523)  
 Net cash used by investing activities  
 (439,790)  
 (409,217)  
 Cash flows from financing activities:  
 Net bank debt borrowings  
 101,000  
 120,000  
 Dividends paid  
 (12,143)  
 (10,356)  
 Issuance of common stock and other  
 2,908  
 1,489  
 Net cash provided by financing activities  
 91,765  
 111,133  
 Net change in cash and cash equivalents  
 (1)  
 (51,006)  
 Cash and cash equivalents at beginning of period  
 4,531  
 69,538  
 Cash and cash equivalents at end of period  
 \$4,530  
 \$18,532

#### **CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

March 31,  
 December 31,  
 2014  
 2013  
 Assets  
 (in thousands, except share data)  
 Current assets:  
 Cash and cash equivalents  
 \$4,530  
 \$4,531  
 Restricted cash  
 818  
 818  
 Receivables, net  
 403,283  
 367,754

Oil and gas well equipment and supplies	
84,339	
66,772	
Deferred income taxes	
14,358	
16,854	
Derivative instruments	
3	
4,268	
Other current assets	
7,347	
8,142	
Total current assets	
514,678	
469,139	
Oil and gas properties at cost, using the full cost method of accounting:	
Proved properties	
13,212,174	
12,863,961	
Unproved properties and properties under development,	
not being amortized	
713,195	
585,361	
13,925,369	
13,449,322	
Less – accumulated depreciation, depletion and amortization	
(7,650,755)	
(7,483,685)	
Net oil and gas properties	
6,274,614	
5,965,637	
Fixed assets, net	
159,824	
146,918	
Goodwill	
620,232	
620,232	
Other assets, net	
49,287	
51,209	
\$7,618,635	
\$7,253,135	
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	
\$140,720	
\$116,110	
Accrued liabilities	
411,352	
412,495	
Derivative instruments	
7,072	
389	
Revenue payable	
169,842	
154,173	
Total current liabilities	
728,986	
683,167	
Long-term debt	
1,025,000	
924,000	
Deferred income taxes	
1,539,114	
1,459,841	
Other liabilities	
177,798	

163,919  
Total liabilities  
3,470,898  
3,230,927  
Commitments and contingencies  
Stockholders' equity:  
Preferred stock, \$0.01 par value, 15,000,000 shares  
authorized, no shares issued  
—  
—  
Common stock, \$0.01 par value, 200,000,000 shares authorized,  
87,033,110 and 87,152,197 shares issued, respectively  
870  
872  
Paid-in capital  
1,970,946  
1,970,113  
Retained earnings  
2,174,692  
2,050,034  
Accumulated other comprehensive income  
1,229  
1,189  
4,147,737  
4,022,208  
\$7,618,635  
\$7,253,135

## Contact

[Cimarex Energy Co.](http://www.cimarex.com)  
[www.cimarex.com](http://www.cimarex.com)

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