

Jones Energy, Inc. Announces 2018 Second Quarter Financial and Operating Results

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AUSTIN, Aug. 06, 2018 - [Jones Energy Inc.](#) (NYSE:JONE) (“Jones Energy” or “the Company”) today announced financial and operating results for the second quarter ended June 30, 2018 as well as initial production guidance for the third quarter of 2018.

Highlights:

- The Company has proactively initiated discussions with its unsecured noteholders. The aim of these liability management discussions is to achieve increased financial flexibility to optimize the value of Jones Energy’s core Merge and Western Anadarko Basin (“WAB”) assets for the benefit of all stakeholders.
- Jones Energy remains active in its evaluation of strategic alternatives as well as its pursuit of a DrillCo with an exclusive joint development partner in order to accelerate drilling and value creation.
- 2018 Merge wells brought online showing average peak IP30 of 183 boe/d per 1,000’ of lateral in the Meramec and 120 Boe/d per 1,000’ of lateral in the Woodford (3-stream).
- Net loss for the second quarter of 2018 of \$46.9 million, or a net loss of \$0.47 per share, non-GAAP adjusted net loss of \$28.7 million, or an adjusted net loss of \$0.29 per share, and EBITDAX of \$29.7 million.¹

Operational and Strategic Direction Update

On July 23, 2018, the Company named Carl Giesler as Chief Executive Officer. Mr. Giesler commented, “Thank you to our Board of Directors and the entire Jones Energy team for the warm welcome and, more importantly, the renewed energy, commitment, and focus.”

Mr. Giesler continued, “From an operating perspective, production remained strong through the second quarter of 2018. The Merge program now represents 41% of total company production, as compared to 8% this time last year. Additionally, our 2018 Merge HBP-focused drilling remains on-schedule to be completed in November. As part of ongoing operational improvements, we are tightening our landing-point selection and focusing on staying in zone. We are also enhancing casing and completion designs, refining flowback methodology and lifting techniques to minimize risk and optimize well results. We believe our contiguous position of 22,500 net acres with more than 500 identified operated drilling locations in the Merge will improve in value as we and other area operators test spacing and further refine completions and other processes.

“In the WAB, we have had consistently strong results in our core Cleveland drilling since improving our completions and flowback protocols in a cost-neutral manner late last year. Additionally, we are seeing early flowback from our first Marmaton well and other recent results from the Cleveland that highlight potential upside in the WAB. We continue to identify operated producing well-bores for lower-risk, low-capex, high-return, quick-payback work-over opportunities as well as shutting-in wells that have become uneconomic. We believe there exists significant value, which is sometimes overlooked, in our Western Anadarko asset as part of the greater Jones Energy portfolio.

“From a strategic perspective, we believe our cash position provides us a multi-year runway to drive value through executing on our core Merge and WAB assets. To extend that runway, management and the Board of Directors are focused on various initiatives to reduce our debt and increase our financial flexibility. We have taken several key steps in recent weeks and look forward to providing you additional updates as the DrillCo and other objectives are achieved.

“No doubt, we have a lot of work to do. Fortunately, we believe the quality of our people, the strength

of our asset base and the improving commodity price environment will allow us to achieve our goals.”

Financial Results

Total operating revenues for the three months ended June 30, 2018 were \$65.3 million as compared to \$48.6 million for the three months ended June 30, 2017. Total revenues, including current period settlements of matured derivative contracts, were \$52.7 million for the three months ended June 30, 2018 as compared to \$66.5 million for the three months ended June 30, 2017.

Total operating expenses for the three months ended June 30, 2018 were \$70.1 million as compared to \$73.2 million for the three months ended June 30, 2017, excluding a one-time impairment charge of \$148 million related to the Company’s sale of its Arkoma Basin properties. Lease Operating Expenses (“LOE”) for the three months ended June 30, 2018 totaled \$11.6 million, or \$5.10 per Boe, which is in line with the first quarter 2018 LOE which averaged \$5.12 per Boe.

For the three months ended June 30, 2018, the Company reported a net loss of \$46.9 million, of which a net loss of \$43.5 million, or \$0.47 per share, is attributable to common shareholders. This compares to a net loss of \$134.0 million, of which a net loss of \$84.2 million, or \$1.28 per share, was attributable to common shareholders, for the three months ended June 30, 2017. Excluding, on a tax-adjusted basis, certain items that the Company does not view as indicative of its ongoing financial performance, the Company had adjusted net loss for the second quarter 2018 of \$28.7 million, or adjusted net loss attributable to common shareholders of \$0.29 per share, as compared to adjusted net income of \$4.7 million, or net income of \$0.10 per share for the three months ended June 30, 2017.

Earnings before interest, income taxes, depreciation, amortization, and exploration expense (“EBITDAX”) for the second quarter 2018 was \$29.7 million. EBITDAX for the second quarter 2018 was negatively impacted by \$12.5 million of hedging related losses. This compares to second quarter 2017 EBITDAX of \$48.3 million.

Preferred Dividend Update

During the second quarter, the Company’s Board of Directors declared a contingent dividend on the Company’s 8.0% Series A Perpetual Convertible Preferred Stock (“Preferred Stock”), payable in Class A common stock on May 15, 2018 to holders of record as of May 1, 2018. It was announced on May 15, 2018 that the Dividend Valuation Price did not meet the required Floor Price², and the dividend was not paid. The right to receive that dividend accrued for holders of Preferred Stock. As a reminder, the Company has exercised one of its five dividend holidays available to it without penalty.

Following the end of the 2018 second quarter, on July 17, 2018 the Company’s Board of Directors declared a contingent dividend on the Preferred Stock, payable in Class A common stock on August 15, 2018 to holders of record as of August 1, 2018 under the same terms, including the requirement that the Dividend Valuation Price of the stock must meet the required Floor Price in order to be paid. If the dividend is not paid, the right to receive the dividend will again accrue for holders of Preferred Stock and the Company will have exercised its second dividend holiday.

Operating Results

For the three months ended June 30, 2018, Jones Energy produced 2,272 MBoe, or 24,967 Boe/d, of which production from the Merge accounted for 41%. The table below provides a breakout of 2018 second quarter production.

Three months ended June 30, 2018:						
	Oil (MBbls)	Natural Gas (MMcf)	NGLs (MBbls)	Total (MBoe)	% of Total	
Cleveland	339	3,048	383	1,230	54	%
Merge	291	2,309	261	937	41	%

Other	8	404	30	105	5	%
Total	638	5,761	674	2,272	100	%

Merge

During the second quarter, the Company spud three wells and completed seven wells in the Merge. Of the wells completed and brought online, three were landed in the Meramec and four were in the Woodford. Merge production for the second quarter 2018 of 10.3 MBoe/d represents an increase of 51% over first quarter 2018 production of 6.8 Mboe/d. The Merge now represents 41% of total Company production.

Merge wells continue to show solid performance in the Company's designated development areas of El Reno, Minco and Tuttle across Canadian and Grady Counties, OK. The average of wells drilled in the 2018 program in these areas have seen peak IP30 (3-stream) rates of 183 Boe/d per 1,000' of lateral in the Meramec and 120 Boe/d per 1,000' of lateral in the Woodford. Jones Energy continues to improve its operational performance by focusing on optimizing landing points, geo-steering and completion designs. Specifically, teams are fully integrating 3D seismic into their landing point selection and maximizing time in the most productive target interval as defined by proprietary data from our 40 operated wells in the Merge. Further, the Company has identified that certain casing designs, completion methods, flowback techniques and lift protocols correlate to improved performance. Regarding current completion designs, the Company has increased its stage count in the Meramec and improved cluster efficiency in both plays through limited entry perforating and effective fluid diversion. Jones Energy will continue to optimize all aspects of its early development efforts.

Jones Energy continues to progress its 2018 Merge HBP program and has one rig running on its Merge acreage. As of August 6, 2018, the Company has drilled 32 of its 38 operated sections and remains on-track to complete its HBP Merge program in November.

Western Anadarko Basin

Average daily net production was 13.5 MBoe/d in the WAB for the second quarter of 2018. During the quarter, the Company spud two wells and completed one well in the Western Anadarko. Of the two wells spud, one well was a Cleveland target and one well was an exploration Marmaton target. The single well completed and brought online during the quarter was a Cleveland well. The Marmaton target was completed in July and is in early stages of flowback. This Marmaton well represents the Company's first operated well in that play, and if successful, could unlock additional upside for the WAB asset.

Jones Energy is enhancing base production on its 534 operated wells in the WAB employing industry best-practices to improve lifting efficiency. Examples include a targeted re-frac program, application of emerging artificial lift solutions, and field-wide telemetry installations. The Company believes this ongoing well-level focus serves to maximize production from existing wellbores in a known proven reservoir.

Jones Energy currently has one rig active in the WAB.

Capital Expenditures

During the second quarter 2018, the Company spent \$47.1 million of capital expenditures, of which \$39.2 million was related to operated drilling and completion ("D&C") capital and \$5.5 million was related to D&C spending on non-operated wells. 90% of all D&C capital was related to Merge activity. The remaining \$2.4 million of capital spend was related to leasing and maintenance. Year-to-date capital expenditures for the Company total \$110.5 million.

Initial 2018 Third Quarter Production Guidance

Jones Energy is announcing initial production guidance of 1.8 to 2.0 MMBoe, or 19,500 to 21,700 Boe/d, for the 2018 third quarter. Full-year production and cost guidance remain suspended and subject to the Company's ongoing review of its financial and operating plans. The following table provides a

breakout of initial 2018 third quarter production guidance.

3Q 2018 Production Guidance	3Q18E
Total Production (MMBoe)	1.8 – 2.0
Average Daily Production (MBoe/d)	19.5 – 21.7
Crude Oil (MBbl/d)	5.6 – 6.2
Natural Gas (MMcf/d)	48.3 – 53.7
NGLs (MBbl/d)	5.9 – 6.5

Liquidity and Hedging

During the second quarter of 2018, the Company used \$25 million of cash to pay down its revolver balance and had no outstanding borrowings as of June 30, 2018 under that facility. Jones Energy also amended the terms of its credit facility, removing all financial maintenance covenants and aligning other covenants to those contained in the Company's 9.25% senior secured first lien notes and reducing the borrowing base to twenty-five dollars. As of June 30, 2018, the Company had approximately \$148 million in cash and as of August 2, 2018 had approximately \$129 million of cash. The following table summarizes the Company's net commodity derivative contracts outstanding as of August 6, 2018:

	3Q18	4Q18	2019	2020
Oil Hedges				
Swaps Sold (MBbl)	630	620	1,020	660
Price (\$/Bbl)	\$ 50.94	\$ 50.92	\$ 50.04	\$ 50.00
Collars (MBbl)	-	-	810	-
Floor (\$/Bbl)	-	-	\$ 48.52	-
Ceiling (\$/Bbl)	-	-	\$ 59.64	-
Gas Hedges				
Swaps Sold (MMcf)	4,800	4,800	7,260	8,400
Price (\$/Mcf)	\$ 2.98	\$ 2.97	\$ 2.84	\$ 2.79
Collars (MMcf)	-	-	11,890	-
Floor (\$/Mcf)	-	-	\$ 2.55	-
Ceiling (\$/Mcf)	-	-	\$ 3.19	-
NGL Swaps (MBbl)				
Ethane	-	-	-	-
Propane	205	195	-	-
Iso Butane	30	30	-	-
Butane	80	75	-	-
Natural Gasoline	90	90	-	-
Total NGLs	405	390	-	-
NGL Swap Prices (\$/Gal)				
Ethane	-	-	-	-
Propane	\$ 0.57	\$ 0.57	-	-
Iso Butane	0.72	0.72	-	-
Butane	0.69	0.69	-	-
Natural Gasoline	1.05	1.05	-	-

Jones Energy will not hold a conference call in conjunction with its second quarter 2018 earnings release and expects to file its 10-Q with the SEC on Wednesday, August 8, 2018.

About Jones Energy

[Jones Energy Inc.](#) is an independent oil and natural gas company engaged in the exploration, development and acquisition of oil and natural gas properties in the Anadarko basin of Oklahoma and Texas. Additional

information about Jones Energy may be found on the Company's website at: www.jonesenergy.com.

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¹Adjusted net income, adjusted net income per share and EBITDAX are supplemental non-GAAP financial measures that are used by management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies. For additional information, including reconciliations to the most comparable GAAP financial measures, please see "Non-GAAP Financial Measures and Reconciliations" below.

²As defined in the Certificate of Designations for the Preferred Stock and as adjusted in accordance with the terms of the Certificate of Designations.

Forward-Looking Statements

This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this press release that address activities, events or developments that the Company expects, believes or anticipates will or may occur in the future are forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements contained in this press release specifically include the expectations of plans, strategies, objectives and anticipated financial and operating results of the Company, updated guidance regarding the number of rigs that will be running in 2018, the timing and location of the development of the Merge, expectations regarding our liability management program and potential strategic transactions, including the proposed DrillCo, levels of single-well authorizations for expenditures and the cost to drill and complete wells and the resultant impact on the 2018 capital budget, and projections regarding total production, average daily production, percentage liquids, operating expenses, production and ad valorem taxes as a percentage of revenue, cash G&A expenses and capital expenditure levels for the full year and third quarter of 2018. These statements are based on certain assumptions made by the Company based on management's experience and perception of historical trends, current economic and market conditions, anticipated future developments and other factors believed to be appropriate. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond the control of the Company, which may cause actual results to differ materially from those implied or expressed by the forward-looking statements. These include, but are not limited to, changes in oil and natural gas prices, weather and environmental conditions, the timing and amount of planned capital expenditures, availability and method of funding of acquisitions and divestitures, or the ability to integrate any acquisitions, uncertainties in estimating proved reserves and forecasting production results, operational factors affecting the commencement or maintenance of producing wells, the condition of the capital markets generally, as well as the Company's ability to access them, the proximity to and capacity of transportation facilities, and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting the Company's business and other important factors that could cause actual results to differ materially from those projected as described in the Company's reports filed with the SEC.

Any forward-looking statement speaks only as of the date on which such statement is made and the Company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Jones Energy, Inc.
Consolidated Statement of Operations (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars except per share data)	2018	2017	2018	2017
Operating revenues				
Oil and gas sales	\$ 64,748	\$ 48,114	\$ 122,886	\$ 88,799
Other revenues	507	512	(142)	1,068
Total operating revenues	65,255	48,626	122,744	89,857
Operating costs and expenses				
Lease operating	11,592	9,425	21,821	18,233
Production and ad valorem taxes	3,284	2,790	6,035	1,884
Transportation and processing costs	885	—	1,591	—
Exploration	1,528	6,725	4,827	9,669
Depletion, depreciation and amortization	44,729	45,336	86,170	80,999
Impairment of oil and gas properties	—	148,016	—	148,016
Accretion of ARO liability	264	266	515	467
General and administrative	7,896	8,633	15,466	16,677
Total operating expenses	70,178	221,191	136,425	275,999
Operating income (loss)	(4,923)	(172,565)	(13,681)	(186,142)
Other income (expense)				
Interest expense	(23,055)	(12,677)	(44,917)	(25,500)
Net gain (loss) on commodity derivatives	(30,145)	21,527	(39,167)	43,844
Other income (expense)	5,774	27,501	13,504	28,080
Other income (expense), net	(47,426)	36,351	(70,580)	46,364
Income (loss) before income tax	(52,349)	(136,214)	(84,261)	(139,354)
Income tax provision (benefit)	(5,418)	(2,236)	(8,410)	(2,211)
Net income (loss)	(46,931)	(133,978)	(75,851)	(137,565)
Net income (loss) attributable to non-controlling interests	(5,416)	(51,762)	(8,975)	(53,800)
Net income (loss) attributable to controlling interests	\$ (41,515)	\$ (82,216)	\$ (66,876)	\$ (83,765)
Dividends and accretion on preferred stock	(1,963)	(1,966)	(3,931)	(3,990)
Net income (loss) attributable to common shareholders	\$ (43,478)	\$ (84,182)	\$ (70,807)	\$ (87,755)
Earnings (loss) per share:				
Basic - Net income (loss) attributable to common shareholders	\$ (0.47)	\$ (1.28)	\$ (0.77)	\$ (1.37)
Diluted - Net income (loss) attributable to common shareholders	\$ (0.47)	\$ (1.28)	\$ (0.77)	\$ (1.37)
Weighted average Class A shares outstanding:				
Basic	93,429	65,681	92,253	63,940
Diluted	93,429	65,681	92,253	63,940

Jones Energy, Inc.
Consolidated Balance Sheet (Unaudited)

(in thousands of dollars)	June 30, 2018
Assets	
Current assets	
Cash and cash equivalents	\$ 148,070
Accounts receivable, net	
Oil and gas sales	39,990
Joint interest owners	34,789
Other	1,167
Commodity derivative assets	723

Other current assets	7,070
Total current assets	231,809
Oil and gas properties, net, at cost under the successful efforts method	1,620,08
Other property, plant and equipment, net	2,243
Commodity derivative assets	1,371
Other assets	993
Total assets	\$ 1,856,49
Liabilities and Stockholders' Equity	
Current liabilities	
Trade accounts payable	\$ 43,725
Oil and gas sales payable	39,930
Accrued liabilities	46,199
Commodity derivative liabilities	46,686
Other current liabilities	3,863
Total current liabilities	180,403
Long-term debt	978,727
Deferred revenue	4,675
Commodity derivative liabilities	14,949
Asset retirement obligations	20,146
Liability under tax receivable agreement	50,529
Other liabilities	874
Deferred tax liabilities	9,732
Total liabilities	1,260,03
Commitments and contingencies (Note 15)	
Mezzanine equity	
Series A preferred stock, \$0.001 par value; 1,837,995 shares issued and outstanding at June 30, 2018 and 1,839,995 shares issued and outstanding at December 31, 2017	91,534
Stockholders' equity	
Class A common stock, \$0.001 par value; 93,799,481 shares issued and 93,776,879 shares outstanding at June 30, 2018 and 90,139,840 shares issued and 90,117,238 shares outstanding at December 31, 2017	94
Class B common stock, \$0.001 par value; 9,074,330 shares issued and outstanding at June 30, 2018 and 9,627,821 shares issued and outstanding at December 31, 2017	9
Treasury stock, at cost: 22,602 shares at June 30, 2018 and December 31, 2017	(358
Additional paid-in-capital	611,242
Retained (deficit) / earnings	(207,081
Stockholders' equity	403,906
Non-controlling interest	101,024
Total stockholders' equity	504,930
Total liabilities and stockholders' equity	\$ 1,856,49

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Selected Financial and Operating Statistics

The following table sets forth summary data regarding revenues, production volumes, average prices and average production costs associated with our sale of oil and natural gas for the periods indicated:

	Three Months Ended June 30,		
	2018	2017	Change
Revenues (in thousands of dollars):			
Oil and gas sales	\$ 64,748	\$ 48,114	\$ 16,634
Other revenues	507	512	(5)
Current period settlements of matured derivative contracts	(12,537)	17,921	(30,458)

Total operating revenues	\$ 52,718	\$ 66,547	\$ (13,829)
Net production volumes:			
Oil (MBbls)	638	525	113
Natural gas (MMcf)	5,761	5,836	(75)
NGLs (MBbls)	674	668	6
Total (MBoe)	2,272	2,166	107
Average net (Boe/d)	24,967	23,802	1,165
Average sales price, unhedged:			
Oil (per Bbl), unhedged	\$ 65.73	\$ 44.40	\$ 21.33
Natural gas (per Mcf), unhedged	1.22	2.19	(0.97)
NGLs (per Bbl), unhedged	23.40	18.02	5.38
Combined (per Boe), unhedged	28.50	22.21	6.29
Average sales price, hedged:			
Oil (per Bbl), hedged	\$ 49.77	\$ 61.30	\$ (11.53)
Natural gas (per Mcf), hedged	1.45	4.04	(2.59)
NGLs (per Bbl), hedged	17.93	15.36	2.57
Combined (per Boe), hedged	22.98	30.49	(7.51)
Average costs (per BOE):			
Lease operating	\$ 5.10	\$ 4.35	\$ 0.75
Production and ad valorem taxes	1.45	1.29	0.16
Depletion, depreciation and amortization	19.69	20.93	(1.24)
General and administrative	3.48	3.99	(0.51)

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Consolidated Statement of Cash Flow Data (Unaudited)

	Six months ended June 30,	
	2018	2017
<i>(in thousands of dollars)</i>		
Cash flows from operating activities		
Net income (loss)	\$ (75,851)	\$ (137,493)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depletion, depreciation, and amortization	86,170	80,990
Exploration (dry hole and lease abandonment)	907	6,880
Impairment of oil and gas properties	—	148,016
Accretion of ARO liability	515	467
Amortization of debt issuance costs	7,261	1,953
Stock compensation expense	974	3,736
Deferred and other non-cash compensation expense	84	180
Amortization of deferred revenue	(782)	(942)
(Gain) loss on commodity derivatives	39,167	(43,847)
(Gain) loss on sales of assets	(1,945)	119
Deferred income tax provision	(8,410)	6
Change in liability under tax receivable agreement	(9,081)	(28,266)
Other - net	376	1,307
Changes in operating assets and liabilities		
Accounts receivable	(9,246)	(4,188)
Other assets	7,574	(12,407)
Accrued interest expense	15,583	(1,301)
Accounts payable and accrued liabilities	(6,484)	6,268
Net cash provided by operations	46,812	21,478
Cash flows from investing activities		

Additions to oil and gas properties	(114,832)	(107,250)
Net adjustments to purchase price of properties acquired	—	2,391
Proceeds from sales of assets	6,566	2,730
Acquisition of other property, plant and equipment	(71)	(436)
Current period settlements of matured derivative contracts	(25,655)	45,738
Net cash (used in) investing	(133,992)	(56,827)
Cash flows from financing activities		
Proceeds from issuance of long-term debt	20,000	75,000
Repayment of long-term debt	(231,000)	(72,000)
Proceeds from senior notes	438,867	—
Payment of debt issuance costs	(11,537)	—
Payment of cash dividends on preferred stock	(97)	(3,367)
Net distributions paid to JEH unitholders	—	(562)
Net payments for share based compensation	(455)	(462)
Proceeds from sale of common stock	—	8,352
Net cash provided by / (used in) financing	215,778	6,961
Net increase (decrease) in cash and cash equivalents	128,598	(28,388)
Cash and cash equivalents		
Beginning of period	19,472	34,642
End of period	\$ 148,070	\$ 6,254
Supplemental disclosure of cash flow information		
Cash paid for interest, net of capitalized interest	\$ 23,055	\$ 24,064
Change in accrued additions to oil and gas properties	(1,425)	13,155
Asset retirement obligations incurred, including changes in estimate	280	395

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Non-GAAP Financial Measures and Reconciliations

EBITDAX is a supplemental non-GAAP financial measure that is used by management and external users of our consolidated financial statements, such as industry analysts, investors, lenders and rating agencies.

We define EBITDAX as earnings before interest expense, income taxes, depreciation, depletion and amortization, exploration expense, gains and losses from derivatives less the current period settlements of matured derivative contracts, and the other items described below. EBITDAX is not a measure of net income as determined by United States generally accepted accounting principles, or GAAP. Management believes EBITDAX is useful because it allows them to more effectively evaluate our operating performance and compare the results of our operations from period to period and against our peers without regard to our financing methods or capital structure. We exclude the items listed above from net income in arriving at EBITDAX because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures and the method by which the assets were acquired. EBITDAX has limitations as an analytical tool and should not be considered as an alternative to, or more meaningful than, net income as determined in accordance with GAAP or as an indicator of our liquidity. Certain items excluded from EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historical costs of depreciable assets. Our presentation of EBITDAX should not be construed as an inference that our results will be unaffected by unusual or non-recurring items and should not be viewed as a substitute for GAAP. Our computations of EBITDAX may not be comparable to other similarly titled measures of other companies.

The following table sets forth a reconciliation of net income (loss) as determined in accordance with GAAP to EBITDAX for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands of dollars)	2018	2017	2018	2017

Reconciliation of net income to EBITDAX

Net income (loss)	\$ (46,931)	\$ (133,978)	\$ (75,851)	\$ (137,493)
Interest expense	23,055	12,677	44,917	25,564
Exploration expense	1,528	6,725	4,827	9,669
Income taxes	(5,418)	(2,236)	(8,410)	(2,215)
Depreciation and depletion	44,729	45,336	86,170	80,990
Impairment of oil and natural gas properties	—	148,016	—	148,016
Accretion of ARO liability	264	266	515	467
Change in TRA liability	(5,599)	(27,598)	(9,081)	(28,266)
Other non-cash charges	25	1,266	376	1,307
Stock compensation expense	(356)	1,764	974	3,736
Deferred and other non-cash compensation expense	7	44	84	180
Net (gain) loss on derivative contracts	30,145	(21,527)	39,167	(43,847)
Current period settlements of matured derivative contracts	(12,537)	17,921	(21,477)	44,253
Amortization of deferred revenue	(408)	(484)	(782)	(942)
(Gain) loss on sale of assets	1,179	55	(1,945)	119
Financing expenses and other loan fees	34	24	59	48
EBITDAX	\$ 29,717	\$ 48,271	\$ 59,543	\$ 101,586

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Non-GAAP Financial Measures and Reconciliations

Adjusted Net Income is a supplemental non-GAAP financial measure that is used by management and external users of the Company's consolidated financial statements. We define Adjusted Net Income as net income excluding the impact of certain non-cash items including gains or losses on commodity derivative instruments not yet settled, impairment of oil and gas properties, non-cash compensation expense, and the other items described below. We believe adjusted net income and adjusted earnings per share are useful to investors because they provide readers with a more meaningful measure of our profitability before recording certain items for which the timing or amount cannot be reasonably determined. However, these measures are provided in addition to, not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP. The following table provides a reconciliation of net income (loss) as determined in accordance with GAAP to adjusted net income for the periods indicated:

<i>(in thousands except per share data)</i>	Three Months Ended June 30,	
	2018	2017
Net income (loss)	\$ (46,931)	\$ (133,978)
Net (gain) loss on derivative contracts	30,145	(21,527)
Current period settlements of matured derivative contracts	(12,537)	17,921
Impairment of oil and gas properties	—	148,016
Exploration	1,528	6,725
Non-cash stock compensation expense	(356)	1,764
Deferred and other non-cash compensation expense	7	44
Financing expenses	638	—
Tax impact of adjusting items (1)	(3,645)	(31,247)
Change in TRA liability	(5,599)	(27,598)
Change in valuation allowance	8,067	44,577
Adjusted net income (loss)	(28,683)	4,697
Adjusted net income (loss) attributable to non-controlling interests	(3,659)	(3,991)
Adjusted net income (loss) attributable to controlling interests	(25,024)	8,688
Dividends and accretion on preferred stock	(1,963)	(1,966)
Adjusted net income (loss) attributable to common shareholders	\$ (26,987)	\$ 6,722

Weighted average Class A shares outstanding:

Basic	93,429	65,681
Diluted	93,429	65,681
Adjusted earnings per share (basic and diluted)	\$ (0.29	) \$ 0.10

[Jones Energy Inc.](#)

Non-GAAP Financial Measures and Reconciliations

Adjusted Earnings per Share is a supplemental non-GAAP financial measure that is used by management and external users of the Company's consolidated financial statements. We define Adjusted Earnings per Share as earnings per share plus that portion of the components of adjusted net income allocated to the controlling interests divided by weighted average shares outstanding. We believe adjusted earnings per share is useful to investors because it provides readers with a more meaningful measure of our profitability before recording certain items for which the timing or amount cannot be reasonably determined. However, these measures are provided in addition to, not as an alternative for, and should be read in conjunction with, the information contained in our financial statements prepared in accordance with GAAP. The following table provides a reconciliation of earnings per share to adjusted earnings per share for the period indicated:

	Three Months Ended June 30,			
	2018		2017	
Earnings per share (basic and diluted):	\$ (0.47	)	\$ (1.28	)
Net (gain) loss on derivative contracts	0.29		(0.23	)
Current period settlements of matured derivative contracts	(0.12	)	0.19	
Impairment of oil and gas properties	—		1.55	
Exploration	0.01		0.07	
Non-cash stock compensation expense	—		0.02	
Deferred and other non-cash compensation expense	—		—	
Financing expenses	0.01		—	
Tax impact of adjusting items (1)	(0.04	)	(0.48	)
Change in TRA liability	(0.06	)	(0.42	)
Change in valuation allowance	0.09		0.68	
Adjusted earnings per share (basic and diluted)	\$ (0.29	)	\$ 0.10	
Weighted average Class A shares outstanding:				
Basic	93,429		65,681	
Diluted	93,429		65,681	
Effective tax rate on net income (loss) attributable to controlling interests	21.3	%	40.3	%

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