

MACK CALI REALTY CORP
 Form 4
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FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549**

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
GANTCHER NATHAN

2. Issuer Name and Ticker or Trading Symbol
MACK CALI REALTY CORP [CLI]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
 10/05/2010

Director 10% Owner
 Officer (give title below) Other (specify below)

C/O MACK-CALI REALTY CORPORATION, 343 THORNALL STREET

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

EDISON, NJ 08837

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)		
				(A) or (D)	Code	V	Amount	(D)	Price

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

Subsequent to March 31, 2015 through May 11, 2015, Sabine has not entered into additional derivative contracts.

The table below presents the Company's "Gain (loss) on derivative instruments" located in Other income (expenses) in the Condensed Consolidated Statements of Operations:

	For the Three Months Ended March 31,	
	2015	2014
Gain (loss) on derivative instruments	\$ 36,124	\$ (22,126)

Sabine received \$46.0 million and paid \$7.3 million on settlements of derivatives in three months ended March 31, 2015 and 2014, respectively.

Sabine's derivative contracts are executed with counterparties under certain master netting agreements that allow the Company to offset assets due from, and liabilities due to, the counterparties. The table below presents the carrying value

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of Sabine's derivative assets and liabilities both before and after the impact of such netting agreements in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014:

		Derivative Assets	
		March 31, 2015	December 31, 2014
		(in thousands)	
		Fair Value	
Current assets	Derivative Instruments	\$ 168,289	\$ 191,765
Current liabilities (1)	Derivative Instruments	—	—
Total current asset fair value		\$ 168,289	191,765
Other assets	Derivative Instruments	9,612	—
Long-term liabilities (1)	Derivative Instruments	—	—
Total long-term asset fair value		9,612	—
Less: Counterparty set-off		(30,709)	(31,548)
Total derivative asset net fair value		\$ 147,192	\$ 160,217
		Derivative Liabilities	
		March 31, 2015	December 31, 2014
		(in thousands)	
		Fair Value	
Current liabilities	Derivative Instruments	\$ (3,500)	\$ (4,645)
Current assets (1)	Derivative Instruments	(29,291)	(31,548)
Total current liability fair value		(32,791)	(36,193)
Long-term liabilities	Derivative Instruments	(248)	(2,269)
Other assets (1)	Derivative Instruments	(1,418)	—
Total long-term liability fair value		(1,666)	(2,269)
Less: Counterparty set-off		30,709	31,548
Total derivative liability net fair value		\$ (3,748)	\$ (6,914)

(1) Impact of counterparty right of set-off for derivative instruments subject to certain master netting agreements. At March 31, 2015, and December 31, 2014, none of the Company's outstanding derivatives contained credit-risk related contingent features that would result in a material adverse impact to Sabine upon any change in the Company's credit ratings.

13. Fair Value Measurements

Explanation of Responses:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. The Company classifies fair value balances based on the observability of those inputs.

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The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement).

The three levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives, marketable securities and listed equities.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reported date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category generally include non-exchange-traded derivatives such as commodity swaps, basis swaps, options, and collars.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value.

The following table sets forth, by level, within the fair value hierarchy, the Company's financial assets and liabilities that were accounted for at fair value as of March 31, 2015 and December 31, 2014. Financial assets and liabilities are classified in their entirety 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 fair value assets and liabilities and their placement within the fair value hierarchy levels.

	Recurring Fair Value Measurements (in millions)			
	Level		Level	Total
	1	Level 2	3	
As of March 31, 2015				
Derivative Assets	\$ —	\$ 177.9	\$ —	\$ 177.9
Derivative Liabilities	—	(34.5)	—	(34.5)
Total	\$ —	\$ 143.4	\$ —	\$ 143.4

	Recurring Fair Value Measurements (in millions)			
	Level 1	Level 2	Level 3	Total
	As of December 31, 2014			

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Derivative Assets	\$ —	\$ 191.8	\$ —	\$ 191.8
Derivative Liabilities	—	(38.5)	—	(38.5)
Total	\$ —	\$ 153.3	\$ —	\$ 153.3

The observable data includes the forward curve for commodity prices and interest rates based on quoted markets prices and prospective volatility factors related to changes in commodity prices, as well as the impact of the Company's non performance risk as well as the non-performance risk of its counterparties which is derived using credit default swap values.

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The Company measures fair value of its long-term debt based on a Level 2 methodology using quoted market prices which include consideration of the Company's credit risk. The following table outlines the fair value of the New Revolving Credit Facility, Term Loan Facility, 2017 Notes, 2019 Notes and 2020 Notes as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
	(in thousands)	
New Revolving Credit Facility		
Carrying Value	\$ 970,987	\$ 545,000
Fair Value	\$ 897,862	\$ 512,414
Term Loan Facility		
Carrying Value, net of discount	\$ 697,328	\$ 696,916
Fair Value	\$ 343,002	\$ 653,798
2017 Senior Notes		
Carrying Value, net of discount	\$ 348,826	\$ 348,669
Fair Value	\$ 63,875	\$ 190,400
2019 Senior Notes		
Carrying Value, net of discount	\$ 309,037	\$ 293,064
Fair Value	\$ 92,466	\$ 184,932
2020 Senior Notes		
Carrying Value, net of discount	\$ 110,351	\$ 105,234
Fair Value	\$ 35,674	\$ 73,311

Sabine utilizes fair value on a non-recurring basis to perform impairment tests as required on the Company's inventory and property, plant and equipment. For the three months ended March 31, 2015 and 2014, the Company recorded no impairment charges for gas gathering and processing equipment. For the three months ended March 31, 2015 and 2014, Sabine had no material impairment charges related to the write-down of carrying value of certain sizes of casing inventory. Assets and liabilities acquired in business combinations are recorded at their fair value as of the date of acquisition (Note 7). The inputs used to determine such fair value are primarily based upon internally developed cash flow models and would generally be classified as Level 3. Additionally, the Company uses fair value to determine the inception value of the Company's asset retirement obligations. The inputs used to determine such fair value are primarily based upon costs incurred historically for similar work, as well as estimates for costs that would be incurred to restore leased property to the contractually stipulated condition, and would generally be classified as Level 3.

14. Commitments and Contingencies

Legal and Regulatory

From time to time, the Company may be a plaintiff or defendant in a pending or threatened legal proceeding arising in the normal course of its business. All known liabilities are accrued when probable and reasonably estimable based on the Company's best estimate of the potential loss. The Company has recognized \$27.7 million and \$27.4 million of

Explanation of Responses:

accrued liabilities in relation to legal proceedings which is classified within “Other long-term liabilities” in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014, respectively. Additionally, as of March 31, 2015 and December 31, 2014, the Company had AROs of approximately \$49.4 million and \$48.8 million attributable to the plugging of abandoned wells. There have been no updates to significant legal cases in the three months ended March 31, 2015 other than that on May 1, 2015 the Texas Supreme Court requested full briefing on the merits of Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

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Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

On February 29, 2012, two members of a three-member arbitration panel reached a decision adverse to Forest in the proceeding styled Forest Oil Corp., et al. v. El Rucio Land & Cattle Co., et al., which occurred in Harris County, Texas. The third member of the arbitration panel dissented. The proceeding was initiated in January 2005 and involves claims asserted by the landowner-claimant based on the diminution in value of its land and related damages allegedly resulting from operational and reclamation practices employed by Forest in the 1970s, 1980s, and early 1990s. The arbitration decision awarded the claimant \$23 million in damages and attorneys' fees and additional injunctive relief regarding future surface-use issues. On October 9, 2012, after vacating a portion of the decision imposing a future bonding requirement on Forest, the trial court for the 55th Judicial District, in the District Court in Harris County, Texas, reduced the arbitration decision to a judgment. The judgment was affirmed by the Court of Appeals for the First District of Texas on July 24, 2014, and a motion for rehearing was denied on August 8, 2014. Forest filed a petition for review with the Texas Supreme Court on January 5, 2015. On May 1, 2015, the Texas Supreme Court requested full briefing on the merits.

Stourbridge Investments, LLC v. Forest Oil Corporation, et al., Raul v. Carroll, et al., Rothenberg v. Forest Oil Corporation, et al., Gawlikowski v. Forest Oil Corporation, et al., Edwards v. Carroll, et al., Jabri v. Forest Oil Corporation, et al., Olinatz v. Forest Oil Corporation, et al.

Following the May 6, 2014 announcement of the proposed Combination, six putative class action lawsuits were filed by Forest Oil shareholder in the Supreme Court of the State of New York, County of New York, alleging breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by Sabine entities in connection with the proposed Combination. By order dated July 8, 2014, the six New York cases were consolidated for all purposes under the caption In re Forest Oil Corporation Shareholder Litigation, Index No. 651418/2014. On July 17, 2014, plaintiffs in the consolidated New York action filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). The Consolidated Complaint seeks to certify a plaintiff class consisting of all holders of Forest Oil common stock other than the defendants and their affiliates. The defendants named in these actions include the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), as well as Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC). The Consolidated Complaint also purports to identify FR XI Onshore AIV, L.L.C. as a defendant, but no causes of action are alleged against that entity.

The Consolidated Complaint alleges that the proposed Combination arises out of a series of unlawful actions by the board of directors of Forest Oil seeking to ensure that Sabine and affiliates of First Reserve Corporation ("First Reserve") acquire the assets of, and take control over, Forest Oil through an alleged "three-step merger transaction" that allegedly does not represent a value-maximizing transaction for the shareholders of Forest Oil. The Consolidated Complaint also complains that the proposed Combination has been improperly restructured to require only a majority vote of current Forest Oil shareholders to approve the Combination with Sabine, rather than a two-thirds majority as would have been required under the original transaction structure. The Consolidated Complaint additionally alleges that members of Forest Oil's board, as well as Forest Oil's financial adviser for the proposed Combination, are subject to conflicts of interest that compromise their loyalty to Forest Oil's shareholders, that the defendants have improperly sought to "lock up" the proposed Combination with certain inappropriate "deal protection devices" that impede Forest Oil from pursuing superior potential transactions with other bidders.

The Consolidated Complaint asserts causes of action against the directors of Forest Oil for breaches of fiduciary duty and violations of the New York Business Corporation Law, as well as a cause of action against the Sabine defendants for aiding and abetting the directors' breaches of duty and violations of law, and it seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission and/or

rescissory and other damages in the event that the proposed Combination is consummated before the lawsuit is resolved.

In addition to these New York proceedings, one putative class action lawsuit has been filed by Forest Oil shareholders in the United States District Court for the District of Colorado. That action, captioned Olinatz v. Forest Oil Corp., No. 1:14-cv-01409-MSK-CBS, was commenced on May 19, 2014, and plaintiffs filed an Amended Complaint (the “Olinatz Complaint”) on June 13, 2014. The Olinatz Complaint also alleges breaches of fiduciary duty by the

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directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by the Sabine defendants in connection with the proposed Combination, as well as related claims alleging violations of Section 14 (a) and 20 (a) of the Securities Exchange Act of 1934, and Securities and Exchange Commission Rule 14a-9 promulgated thereunder, in connection with alleged misstatements in a Form S-4 Registration Statement filed by Forest Oil on May 29, 2014, which recommends that Forest Oil shareholders approve the proposed Combination. The Olinatz Complaint names as defendants Forest Oil and certain of its affiliates (specifically, Forest Oil Corporation, New Forest Oil Inc., and Forest Oil Merger Sub Inc.), the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), and Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC), and seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission in the event the proposed Combination is consummated before the lawsuit is resolved, as well as imposition of a constructive trust on any alleged benefits improperly received by defendants.

On October 14, 2014, on motion by the Colorado plaintiffs, the Court in the Colorado action entered an order directing the Clerk of the Court to administratively close the action, subject to reopening on good cause shown.

On November 11, 2014, the defendants reached an agreement in principle with plaintiffs in the New York action regarding a settlement of that action, and that agreement is reflected in a memorandum of understanding executed by the parties on that date. The settlement, if consummated, will also resolve the Colorado action. In connection with the settlement contemplated by the memorandum of understanding, Forest Oil agreed to make certain additional disclosures related to the proposed transaction with Sabine, which are contained in Forest Oil's November 12, 2014 Form 8-K, and Sabine agreed that, within 120 days after the closing of the proposed combination transaction, Sabine Investor Holdings LLC will designate for a period of no less than three (3) years at least one additional independent director, as defined in Section 303A.02 of the New York Stock Exchange Listed Company Manual, as a Sabine Nominee (as defined in Section 1.4 of the Amended and Restated Agreement and Plan of Merger). The total number of Sabine Nominees will remain unchanged, but at least one of the remaining two Sabine Nominees that had not yet been determined was required to be independent. In connection with the closing of the Combination, Thomas Chewing, an independent director as defined in Section 303A.02 of the New York Exchange Listed Company Manual, was appointed as a Sabine Nominee. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement.

On March 13, 2015, plaintiffs informed Sabine that they believed Sabine had materially violated the terms of the memorandum of understanding by (i) failing to replace or create a mechanism to replace an independent director who resigned from the board of directors in January of 2015, and (ii) making changes to the terms of the merger agreement that were not necessary or required to facilitate the consummation of the proposed transaction without first disclosing and permitting shareholders to vote on the changes. Sabine disagrees with plaintiffs' position and believes it has fully complied with the memorandum of understanding. In an attempt to facilitate a resolution, however, Sabine offered to: (i) appoint an independent director if an additional director was added to the Board of Directors (bringing the total number of directors eight) in the next twelve months, and (ii) remove or waive the "Reincorporation Penalty" provision. Plaintiffs accepted the offer on April 22, 2015, contingent upon the Parties' reaching agreement on a stipulation of settlement, which they are presently negotiating.

The stipulation of settlement will be subject to customary conditions, including court approval. In the event the parties enter into a stipulation of settlement, a hearing will be scheduled at which the New York Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims or actions that were or could have been brought challenging any aspect of the proposed combination transaction, the Amended and Restated Agreement and Plan of Merger, the merger agreement originally entered into by Sabine Investor Holdings LLC, Forest Oil, New Forest Oil Inc. and certain of their affiliated entities

on May 5, 2014, any disclosure made in connection therewith, including the Definitive Proxy Statement, and all other matters that were the subject of the complaint in the New York action, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that the parties will negotiate in good faith regarding the amount of attorney's fees and expenses that shall be paid to plaintiffs' counsel in connection with the Actions. There can be no assurances that the parties will ultimately enter into a stipulation of settlement or that the New York Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of

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understanding may be terminated. The parties are presently negotiating the stipulation of settlement. At this time, the Company is unable to guarantee the potential outcome of this litigation or the ultimate exposure.

Wilmington Savings Fund Society, FSB v. Forest Oil Corporation

On February 26, 2015, we were served with a complaint concerning the indenture governing our 2019 Notes. The complaint is pending in the Supreme Court of the State of New York and generally alleges that certain events of default occurred with respect to the 2019 Notes due to the business combination between Forest Oil Corporation and Sabine Oil & Gas LLC. We also received a notice of default and acceleration from the trustee with respect to the 2019 Notes containing similar allegations. If we are not successful in our defense of this complaint, we may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes, and if the court determines we are in default under the indenture governing the 2019 Notes, a cross-default and acceleration under our other debt agreements may result. Sabine filed its Answer to the complaint on April 17, 2015. We believe these allegations against us are without merit and intend to vigorously defend against such claims and pursue any and all defenses available. However, we are unable to predict the outcome of such matter, and the proceedings may have a negative impact on our liquidity, financial condition and results of operations.

We are separately evaluating potential claims that we may assert against the trustee for the 2019 Notes for any and all losses we may suffer as a result of the complaint or notice. We can provide no guarantee that any such claims, if brought by us, will be successful or, if successful, that the responsible parties will have the financial resources to address any such claims. While we intend to vigorously defend the claims against us and believe they are without merit, an adverse ruling could cause our indebtedness to become immediately due and payable.

Additional claims, lawsuits, or proceedings may be filed or commenced arising out of the indentures to which we are a party and with respect to the business combination.

Drilling and Completion

At March 31, 2015, Sabine had one drilling rig under contract which expires in 2016 and two drilling rigs under contracts which expire in 2018. As of March 31, 2015 total future commitments relating to the Company's secured rig and servicing contracts were \$57.4 million over the next three years.

Furthermore, the Company has a Committed Oilfield Services Agreement (the "Services Agreement") with Nabors, which commits to Nabors service contracts with revenues of no less than 20% and 75% of certain of the Company's gross spend on hydraulic fracturing services and drilling and directional services, respectively, through December 13, 2016. If at any yearly anniversary of the execution of the Services Agreement, Sabine has failed to meet the revenue commitment for the previous 12-month period and Nabors has complied with its service obligations under the Services Agreement, the Company may be required to pay Nabors an amount equal to the revenue commitment shortfall multiplied by 40%. No revenue commitment shortfall liability was recorded as of December 31, 2014 for the annual period ended December 13, 2014 under the Services Agreement. For the annual period ended December 13, 2013, the Company recognized a revenue commitment shortfall liability amount due to Nabors of \$1.7 million which was paid in January 2014 pursuant to the terms of the Services Agreement.

As part of Sabine's ongoing operations, since inception the Company has contracted with affiliates of Nabors to secure drilling rigs and other services for the oil and natural gas well activity the Company has undertaken. The Company recognized a liability in the Condensed Consolidated Balance Sheets as of March 31, 2015 and December 31, 2014 of \$11.1 million and \$11.8 million, respectively, for these services which are reflected in "Accounts payable – trade" and "Accrued exploration and development" balances in the Condensed Consolidated Balance Sheets.

Other Commitments

The Company's borrowing base under its New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. Since the Company's New Revolving Credit Facility is fully drawn, the decrease in the Company's borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million.

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Additionally, the Company has elected to exercise its right to a grace period with respect to a \$15.3 million interest payment under its Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits the Company 30 days to make such interest payment before an event of default occurs. The Company believes it is in the best interests of its stakeholders to actively address the Company's debt and capital structure and intends to continue discussions with its creditors and their respective professionals during the 30-day grace period. If the Company fails to pay the interest payment during the 30-day grace period and does not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day standstill. If the Company continues to fail to pay the interest payment, such failure could constitute a cross default under certain of the Company's other indebtedness. If the indebtedness under the Term Loan Facility or any of the Company's other indebtedness is accelerated, the Company may have to file for bankruptcy.

The Company is currently engaged in discussion with the lenders under its Term Loan Facility regarding a waiver or forbearance with respect to any event of default that may occur upon the expiration of the 30-day grace period with respect to the April 21, 2015 interest payment.

The Company has operating commitments which consist of committed production and development activities. The gas and condensate gathering agreements for the transportation and processing of natural gas and condensate cover certain properties with contractually obligated annual minimum volume commitments of gas and condensate. Under the terms of the agreements, the Company is required to make deficiency payments for any shortfalls in delivering the minimum volumes under these commitments and the Company recognizes shortfalls on a quarterly basis. The Company recognized \$0.7 million in the three months ended March 31, 2015 under these commitments. No shortfalls were recognized for the three months ended March 31, 2014 under these commitments. The drilling commitment requires an annual minimum of one well be drilled each year through May 2, 2017. Under the terms of the agreement, the Company is required to purchase the associated gathering facilities should this commitment not be met.

As is customary in the oil and natural gas industry, the Company may at times have commitments in place to reserve or earn certain acreage positions or wells. If the Company does not pay such commitments, the acreage positions or wells may be lost.

In March 2015, the Company awarded cash bonuses and performance awards (collectively the "Performance Awards") under the 2014 LTIP to employees and non-employee directors of the Company. As of March 31, 2015, approximately \$3.3 million was accrued in "Accrued operating expenses and other" on the Condensed Consolidated Balance Sheets. Additionally, an aggregate of approximately \$16.6 million of future commitments are expected to be paid quarterly under the Performance Awards through June 30, 2016 based on continued employment and the achievement of pre-established performance goals.

There have been no other material changes to commitments and contingencies in the three months ended March 31, 2015.

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Item 2. 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 report and in the Annual Report on Form 10-K. The following discussion contains "forward-looking statements" that reflect our future plans, estimates, beliefs and expected performance. We caution that assumptions, expectations, projections, intentions, or beliefs about future events may, and often do, vary from actual results and the differences can be material. Some of the key factors which could cause actual results to vary from expectations include changes in oil and natural gas prices, the timing of planned capital expenditures, availability of 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 our ability to access them and uncertainties regarding environmental regulations or litigation and other legal or regulatory developments affecting our business, as well as those factors discussed below and elsewhere in this report and in the Annual Report on Form 10-K, all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur. See "Cautionary Statement Regarding Forward-Looking Statements."

Overview

We are an independent oil and natural gas company engaged in the acquisition, development, exploitation and exploration of oil and natural gas properties onshore in the United States. Our properties are primarily focused in three core geographic areas:

- East Texas targeting the Cotton Valley Sand, Haynesville Shale and Pettet formations;
- South Texas, targeting the Eagle Ford Shale formation; and
- North Texas, targeting the Granite Wash formation.

As of March 31, 2015, we held interests in approximately 286,500 gross (227,400 net) acres in East Texas, 87,800 gross (56,900 net) acres in South Texas and 51,400 gross (29,100 net) acres in North Texas. As of March 31, 2015, we were the operator on 89%, 99% and 99% of our net acreage positions in East Texas, South Texas and North Texas, respectively.

Our full year 2015 capital expenditures are forecasted to total approximately \$230 million to \$275 million. As a result, we expect production growth from our 2015 capital program will not offset production declines, which will result in material decreases to our production and related cash flows. Consistent with our historical practice, we periodically review our capital expenditures and adjust our budget based on liquidity, commodity prices and drilling results.

We expect to focus operations in the exploration and production segment of the energy industry in the United States. Our gathering and processing assets are primarily dedicated to supporting the natural gas volumes we produce and do not generate any material amounts of revenue. Our ability to develop and produce current reserves and add additional reserves is driven by several factors, including:

- success in the drilling of new wells;
- commodity prices;
- the availability of attractive acquisition opportunities and our ability to execute them;
- the activities and elections of third parties under our joint development agreements;
- the availability of capital and the amount we invest in the leasing and development of properties and the drilling of wells;

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- facility or equipment availability and unexpected delays or downtime, including delays imposed by or resulting from compliance with regulatory requirements; and
- the rate at which production volumes naturally decline.

The Combination

On December 16, 2014, the Legacy Sabine Investors contributed the equity interests in Sabine O&G to Sabine Oil & Gas Corporation, which was then known as Forest Oil Corporation. In exchange for this contribution, the Legacy Sabine Investors received shares of Sabine common stock and Sabine Series A preferred stock, collectively representing approximately a 73.5% economic interest in Sabine and 40% of the total voting power in Sabine. Immediately following the contribution, Sabine O&G and related holding companies merged into Forest, with Forest surviving the mergers. Holders of Sabine common stock immediately prior to the closing of the Combination continued to hold their Sabine common stock following the closing, which immediately following the closing represented approximately a 26.5% economic interest in Sabine and 60% of the total voting power in Sabine. On December 19, 2014, Forest Oil Corporation changed its name to Sabine Oil & Gas Corporation. In connection with the completion of the Combination, the executive management team of Sabine O&G were appointed as the executive management team of Sabine, and the members of the former executive management team of Forest resigned or were removed from their positions.

Sabine O&G is considered the predecessor of Sabine or acquirer of Forest, and, accordingly, the historical financial statements and results of operations of Sabine for periods prior to the completion of the Combination are those of Sabine O&G, as the predecessor, and the historical financial statements and results of operations for the year ending December 31, 2014 include the historical financial statements of Sabine O&G, with the combined operating results of Forest consolidated therein only from the closing date of December 16, 2014 and thereafter. Accordingly, our results of operations discussed in this section may not be indicative of our results of operation following the Combination. The underlying Forest assets acquired and liabilities assumed by us were based on their respective fair market values. No goodwill resulted from the Combination as the fair value of assets acquired and liabilities assumed approximated purchase price.

Prior to the Combination, Sabine O&G was a privately-held company and Forest's common stock was listed on the NYSE. Following the Combination, our common stock trades on the OTCQB, currently under the ticker symbol SOGC.

Source of Revenues

We derive substantially all of our revenue from the sale of oil, NGLs and natural gas that are produced from our interests in properties located onshore in the United States. Oil and natural gas prices are inherently volatile and are influenced by many factors outside of our control. Oil and natural gas prices decreased significantly in the second half of 2014 and have remained low throughout the first and second quarters of 2015. If commodity prices remain at current levels, we expect significantly lower revenues and operating cash flows compared to historical results.

To achieve more predictable cash flows and to reduce exposure to downward price fluctuations, we use derivative instruments to hedge future sales prices on a significant portion of oil and natural gas production. We currently use a combination of fixed price oil and natural gas swaps and options for which we receive a fixed price (via either swap price, floor or collar or put price) for future production in exchange for a payment of the variable market price received at the time future production is sold. See "Commodity Hedging Activities" below for more information regarding our economic hedge positions.

Principal Components of Cost Structure

Explanation of Responses:

- Lease operating, marketing, gathering, transportation and other. These are costs incurred to produce oil and natural gas and deliver the volumes to the market, together with the costs incurred to maintain producing properties, such as maintenance and repairs. These costs, which have both a fixed and variable component, are primarily a function of volume of oil and natural gas produced from currently producing wells and incrementally from new production from drilling and completion activities. Lease operating expenses include workover expenses.

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- Production and ad valorem taxes. Production taxes are paid on produced oil and natural gas primarily based on the wellhead value of production. The applicable rates vary across the areas in which we operate. As the proportion of production changes from area to area, production tax rates will vary depending on the quantities produced from each area and the applicable production tax rates then in effect. Ad valorem taxes are typically computed on the basis of a property valuation as determined by certain state and local taxing authorities and will vary annually based on commodity price fluctuations.
- General and administrative. This cost includes all overhead associated with our business activities, including payroll and benefits for corporate staff, costs of maintaining our headquarters, audit, tax, legal and other professional and consulting fees, insurance and other costs necessary in the management of our production and development operations.

As a full cost method of accounting company, we capitalize general and administrative expenses that are directly attributable to our oil and natural gas activities. We capitalized \$3.5 million and \$3.3 million for the three months ended March 31, 2015 and 2014, respectively.

- Depletion, depreciation and amortization. This includes the systematic expensing of the capitalized costs incurred to acquire and develop oil and natural gas properties. As a full cost company, we capitalize all costs associated with acquisition, exploration, development and related efforts and deplete these costs using the units-of-production method.
- Impairments. We evaluate the impairment of proved oil and natural gas properties on a full cost basis. Property impairment charges result from application of the ceiling test under the full cost accounting rules, which we are required to calculate on a quarterly basis. The ceiling test requires that a non-cash impairment charge be taken to reduce the carrying value of oil and natural gas properties if the carrying value exceeds a defined cost-center ceiling. Because current commodity prices, and related calculations of the discounted present value of reserves, are significant factors in the full cost ceiling test, impairment charges may result from declines in oil, NGLs and natural gas prices. For the three months ended March 31, 2015, we recorded a \$236.5 million non-cash impairment charge as a result of the full cost ceiling limitation. For the three months ended March 31, 2014, the Company did not recognize an impairment for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation.

We review all of our unevaluated properties quarterly to determine whether or not and to what extent proved reserves have been assigned to the properties and otherwise if impairment has occurred. In addition, we analyze our unevaluated leasehold and transfer to evaluated properties leasehold that can be associated with proved reserves, leasehold that expired in the quarter or leasehold that is not a part of our development strategy and will be abandoned.

We evaluate gas gathering and processing equipment for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. No impairment charge for gas gathering and processing equipment was recorded in the three months ended March 31, 2015 and 2014.

- Interest. During the periods presented, we have historically financed a portion of our working capital requirements and acquisitions with borrowings under the Former Revolving Credit Facility, the New Revolving Credit Facility and the Term Loan Facility. As a result, we incurred interest expense that was affected by the level of drilling, completion and acquisition activities, as well as fluctuations in interest rates and our financing decisions. We also incurred interest expense on our 2017 Notes, and, for the period following the completion of the Combination on December 16, 2014, the 2019 Notes and 2020 Notes. As of March 31, 2015, the total outstanding principal amount of our long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, which will continue to expose us to interest rates. As of March 31, 2015, no extensions of credit are available under the New Revolving Credit Facility. We will likely continue to incur significant interest expense as we continue to grow. To date, we have not entered into any interest rate hedging arrangements to mitigate the effects of interest rate changes. Additionally, we capitalized \$1.3 million and \$1.9 million of interest expense for the three months ended March 31, 2015 and 2014,

respectively.

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· Income Tax Expense. Prior to the Combination, we were a limited liability company treated as a partnership for federal and state income tax purposes. Accordingly, no provision for federal or state income taxes was recorded prior to the Combination as our equity holders were responsible for income tax on our profits. In connection with the completion of the Combination, we merged into a corporation and became subject to federal and state income taxes. Our book and tax basis in assets and liabilities differed at the time of our change in tax status due primarily to different cost recovery periods utilized for book and tax purposes for our oil and natural gas properties. For the three months ended March 31, 2015, we recorded no income tax expense, resulting in an effective tax rate of 0%. The significant difference between our effective tax rate and federal statutory income tax rate of 35% is due to a full valuation allowance recorded on net deferred tax asset in excess of deferred tax liabilities.

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Results of Operations

Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

The following table sets forth selected operating data for the three months ended March 31, 2015 compared to the three months ended March 31, 2014:

	For the Three Months		Amount of Increase (Decrease)	Percent Change	
	Ended March 31, 2015 (in thousands)	2014			
Revenues					
Oil, natural gas liquids and natural gas	\$ 97,628	\$ 112,306	\$ (14,678)	(13)	%
Other	397	411	(14)	(3)	%
Total revenues	98,025	112,717	(14,692)	(13)	%
Operating expenses					
Lease operating	24,355	11,371	12,984	114	%
Marketing, gathering, transportation and other	9,357	4,386	4,971	113	%
Production and ad valorem taxes	2,768	5,592	(2,824)	(51)	%
General and administrative	15,038	6,390	8,648	135	%
Depletion, depreciation and amortization	54,063	39,925	14,138	35	%
Accretion	474	217	257	118	%
Impairments	236,485	—	236,485		*
Other operating expenses (income)	5,393	(1,429)	6,822		*
Total operating expenses	347,933	66,452	281,481	424	%
Other income (expenses)					
Interest, net of capitalized interest	(70,247)	(25,825)	44,422	172	%
Gain (loss) on derivative instruments	36,124	(22,126)	(58,250)		*
Total other expenses	(34,123)	(47,951)	(13,828)		*
Net loss before income taxes	\$ (284,031)	\$ (1,686)	\$ (282,345)		*
Income tax expense	—	—	—		*
Net loss	\$ (284,031)	\$ (1,686)	\$ (282,345)		*
Reconciliation to derive Adjusted EBITDA (1):					
Interest, net of capitalized interest	70,247	25,825			
Depletion, depreciation and amortization	54,063	39,925			
Impairments	236,485	—			
Other	3,969	(1,499)			
Amortization of deferred rent	—	(27)			
Accretion	474	217			
Loss on derivative instruments	11,004	20,941			
Option premium amortization	(1,145)	(6,156)			
Income tax expense	—	—			
Adjusted EBITDA (1)	\$ 91,066	\$ 77,540			

Explanation of Responses:

* Not meaningful or applicable

(1) Adjusted EBITDA is a non-GAAP financial measure. Please see “—Non-GAAP Financial Measure.”

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	For the Three Months		Amount of Increase (Decrease)	Percent Change	
	Ended March 31, 2015	2014			
Oil, NGL and natural gas sales by product (in thousands):					
Oil	\$ 37,928	\$ 39,123	\$ (1,195)	(3)	%
NGL	11,397	17,077	(5,680)	(33)	%
Natural gas	48,303	56,106	(7,803)	(14)	%
Total	\$ 97,628	\$ 112,306	\$ (14,678)	(13)	%
Production data:					
Oil (MBbl)	906.45	419.06	487.39	116	%
NGL (MBbl)	894.69	508.34	386.35	76	%
Natural gas (Bcf)	16.66	11.05	5.61	51	%
Combined (Bcfe) (1)	27.47	16.61	10.86	65	%
Average prices before effects of economic hedges (2):					
Oil (per Bbl)	\$ 41.84	\$ 93.36	\$ (51.52)	(55)	%
NGL (per Bbl)	\$ 12.74	\$ 33.59	\$ (20.85)	(62)	%
Natural gas (per Mcf)	\$ 2.90	\$ 5.08	\$ (2.18)	(43)	%
Combined (per Mcfe) (1)	\$ 3.55	\$ 6.76	\$ (3.21)	(47)	%
Average realized prices after effects of economic hedges (2):					
Oil (per Bbl)	\$ 68.78	\$ 89.78	\$ (21.00)	(23)	%
NGL (per Bbl)	\$ 12.74	\$ 33.59	\$ (20.85)	(62)	%
Natural gas (per Mcf)	\$ 4.19	\$ 4.55	\$ (0.36)	(8)	%
Combined (per Mcfe)(1)	\$ 5.23	\$ 6.32	\$ (1.09)	(17)	%
Average costs (per Mcfe) (1):					
Lease operating	\$ 0.89	\$ 0.68	\$ 0.21	31	%
Marketing, gathering, transportation and other	\$ 0.34	\$ 0.26	\$ 0.08	31	%
Production and ad valorem taxes	\$ 0.10	\$ 0.34	\$ (0.24)	(71)	%
General and administrative	\$ 0.55	\$ 0.38	\$ 0.17	45	%
Depletion, depreciation and amortization	\$ 1.97	\$ 2.40	\$ (0.43)	(18)	%

(1) Oil and NGL production was converted at 6 Mcf per Bbl to calculate combined production and per Mcfe amounts.

(2) Average prices shown in the table reflect prices both before and after the effects of cash settlements on commodity derivative transactions. The Company's calculation of such effects includes gains or losses on cash settlements for commodity derivative transactions.

Oil, natural gas liquids and natural gas sales. Revenues from production of oil and natural gas decreased from \$112.3 million in the three months ended March 31, 2014 to \$97.6 million in the three months ended March 31, 2015, a decrease of 13%. This decrease of \$14.7 million was primarily the result of a decrease in oil, natural gas liquids and natural gas revenues of \$1.2 million, \$5.7 million and \$7.8 million, respectively, due to decreases in prices of \$51.52/Bbl, \$20.85/Bbl and \$2.18/Mcfe, respectively. These decreases were partially offset by a 65% increase in production due to an active and successful development program throughout 2014 and the Combination.

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The following table sets forth additional information concerning our production volumes for the three months ended March 31, 2015 compared to the three months ended March 31, 2014:

	For the Three Months Ended March 31,		Percent Change	
	2015	2014		
	(in Bcfe)			
South Texas	6.44	5.14	25	%
East Texas	18.25	10.10	81	%
North Texas	2.78	1.37	103	%
Total	27.47	16.61	65	%

Lease operating. Lease operating expenses increased from \$11.4 million in the three months ended March 31, 2014 to \$24.4 million in the three months ended March 31, 2015, an increase of 114%. The increase in lease operating expense of \$13.0 million is primarily due to an increase in producing properties as a result of development activities throughout 2014 and the Combination. Lease operating expenses increased from \$0.68 per Mcfe in the three months ended March 31, 2014 to \$0.89 per Mcfe in the three months ended March 31, 2015. The increase of \$0.21 per Mcfe in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 is primarily due to higher cost legacy Forest production and an increase in workovers. The following table displays the lease operating expense by area for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended			
	March 31,		March 31,	
	2015	Per Mcfe	2014	Per Mcfe
	(in thousands, except per Mcfe data)			
South Texas	\$ 4,633	\$ 0.72	\$ 1,816	\$ 0.35
East Texas	18,718	1.03	9,063	0.90
North Texas	1,003	0.36	513	0.38
Other	1	—	(21)	—
Total	\$ 24,355	\$ 0.89	\$ 11,371	\$ 0.68

Marketing, gathering, transportation and other. Marketing, gathering, transportation and other expenses increased from \$4.4 million in the three months ended March 31, 2014 to \$9.4 million in the three months ended March 31, 2015, an increase of 113%. Marketing, gathering, transportation and other expense increased on a per unit basis from \$0.26 per Mcfe in the three months ended March 31, 2014 to \$0.34 per Mcfe in the three months ended March 31, 2015. The increase of \$0.08 per Mcfe in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 is primarily due to increased processing of gas volumes associated with our South Texas development activities throughout 2014 as well as gas volumes associated with our Haynesville development activities in East Texas, which were subject to higher fees due to lack of pipeline infrastructure, coupled with increasing oil volumes associated with development activities and the Combination.

Production and ad valorem taxes. Production and ad valorem taxes decreased from \$5.6 million in the three months ended March 31, 2014 to \$2.8 million in the three months ended March 31, 2015, a decrease of 51%. Production and ad valorem taxes decreased on a per unit basis from \$0.34 per Mcfe in the three months ended March 31, 2014 to \$0.10 per Mcfe in the three months ended March 31, 2015. The decrease of \$0.24 per Mcfe in the three months ended March 31, 2015 compared to the three months ended March 31, 2014 is primarily due to lower pricing of 55% per Bbl for oil and 43% per Mcfe for natural gas and quicker processing of high cost gas exemptions in 2015, partially offset by increased production due to an active and successful development program throughout 2014 and the Combination. We expect to experience continued variability in our production taxes as a result of timing of approval for high cost gas tax exemptions. Production and ad valorem taxes as a percentage of oil and natural gas revenues were 3% and 5% for the three months ended March 31, 2015 and 2014, respectively.

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General and administrative. General and administrative expenses increased from \$6.4 million in the three months ended March 31, 2014 to \$15.0 million in the three months ended March 31, 2015, an increase of \$8.6 million, or 135%, primarily as a result of higher overhead associated with the Combination, including \$3.5 million of additional payroll costs and \$1.4 million of additional office rent. General and administrative expenses increased on a per unit basis from \$0.38 per Mcfe in the three months ended March 31, 2014 to \$0.55 per Mcfe in the three months ended March 31, 2015 due to an increase in general and administrative expenses without a proportionate increase in production.

Depletion, depreciation and amortization. DD&A increased from \$39.9 million in the three months ended March 31, 2014 to \$54.1 million in the three months ended March 31, 2015, an increase of \$14.1 million. Depletion, depreciation, and amortization decreased from \$2.40 per Mcfe in the three months ended March 31, 2014 to \$1.97 per Mcfe in the three months ended March 31, 2015, or a decrease of 18%. The decrease in the DD&A rate per Mcfe is driven by increases to proved reserves due to the Combination and an increase in production, partially offset by an increase in the amortization base as a result of development activities without a proportionate change in reserve volumes.

Impairments. In the three months ended March 31, 2015, we recorded a non-cash impairment charge of \$236.5 million for the carrying value of proved oil and natural gas properties in excess of the ceiling limitation. The average of the historical unweighted first day of the month prices for the prior twelve month period ended March 31, 2015 was \$3.88 per Mmbtu for natural gas and \$82.72 per Bbl for oil compared to \$3.99 per Mmbtu for natural gas and \$98.30 per Bbl for oil for the prior twelve month period ended March 31, 2014. There were no impairments related to oil and natural gas properties recognized in the three months ended March 31, 2014.

Other operating expenses (income). Other operating expenses in the three months ended March 31, 2015 relate primarily to \$3.1 million of consulting costs to advise management and the board of directors on strategic alternatives related to our capital structure, \$0.9 million of transaction costs related to the Combination and \$0.7 million of charges related to marketing contract volume commitments. Other operating income in the three months ended March 31, 2014 related primarily to the gain on sale of other assets of \$1.5 million.

Interest expense. Interest expense increased from \$25.8 million in the three months ended March 31, 2014 to \$70.2 million in the three months ended March 31, 2015, an increase of \$44.4 million, or 172%, primarily as a result of increased borrowings on the New Revolving Credit Facility, the assumption of the 2019 Notes and 2020 Notes in connection with the consummation of the Combination on December 16, 2014 and increased amortization of debt discounts.

Gain on derivative instruments. Gains and losses from the change in fair value of derivative instruments as well as cash settlements on commodity derivatives are recognized in our results of operations. During the three months ended March 31, 2015 and 2014, we recognized a net gain on derivative instruments of \$36.1 million and a net loss on derivative instruments of \$22.1 million, respectively. The amount of future gain or loss recognized on derivative instruments is dependent upon future commodity prices, which will affect the value of the contracts.

Income Tax Expense. Prior to the Combination, we were a limited liability company treated as a partnership for federal and state income tax liabilities. Accordingly, no provision for federal or state income taxes was recorded for the three months ended March 31, 2014 as our equity holders were responsible for income tax on our profits prior to the Combination. Income tax expense for the three months ended March 31, 2015 was zero, resulting in an effective tax rate of 0%. The effective tax rate was lower than statutory tax rate of 35%, primarily because we continue to have a full valuation allowance on net deferred tax assets. We believe it is more likely than not that the overall deferred tax asset will not be realized.

Capital Resources and Liquidity

Our primary sources of liquidity have historically been equity contributions, borrowings under the New Revolving Credit Facility, net cash provided by operating activities, net proceeds from the issuance of the 2017 Notes and proceeds from the Term Loan Facility. Our primary use of capital has been the acquisition and development of oil and natural gas properties. In connection with funding our liquidity and the Combination, we have incurred substantial additional debt.

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As of March 31, 2015, the total outstanding principal amount of our long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, and, as of March 31, 2015, no extensions of credit are available under the New Revolving Credit Facility after giving effect to approximately \$29 million of outstanding letters of credit. For the period from April 1, 2015 through December 31, 2015, we have approximately \$250 million in mandatory prepayments under our New Revolving Credit Facility on account of the April 27, 2015 redetermination and substantial interest payment obligations related to our long-term debt of approximately \$145 million, assuming interest under our New Revolving Credit Facility is calculated at the Revolver Base Rate beginning on May 31, 2015, all other interest payments under the New Revolving Credit Facility and the Term Loan Facility are calculated at the applicable Eurodollar rate, and all such payments are made when due. In addition, if we are unable to obtain the consent of the lenders or the agent for the lenders under the Term Loan Facility or if the Term Loan Facility is not paid-off in full or satisfied in full by April 7, 2016, our New Revolving Credit Facility will mature on April 7, 2016. We may not be able to refinance our debt on terms acceptable to us or at all. For a description of our outstanding debt instruments, please see “—Net Cash Provided by Financing Activities.”

Our ability to service our debt obligations and fund our capital expenditures has been negatively impacted by significant decreases in the market price for oil, NGLs and natural gas during the fourth quarter of 2014 with continued weakness into the first and second quarters of 2015. The decrease in the market price for our production directly reduces our operating cash flow. While we use hedging arrangements to reduce our exposure to fluctuations in the prices of oil, NGLs and natural gas, only a portion of our production is hedged and we may be unable to effectively hedge our production for future periods. In addition, the decrease in the market price for our production indirectly impacts our other sources of potential liquidity. Lower market prices for our production may result in lower borrowing capacity under our New Revolving Credit Facility or higher borrowing costs from other potential sources of debt financing as our borrowing capacity and borrowing costs are generally related to the value of our estimated proved reserves.

Our borrowing base under our New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. On February 25, 2015, we borrowed approximately \$356 million under our New Revolving Credit Facility which represented the remaining undrawn amount under the New Revolving Credit Facility, and our cash balance at May 8, 2015 was approximately \$276.9 million. The decrease in our borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments in an amount of \$41.54 million. Despite our significant cash balance, there is uncertainty associated with our ability to repay our outstanding debt obligations as they become due.

In order to increase our liquidity to levels sufficient to meet our commitments, we are currently pursuing or considering a number of actions including (i) actively managing our debt capital structure through a number of alternatives, including debt repurchases, debt-for-debt exchanges, debt-for-equity exchanges and secured financing, (ii) in- and out-of-court restructuring, (iii) minimizing our capital expenditures, (iv) obtaining waivers or amendments from our lenders, (v) effectively managing our working capital and (vi) improving our cash flows from operations. There can be no assurance that sufficient liquidity can be raised from one or more of these transactions or that these transactions can be consummated within the period needed to meet certain obligations, which may affect the overall timing of our current development plan associated with our proved undeveloped reserves. Additionally, covenants contained in our debt agreements may limit our ability to pursue certain of the above strategies. The terms of our New Revolving Credit Facility, Term Loan Facility and the indentures governing our senior notes require that some or all of the proceeds from certain asset sales be used to permanently reduce outstanding debt which could substantially reduce the amount of proceeds we retain. The covenants in these debt agreements also impose limitations on the amount and type of additional indebtedness we can incur, which may significantly reduce our ability to obtain liquidity through the incurrence of additional indebtedness. Furthermore, our ability to refinance any of our existing indebtedness on commercially reasonable terms may be materially and adversely impacted by the current conditions

in the energy industry and our financial condition. If commodity prices do not significantly increase from current levels and we are unable to complete some or all of the above mentioned actions, our liquidity position will be significantly constrained in the future.

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Ability to Continue as a Going Concern

We have significant pending maturities on our debt obligations. If we are unable to refinance our 2017 Notes to mature at least 91 days after December 31, 2018, our Term Loan Facility in an outstanding amount of \$700 million will mature on November 16, 2016. Likewise, our New Revolving Credit Facility, which currently has \$971 million of debt outstanding, will mature on April 7, 2016, unless the Term Loan Facility is paid-off in full prior to such time or the agent or lenders under the Term Loan Facility consent. See the definition of “New Revolving Credit Facility Maturity Date”. Our ability to repay the principal amount of our debt upon the pending maturities has been negatively impacted by significant decreases in the market price for oil, natural gas, and NGLs during the fourth quarter of 2014 with continued weakness into the first and second quarters of 2015. Additionally, our borrowing base under our New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. The decrease in our borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments in an amount of \$41.54 million. The uncertainty associated with our ability to repay our outstanding debt obligations as they become due raises substantial doubt about our ability to continue as a going concern.

Our New Revolving Credit Facility and Term Loan Facility require that our annual financial statements include a report from our independent registered public accounting firm with an unqualified opinion without an explanatory paragraph as to going concern. In consideration of the uncertainty mentioned above, the report of our independent registered public accounting firm that accompanies our audited consolidated financial statements for the year ended December 31, 2014 contains an explanatory paragraph regarding the substantial doubt about our ability to continue as a going concern. As a result, we are in default under our New Revolving Credit Facility and Term Loan Facility. On May 4, 2015, we entered into a Forbearance Agreement and First Amendment to the New Revolving Credit Facility (the “Forbearance Agreement”) with respect to certain anticipated events of default, including the default under the New Revolving Credit Facility as a result of the “going concern” qualification in our 2014 audited financial statements. Pursuant to the Forbearance Agreement, the administrative agent and the lenders under the New Revolving Credit Facility has agreed to forbear from exercising remedies until the earlier of (i) certain events of default under the Forbearance Agreement or New Revolving Credit Facility, (ii) the acceleration or exercise of remedies by any other lender or creditor, and (iii) June 30, 2015 (the “Forbearance Period”), with respect to the following anticipated events of default: (i) the “going concern” qualification in our 2014 audited financial statements, (ii) our failure to make the April 2015 interest payment due under the Term Loan Facility, as discussed below, and (iii) any failure to make the May 27, 2015 and June 27, 2015 borrowing base deficiency payments under the New Revolving Credit Facility. In exchange for the administrative agent under the New Revolving Credit Facility agreeing to forbear from exercising remedies as described above, we have agreed during the Forbearance Period to, among other things, tighten certain non-financial covenants under our New Revolving Credit Facility and provide mortgages on certain currently unencumbered properties. Similarly, if we do not obtain a waiver under the Term Loan Facility within 180 days of notice, there will exist an event of default under the Term Loan Facility that will allow the lenders under the Term Loan Facility to be able to accelerate the debt. Any acceleration of the debt obligations under the New Revolving Credit Facility or Term Loan Facility would result in a cross-default and potential acceleration of the maturity of our other outstanding debt obligations. Therefore, all of our outstanding debt obligations in the amount of \$2,437 million (net of discount) and \$1,989 million (net of discount) are presented in current liabilities as of March 31, 2015 and December 31, 2014, respectively. Additionally, the lenders under the Term Loan Facility are subject to a 180-day standstill before they are able to exercise remedies as a result of the uncured event of default. Following the expiration of the 180-day standstill, the lenders are permitted to foreclose on the collateral securing the Term Loan Facility. These defaults create additional uncertainty associated with our ability to repay our outstanding debt obligations as they become due and raises substantial doubt about our ability to continue as a going concern.

Additionally, we have elected to exercise our right to a grace period with respect to a \$15.3 million interest payment under our Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits us

30 days to make such interest payment before an event of default occurs. We believe it is in the best interests of our stakeholders to actively address our debt and capital structure and intend to continue discussions with our creditors and their respective professionals during the 30-day grace period. If we fail to pay the interest payment during the 30-day grace period and do not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day

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standstill. If we continue to fail to pay the interest payment, such failure could constitute a cross default under certain of our other indebtedness. If the indebtedness under the Term Loan Facility or any of our other indebtedness is accelerated, we may have to file for bankruptcy. We are currently engaged in discussions with the lenders under our Term Loan Facility regarding a waiver or forbearance with respect to an event of default that may occur upon the expiration of the 30-day grace period with respect to the April 21, 2015 interest payment.

In order to increase our liquidity to levels sufficient to meet our commitments, we are currently pursuing or considering a number of actions including (i) actively managing our debt capital structure through a number of alternatives, including debt repurchases, debt-for-debt exchanges, debt-for-equity exchanges and secured financing, (ii) in- and out-of-court restructuring, (iii) minimizing our capital expenditures, (iv) obtaining waivers or amendments from our lenders, (v) effectively managing our working capital and (vi) improving our cash flows from operations. There can be no assurance that sufficient liquidity can be raised from one or more of these transactions or that these transactions can be consummated within the period needed to meet certain obligations.

Working Capital

Our working capital balance fluctuates as a result of timing and amount of borrowings or repayments under our credit arrangements, changes in the fair value of our outstanding commodity derivative instruments, the timing of receiving reimbursement of amounts paid by us for the benefit of joint venture partners as well as changes in revenue receivables as a result of price and volume fluctuations.

For the three months ended March 31, 2015, we had a decrease in working capital of \$106.3 million compared to a decrease in working capital of \$2,084.5 million for the three months ended December 31, 2014. The decrease in working capital for the three months ended March 31, 2015 is primarily due to borrowings of \$426.0 million on the New Revolving Credit Facility, while cash only increased by \$302.4 million, and amortization of discounts on the Term Loan Facility, 2017 Notes, 2019 Notes and 2020 Notes totaling approximately \$21.6 million. In addition, fluctuations are due to the timing and amount of the receivable collections, development activities, payments made by us to vendors, and the timing and amount of advances from our joint operations. For more information on the classification of debt, please see Note 3 within “Part I, Item 1. Financial Statements.”

Net Cash Provided by Operating Activities

Cash flows from operations are our primary source of capital and liquidity and are primarily affected by the sale of oil, NGLs and natural gas, as well as commodity prices, net of effects of derivative contract settlements and changes in working capital. Net cash provided by operating activities was \$42.2 million and \$51.7 million for the three months ended March 31, 2015 and 2014, respectively. The decrease in cash flow from operations for the three months ended March 31, 2015 as compared to the same period in 2014 was primarily the result of lower realized prices after the effects of economic hedges, higher interest payments and costs incurred for the Combination, offset by the excess in cash flows for the settlements of derivatives.

Our operating cash flow is sensitive to many variables, the most significant of which is the volatility of prices for oil and natural gas production. Prices for these commodities are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather, infrastructure capacity to reach markets and other variable factors influence market conditions for these products. 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 “Part I, Item 3. Quantitative and Qualitative Disclosures About Market Risk” below.

Net Cash Used in Investing Activities

During the three months ended March 31, 2015 and 2014, cash flows used in investing activities were \$164.8 million and \$166.4 million, respectively, primarily related to capital expenditures for drilling, development and acquisition costs. The decrease in cash flows used in investing activities during the three months ended March 31, 2015 compared to 2014 was primarily the result of net capital activity.

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Our capital expenditures for property exploration, development, and leasehold acquisitions for the three months ended March 31, 2015 and 2014 are summarized in the following table:

	For the Three Months Ended March 31, 2015 2014 (in millions)	
Drilling & Completion	\$ 103	\$ 141
Land	2	27
Other	1	18
Total capital expenditures for drilling, development and acquisitions	\$ 106	\$ 186

Our planned 2015 capital expenditures budget is expected to total approximately \$230 million to \$275 million. The amount, timing and allocation of capital expenditures are largely discretionary and within our control. If oil and natural gas prices decline to levels below our acceptable levels or costs increase to levels above our acceptable levels, we could choose to defer a significant portion of budgeted capital expenditures until later periods to achieve the desired balance between sources and uses of liquidity and prioritize capital projects that we believe have the highest expected returns and potential to generate near-term cash flow. 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 flow and other factors both within and outside our control. Such historical adjustments to our capital expenditures have not resulted in an unfavorable liquidity position. However, a significant reduction in our capital program could result in a decline in our oil and natural gas reserves and production and cash flows, as well as a decline in our borrowing base under the New Revolving Credit Facility and limit our ability to obtain needed capital or financing. Refer to the 'Capital Resources and Liquidity' section above for a discussion of our liquidity and planned actions.

Net Cash Provided by Financing Activities

Net cash provided by financing activities of \$424.9 million during the three months ended March 31, 2015 was primarily the result of borrowings under the New Revolving Credit Facility of \$426.0 million and debt issuance costs of \$0.9 million. Net cash provided by financing activities of \$103.8 million during the three months ended March 31, 2014 was the result of net borrowings under the Former Revolving Credit Facility of \$105.0 million offset by debt issuance costs of \$1.2 million.

New Revolving Credit Facility. On December 16, 2014, we amended and restated the Amended and Restated Credit Agreement, dated as of April 28, 2009, by and among us, Wells Fargo Bank, National Association, as administrative agent, and the lenders and other parties party thereto with the New Revolving Credit Facility. The New Revolving Credit Facility provides for a \$2 billion revolving credit facility, with an initial borrowing base of \$1 billion. The New Revolving Credit Facility includes a sub-limit permitting up to \$100 million of letters of credit.

The borrowing base is subject to redeterminations by the lenders semi-annually, each April 1 and October 1, beginning April 1, 2015 or such later time as we may agree upon request of the administrative agent, or as the majority lenders may agree upon our request. We and, after the first scheduled redetermination, the lenders

comprising two-thirds of lenders as measured by exposure may each request two unscheduled borrowing base redeterminations during any 12-month period. The borrowing base under the New Revolving Credit Facility could increase or decrease in connection with a redetermination with increases being subject to the approval of all lenders and decreases (and redeterminations maintaining the borrowing base) being subject to the approval of two-thirds of the lenders as measured by exposure. The borrowing base is also subject to reduction as a result of certain issuances of additional debt, certain asset sales, cancellation of certain hedging positions or lack of sufficient title information. A reduction of the borrowing base would require us to repay outstanding exposure under the New Revolving Credit Facility in excess of the new borrowing base in one payment or six equal monthly installments and/or provide additional mortgages over oil and gas properties to support a larger borrowing base, at our option. Our borrowing base under our New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. The decrease in our borrowing

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base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million.

On December 16, 2014, following the Combination we borrowed a net \$131.8 million under the New Revolving Credit Facility, which was used to, among other things, refinance borrowings under the prior revolving credit agreements of Forest and Sabine O&G and to fund costs and expenses in connection with the transactions.

Loans under the New Revolving Credit Facility bear interest at our option at either:

- the sum of (1) the Alternate Base Rate, which is defined as the highest of (a) Wells Fargo Bank, National Association's prime rate; (b) the federal funds effective rate plus 0.50%; or (c) the Eurodollar Rate (as defined in the New Revolving Credit Facility) for a one-month interest period plus 1% and (2) a margin varying from 0.50% to 1.50% depending on our most recent borrowing base utilization percentage (the "Revolving Base Rate"); or
- the Eurodollar Rate plus a margin varying from 1.50% to 2.50% depending on our most recent borrowing base utilization percentage. Beginning May 29, 2015 and thereafter during the occurrence of an event of default under the New Revolving Credit Facility, the Loans under the New Revolving Credit Facility will bear interest at the Revolving Base Rate.

The unused portion of the New Revolving Credit Facility is subject to a commitment fee ranging from 0.375% to 0.50% per annum depending on our most recent borrowing base utilization percentage.

The New Revolving Credit Facility also provides for certain representations and warranties, events of default, affirmative covenants and negative covenants customary for transactions of this type, including a financial maintenance covenant in the form of a first lien secured leverage ratio not to exceed 3.0 to 1.0. The New Revolving Credit Facility provides that all obligations thereunder as well as certain swap and cash management obligations will, subject to certain terms and exceptions, be jointly and severally guaranteed by the guarantors described therein. The New Revolving Credit Facility also contains certain other covenants, including restrictions on additional indebtedness and dividends. Sabine was in compliance with such covenants as of March 31, 2015 and December 31, 2014. Any failure to comply with the conditions and covenants in the New Revolving Credit Facility that is not waived by our lender or otherwise cured could lead to a termination of our New Revolving Credit Facility, acceleration of all amounts due under our New Revolving Credit Facility, or trigger cross-default provisions under other financing arrangements. For additional information, please see "Part II, Item 1A, Risk Factors."

The New Revolving Credit Facility provides that all such obligations and the guarantees will be secured by a lien on at least 80% of the PV-9 of the borrowing base properties evaluated in the most recent reserve report delivered to the administrative agent and a pledge of all of the capital stock of our restricted subsidiaries, subject to certain customary grace periods and exceptions. The New Revolving Credit Facility matures on the New Revolving Credit Facility Maturity Date.

As of March 31, 2015 and December 31, 2014, borrowings outstanding under the New Revolving Credit Facility and the Former Revolving Credit Facility totaled approximately \$971 million and \$545 million, respectively, and had a weighted average interest rate of 2.6% and 2.3% for the three month periods ended March 31, 2015 and 2014.

As of March 31, 2015, the total outstanding principal amount of the Company's long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, the 2017 Notes, the Legacy Forest Notes, and the Term Loan Facility, and as of March 31, 2015, no extensions of credit are available under the New Revolving Credit Facility, reflecting that approximately \$29 million of outstanding letters of credit had been made under the New Revolving Credit Facility.

Our New Revolving Credit Facility requires that our annual financial statements include a report from our independent registered public accounting firm with an unqualified opinion without an explanatory paragraph as to going concern. In consideration of the substantial doubt about our ability to continue as a going concern, the report of our independent registered public accounting firm that accompanies our audited consolidated financial statements for the year ended December 31, 2014 contains an explanatory paragraph regarding the substantial doubt about our ability to

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continue as a going concern. As a result, we are in default under our New Revolving Credit Facility. On May 4, 2015, we entered into the Forbearance Agreement to our New Revolving Credit Facility with respect to certain anticipated events of default, including the default under the New Revolving Credit Facility as a result of the “going concern” qualification in our 2014 audited financial statements. Pursuant to the Forbearance Agreement, the administrative agent and the lenders under the New Revolving Credit Facility have agreed to forbear certain anticipated events of default until June 30, 2015, or earlier if certain events occur, including the acceleration or exercise of remedies by any other lender or creditor and certain events of default under the Forbearance Agreement and New Revolving Credit Facility. For additional detail, please see “—Ability to Continue as a Going Concern” above. Any acceleration of the debt obligations under the New Revolving Credit Facility would result in a cross-default and potential acceleration of the maturity of our other outstanding debt obligations.

Term Loan Facility. Sabine O&G entered into a \$500 million second lien term loan agreement on December 14, 2012 with a maturity date of December 31, 2018 (provided that if the 2017 Senior Notes are not refinanced to mature at least 91 days thereafter, the maturity date shall be 91 days prior to the February 15, 2017 maturity date of the 2017 Senior Notes). On January 23, 2013, the syndication was completed with an additional funding of \$150 million of proceeds pursuant to the first amendment to the Term Loan Facility bringing the outstanding balance to \$650 million as of December 31, 2013. Proceeds from the Term Loan Facility were used to acquire oil and natural gas properties in December 2012 and repay borrowings under the Former Revolving Credit Facility in the first quarter of 2013.

In connection with the consummation of the Combination, on December 16, 2014, we entered into an amendment to the Term Loan Facility to provide for \$50 million of incremental term loans (the “Incremental Term Loans”). The Incremental Term Loans are fungible with the existing \$650 million of second lien loans under the Term Loan Facility, including with respect to interest and, in the case of eurodollar borrowings, they bear interest at the Adjusted Eurodollar Rate (as defined in the Term Loan Facility) plus 7.50%, with an interest rate floor of 1.25%, and, in the case of alternate base rate borrowings, they bear interest at the Alternate Base Rate (as defined in the Term Loan Facility) plus 6.50%, with an interest rate floor of 2.25% (the “Term Base Rate”). Any time an interest period for Loans expires during an event of default under the Term Loan Facility, such Loans will bear interest at the Term Base Rate. The weighted average interest rate incurred on this indebtedness for both the three month periods ended March 31, 2015 and 2014 was 8.8%.

All of our restricted subsidiaries that guarantee our New Revolving Credit Facility have guaranteed the Term Loan Facility. The obligations under the Term Loan Facility are secured by the same collateral that secures the New Revolving Credit Facility, but the liens securing such obligations are second priority liens to the liens securing the New Revolving Credit Facility.

The Term Loan Facility provides for certain representations and warranties, events of default, affirmative covenants and negative covenants customary for transactions of this type, including restrictions on additional indebtedness and dividends. The Term Loan Facility provides that all obligations thereunder, subject to certain terms and exceptions, be jointly and severally guaranteed by the guarantors described therein.

Additionally, our Term Loan Facility requires that an auditors’ opinion unqualified as to going concern accompany our financial statements, and since the auditors’ opinion included in our Annual Report on Form 10-K includes an explanatory note as to going concern, we are in default under our Term Loan Facility. If we do not obtain a waiver of this requirement under the Term Loan Facility within 180-days of notice, there will exist an event of default under the Term Loan Facility and the lenders under the Term Loan Facility will be able to accelerate the debt. Any acceleration of the debt obligations under the Term Loan Facility would result in a cross-default and potential acceleration of the maturity of our other outstanding debt obligations. Additionally, the lenders under the Term Loan Facility are subject to a 180-day standstill before they are able to exercise remedies as a result of the uncured event of default. Following the expiration of the 180-day standstill, the lenders are permitted to foreclose on the collateral securing the Term Loan

Facility.

Additionally, we have elected to exercise our right to a grace period with respect to a \$15.3 million interest payment under our Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits us 30 days to make such interest payment before an event of default occurs. We believe it is in the best interests of our stakeholders to actively address our debt and capital structure and intend to continue discussions with our creditors and

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their respective professionals during the 30-day grace period. If we fail to pay the interest payment during the 30-day grace period and do not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day standstill. If we continue to fail to pay the interest payment, such failure could constitute a cross default under certain of our other indebtedness. If the indebtedness under the Term Loan Facility or any of our other indebtedness is accelerated, we may have to file for bankruptcy. We are currently engaged in discussions with the lenders under our Term Loan Facility regarding a waiver or forbearance with respect to any event of default that may occur upon the expiration of the 30-day grace period with respect to the April 21, 2015 interest payment.

2017 Notes. On February 12, 2010, Sabine Oil & Gas Corporation, formerly NFR Energy LLC, and our subsidiary Sabine Oil & Gas Finance Corporation, formerly NFR Energy Finance Corporation, co-issued \$200 million in 9.75% senior unsecured notes due 2017 in a private placement to qualified institutional buyers in accordance with Rule 144A under the Securities and to persons outside the United States in compliance with Regulation S of the Securities Act. The 2017 Notes bear interest at a rate of 9.75% per annum, payable semi-annually on February 15 and August 15 each year commencing August 15, 2010. The 2017 Notes were issued at 98.73% of par. In conjunction with the issuance of the 2017 Notes, the Company recorded a discount of \$2.5 million to be amortized over the remaining life of the 2017 Notes utilizing the simple interest method. The remaining unamortized discount was \$0.7 million and \$0.8 million at March 31, 2015 and December 31, 2014, respectively. The 2017 Notes were issued under and are governed by an indenture dated February 12, 2010 by and among the Sabine Oil & Gas Corporation, Sabine Oil & Gas Finance Corporation, the Bank of New York Mellon Trust Company, N.A. as trustee, and guarantors party thereto.

All of our restricted subsidiaries that guarantee our New Revolving Credit Facility (other than Sabine Oil & Gas Finance Corporation, which is the co-Issuer of the 2017 Notes) have guaranteed the 2017 Notes on a senior unsecured basis. We have significant pending maturities on our debt obligations. If we are unable to refinance our 2017 Notes to mature at least 91 days after December 31, 2018, the Term Loan Facility will mature on November 16, 2016. The New Revolving Credit Facility will mature on the New Revolving Credit Facility Maturity Date.

On April 14, 2010, Sabine Oil & Gas Corporation and Sabine Oil & Gas Finance Corporation issued an additional \$150 million in senior notes at 9.75% due 2017. The additional notes were issued at 98.75% of par and bear interest at a rate of 9.75% per annum, payable semi-annually on February 15 and August 15 of each year commencing August 15, 2010. The additional notes were issued under the same indenture as the 2017 Notes issued on February 12, 2010. The Company recorded a discount of \$1.9 million to be amortized over the remaining life of the 2017 Notes utilizing the simple interest method. The remaining unamortized discount was \$0.5 million and \$0.6 million at March 31, 2015 and December 31, 2014, respectively. Due to the amortization of the discount, the effective interest rate on the 2017 Notes as of March 31, 2015 was 10.33%.

We may redeem the 2017 Notes, in whole or in part, at any time on or after February 15, 2014, at a redemption price (expressed as a percentage of principal amount) set forth in the following table plus accrued and unpaid interest, if any, to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15 of the years indicated below:

Year	Percentage
2015	102.438
2016 and thereafter	100.000

The indenture governing the 2017 Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness; pay dividends or repurchase or redeem equity interests or subordinated indebtedness; limit dividends or other payments by restricted subsidiaries that are not guarantors to us or our other subsidiaries; make certain investments; incur liens; enter into certain types of transactions with our affiliates; and sell assets or consolidate or merge with or into other companies. However, if the 2017 Notes have an investment grade rating from Standard & Poor's Ratings Group, Inc. and Moody's Investors Service, Inc., and no default or event of default exists under the indenture, we will not be subject to certain of the foregoing covenants.

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2019 Notes. In connection with the consummation of the Combination, on December 16, 2014, the Company assumed \$577.9 million in 7¼% senior notes due 2019 (the “2019 Notes”) originally issued by Forest on June 6, 2007. Interest on the 2019 Notes is payable semiannually on June 15 and December 15. In conjunction with the consummation of the Combination, the Company recorded the 2019 Notes at a fair value of \$290.4 million and recorded a discount of \$287.5 million to be amortized over the remaining life of the 2019 Notes utilizing the simple interest method. The remaining unamortized discount was \$268.9 million and \$284.9 million at March 31, 2015 and December 31, 2014, respectively. Due to the amortization of the discount, the effective interest rate on the 2019 Notes as of March 31, 2015 was 18.31%. On February 25, 2015, we received notice that Wilmington Savings Fund Society, FSB has been appointed as successor trustee under the indenture governing the 2019 Notes.

The 2019 Notes are redeemable, at our option, at the prices set forth below, expressed as percentages of the principal amount redeemed, plus accrued but unpaid interest, if redeemed during the twelve-month period beginning on June 15 of the years indicated below:

Year	Percentage
2014	101.208
2015 and thereafter	100.000

The indenture governing the 2019 Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness unless the ratio of our adjusted consolidated EBITDA to our adjusted consolidated interest expense over the trailing four fiscal quarters will be at least 2.25 to 1.0 (subject to exceptions for borrowings within certain limits); pay dividends or repurchase or redeem equity interests; limit dividends or other payments by restricted subsidiaries that are not guarantors to us or our other subsidiaries; make certain investments; incur liens; enter into certain types of transactions with our affiliates; and sell assets or consolidate or merge with or into other companies. However, if the 2019 Notes have an investment grade rating from Standard & Poor’s Ratings Group, Inc. and Moody’s Investors Service, Inc., no default or event of default exists under the indenture and the New Revolving Credit Facility and the Term Loan Facility cease to be secure, we will not be subject to certain of the foregoing covenants.

On February 25, 2015, we received a notice of default and acceleration from the trustee with respect to our 2019 Notes and on February 26, 2015 were served a complaint alleging the same. If we are not successful in our defense of this complaint, we may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes, and if the court determines we are in default under the indenture governing the 2019 Notes, a cross default and acceleration under our other debt agreements may result. For more information, please see “Part II, Item 1. Legal Proceedings.”

2020 Notes. In connection with the consummation of the Combination, on December 16, 2014, the Company assumed \$222.1 million in 7½% senior notes due 2020 (the “2020 Notes”) originally issued by Forest on September 17, 2012. Interest on the 2020 Notes is payable semiannually on March 15 and September 15. In conjunction with the consummation of the Combination, the Company recorded the 2020 Notes at a fair value of \$104.4 million and recorded a discount of \$117.7 million to be amortized over the remaining life of the 2020 Notes utilizing the simple interest method. The remaining unamortized discount was \$111.7 million and \$116.9 million at March 31, 2015 and December 31, 2014, respectively. Due to the amortization of the discount, the effective interest rate on the 2020 Notes

as of March 31, 2015 was 16.72%. On April 30, 2015, we received notice that Wilmington Savings Fund Society, FSB has been appointed as successor trustee under the indenture governing the 2020 Notes.

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The 2020 Notes are redeemable, at our option, at the prices set forth below, expressed as percentages of the principal amount redeemed, plus accrued but unpaid interest, if redeemed during the twelve-month period beginning on September 15 of the years indicated below:

Year	Percentage
2016	103.750
2017	101.875
2018 and thereafter	100.000

The indenture governing the 2020 Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness unless the ratio of our adjusted consolidated EBITDA to our adjusted consolidated interest expense over the trailing four fiscal quarters will be at least 2.25 to 1.0 (subject to exceptions for borrowings within certain limits); pay dividends or repurchase or redeem equity interests; limit dividends or other payments by restricted subsidiaries that are not guarantors to us or our other subsidiaries; make certain investments; incur liens; enter into certain types of transactions with our affiliates; and sell assets or consolidate or merge with or into other companies. However, if the 2020 Notes have an investment grade rating from Standard & Poor's Ratings Group, Inc. and Moody's Investors Service, Inc., no default or event of default exists under the indenture and the New Revolving Credit Facility and the Term Loan Facility cease to be secure, we will not be subject to certain of the foregoing covenants.

We may also redeem the 2020 Notes, in whole or in part, at any time prior to September 15, 2016, at a price equal to the principal amount plus a make-whole premium, calculated using the applicable Treasury yield plus 0.5%, plus accrued but unpaid interest. In addition, prior to September 15, 2015, we may, at any time or from time to time, redeem up to 35% of the aggregate principal amount of the 2020 Notes with the net proceeds of certain equity offerings at 107.5% of the principal amount of the 2020 Notes, plus any accrued but unpaid interest, if at least 65% of the aggregate principal amount of the 2020 Notes remains outstanding after such redemption and the redemption occurs within 120 days of the date of the closing of such equity offering.

Commodity Hedging Activities

Our primary market risk exposure is in the prices we receive for oil and natural gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot regional market prices applicable to our U.S. natural gas production. Pricing for oil and natural gas production has been volatile and unpredictable for several years, and we expect this volatility to continue in the future. The prices we receive for production depends on many factors outside of our control, including volatility in the differences between product prices at sales points and the applicable index price.

To mitigate the potential negative impact on cash flow caused by changes in oil and natural gas prices, we have entered into financial commodity derivative contracts in the form of fixed price oil and natural gas swap agreements, three-way collar swaps utilizing purchased and written option contracts, sold swaption contracts and fixed price swaps with sub floors in order to receive fixed prices or set price floors for a portion of our future oil and natural gas production when management believes that favorable future prices can be secured. We typically hedge the NYMEX Henry Hub price for natural gas and the NYMEX West Texas Intermediate ("WTI") price for crude oil.

Our hedging activities are intended to support oil and natural gas prices at targeted levels and to manage exposure to oil and natural gas price fluctuations. Under the terms of our fixed price swap agreements, the counterparty is required to make a payment to us for the difference between the fixed price specified in the contract and the settlement price, which is based on market prices on the settlement date, if the settlement price is below the fixed price. We are required to make a payment to the counterparty for the difference between the fixed price and the settlement price if the fixed price is below the settlement price. Additionally, we set pricing floors for certain production by executing combinations of option agreements including written calls, purchased puts and written puts to create three-way collars. Three-way collar contracts combine a short put (the lower price), a long put (the middle price) and a short call (the higher price) to provide a higher ceiling price as compared to a regular collar and limit downside risk to the market price plus the difference between the middle price and the lower price if market price drops below the lower price. For these contracts, if the applicable monthly price indices settle

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outside the range of the floor, sub floor and ceiling prices set by the various options, us and the counterparty to the option contracts would be required to settle the difference. Swaps with sub floor consist of a standard swap contract plus a put option sold with a strike below the associated fixed swap. This structure enables us to increase the fixed price swap with the value received through the sale of the put. If the settlement price for any settlement period falls equal to or below the put strike, then we will only receive the difference between the swap price and the put strike price. If the settlement price is greater than the put strike, the result is the same as it would have been with a standard swap only agreement at a contracted price on contracted volumes before an expiration date. Our sold swaption contract expires at December 31, 2015.

At March 31, 2015, we had in place oil and natural gas swaps and purchased and written oil and natural gas options covering portions of anticipated production through December 2017. The New Revolving Credit Facility allows us to hedge up to 100% of Current Production (as defined in the New Revolving Credit Facility) for 24 months, 75% of Current Production for months 25 to 36 and 50% of Current Production for months 37 to 60.

All derivative instruments are recorded at fair market value and are included in the Condensed Consolidated Balance Sheets as assets or liabilities. All fair values are adjusted for non-performance risk. For the three months ended March 31, 2015, we economically hedged approximately 92% of our combined oil and natural gas volumes, which resulted in operating cash flows from commodity derivative instruments of approximately \$46.0 million. For the three months ended March 31, 2014, we economically hedged approximately 85% of our combined oil and natural gas volumes, which resulted in operating cash outflows from commodity derivative instruments of approximately \$7.3 million.

We expect continued volatility in the fair value of our derivative instruments. Cash flow is only impacted when the underlying physical sales transaction takes place in the future and when the associated derivative instrument contract is settled by making or receiving a payment to or from the counterparty. As of March 31, 2015 and December 31, 2014, the estimated fair value of all of our commodity derivative instruments was a net asset of \$143.4 million and \$153.3 million, respectively, which is comprised of current and noncurrent assets and liabilities.

The table below summarizes the gains (losses) related to oil and natural gas derivative instruments for three months ended March 31, 2015 and 2014:

	Recognized in Other Income (Expenses) For the Three Months Ended March 31, 2015 2014 (in thousands)	
Cash received (paid) on settlements of derivative instruments	\$ 45,983	\$ (7,341)
Change in fair value of derivative instruments	(9,859)	(14,785)
Total gain (loss) on derivative instruments	\$ 36,124	\$ (22,126)

As of March 31, 2015, we had economically hedged a portion of oil and natural gas production through December 2017 as follows:

	Natural Gas		Oil	
	MMbtu/d	Average price	Bbl/Day	Average price
Year Ending December 31, 2015	218,000	\$ 4.15	6,967	\$ 89.85
Year Ending December 31, 2016	67,000	\$ 3.26	2,750	\$ 62.31
Year Ending December 31, 2017	—	\$ —	1,500	\$ 64.80

Additionally, we have purchased and sold certain options on oil and natural gas; using these contracts in combination with oil and natural gas swap agreements to further mitigate pricing risk associated with anticipated

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production. We received a premium on certain sold options, which was used to execute natural gas swap contracts above market. The details of our hedge positions and options sold are as follows:

Natural Gas

Settlement Period	Derivative Instrument	Notional Amount (MMbtu)	Weighted Average Prices			
			Swap (\$/MMbtu)	Sub Floor (\$/MMbtu)	Floor (\$/MMbtu)	Ceiling (\$/MMbtu)
2015	Collar	2,750,000	\$ —	\$ —	\$ 4.10	\$ 4.30
2015	Swap	28,875,000	\$ 4.15	\$ —	\$ —	\$ —
2015	Swap with sub floor	28,325,000	\$ 4.15	\$ 3.51	\$ —	\$ —
2016	Swap	24,522,000	\$ 3.26	\$ —	\$ —	\$ —
2016	Sold call	21,960,000	\$ —	\$ —	\$ —	\$ 5.00

Oil

Settlement Period	Derivative Instrument	Notional Amount (Bbl)	Weighted Average Prices			
			Swap (\$/Bbl)	Sub Floor	Floor	Ceiling
2015	Swap	1,660,050	\$ 89.90	\$ —	\$ —	\$ —
2015	Swap with sub floor	255,750	\$ 89.50	\$ 73.47	\$ —	\$ —
2016	Swap	640,500	\$ 63.62	\$ —	\$ —	\$ —
2016	Collar	366,000	\$ —	\$ —	\$ 60.00	\$ 68.05
2016	Swaption	366,000	\$ 98.00	\$ —	\$ —	\$ —
2017	Swap	547,500	\$ 64.80	\$ —	\$ —	\$ —

By removing price volatility from a portion of expected oil and natural gas production through December 2015, we have partially mitigated the potential effects of changing prices on operating cash flow for those periods. While mitigating negative effects of falling commodity prices, these derivative contracts also limit the benefits we would receive from increases in commodity prices.

Subsequent to the March 31, 2015 through May 11, 2015, Sabine has not entered into additional hedge contracts.

By using derivative instruments to hedge exposures to changes in commodity prices, we expose ourselves to the credit risk of counterparties. Credit risk is the potential failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty is expected to owe us, which creates credit risk. To minimize the credit risk in derivative instruments, it is our policy to enter into derivative contracts only with counterparties that are creditworthy financial institutions deemed by management as competent and competitive market makers. Our derivative instruments are currently placed with major financial institutions who

are participants in our New Revolving Credit Facility or who were participants in our prior revolving credit facility. The creditworthiness of our counterparties is subject to periodic review. We have derivative instruments in place with eight different counterparties. As of March 31, 2015, contracts with Barclays, Huntington, Natixis, Wells Fargo, Citibank, Bank of America Merrill Lynch and Comerica accounted for 30%, 19%, 18%, 14%, 12%, 5% and 2%, respectively, of the net fair market value of our derivative assets. We believe all of these institutions currently are acceptable credit risks. We are not required to provide credit support or collateral to any of our counterparties under current contracts, nor are they required to provide credit support to us. As of March 31, 2015, we did not have any past due receivables from counterparties.

Contractual obligations.

During the three months ended March 31, 2015, we did not have any changes in material commitments and contingencies, including outstanding and pending litigation, except as noted in “Part I, Item 1. Financial Statements – Note 14” and discussed below.

Our borrowing base under its New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased to \$750 million. Since our New Revolving Credit Facility is fully drawn, the decrease in the borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million.

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Additionally, we have elected to exercise our right to a grace period with respect to a \$15.3 million interest payment under its Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits us 30 days to make such interest payment before an event of default occurs. We believe it is in the best interests of our stakeholders to actively address our debt and capital structure and intend to continue discussions with our creditors and their respective professionals during the 30-day grace period. If we fail to pay the interest payment during the 30-day grace period and do not obtain a waiver for the interest payment, an event of default would exist under the Term Loan Facility and the lenders under the Term Loan Facility would be able to accelerate the debt. However, the lenders would not be able to foreclose on the collateral securing the Term Loan Facility until after the expiration of the 180-day standstill. If we continue to fail to pay the interest payment, such failure could constitute a cross default under certain of our other indebtedness. If the indebtedness under the Term Loan Facility or any of our other indebtedness is accelerated, we may have to file for bankruptcy.

Critical Accounting Policies, Estimates, Judgments, and Assumptions

During the three months ended March 31, 2015, we did not have any material changes in critical accounting policies, estimates, judgments and assumptions.

Non-GAAP Financial Measure

Adjusted EBITDA is a non-GAAP financial measure. We believe the presentation of Adjusted EBITDA provides useful information to investors to evaluate the operations of our business excluding certain items and for the reasons set forth below. Adjusted EBITDA should not be considered an alternative to net income, operating income, cash flow operating activities or any other measure of financial performance presented in accordance with US GAAP. Our Adjusted EBITDA may not be comparable to similarly titled measures of another company because all companies may not calculate Adjusted EBITDA in the same manner.

We use Adjusted EBITDA for the following purposes:

- to assess the financial performance of our assets, without regard to financing methods, capital structure or historical cost basis;
- to assess our operating performance and return on capital as compared to those of other companies in the oil and gas industry, without regard to financing or capital structure;
- to assess the viability of acquisition and capital expenditure projects and the overall rates of return on alternative investment opportunities;
- to assess the ability of our assets to generate cash sufficient to pay interest costs and support indebtedness;
- for various purposes, including strategic planning and forecasting;
- the Term Loan Facility and the indenture governing the 2017 Notes contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness unless the ratio of adjusted consolidated EBITDA to adjusted consolidated interest expense and other fixed charges over the trailing four fiscal quarters will be at least 2.0 to 1.0 (subject to exceptions for borrowings within certain limits);

- the Legacy Forest Notes contain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur additional indebtedness unless the ratio of adjusted consolidated EBITDA to adjusted consolidated interest expense over the trailing four fiscal quarters will be at least 2.25 to 1.00 (subject to exceptions within certain limits); and

- the New Revolving Credit Facility requires us to comply with a financial maintenance ratio in the form of a first lien secured leverage ratio not to exceed 3.0 to 1.0 which is defined as a ratio of consolidated first lien secured debt as of the last day of a fiscal quarter to adjusted EBITDA for the period of four fiscal quarters then ending.

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Cautionary Statement Regarding Forward Looking Statements

This Quarterly Report on Form 10-Q and the documents referred to in this Quarterly Report on Form 10-Q contain “forward-looking statements” within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 (as amended, the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are statements that are not statements of historical fact, including statements about beliefs, opinions and expectations. Forward-looking statements are based on, and include statements about, our plans, prospects, expected future financial condition, results of operations, cash flows, dividends and dividend plans, objectives, beliefs, financing plans, business strategies, budgets, goals, future events, future revenues or performance, financing needs, outcomes of litigation, projected costs, operating metrics, capital expenditures, competitive positions, acquisitions, investment opportunities, integration, cost savings, synergies, growth opportunities, dispositions, plans and objectives of management for future operations and any other information that is not historical information. These statements, which may include statements regarding the period following completion of the reincorporation merger and the related transactions, include, without limitation, words such as “may,” “will,” “could,” “should,” “would,” “expect,” “plan,” “project,” “forecast,” “anticipate,” “believe,” “estimate,” “predict,” “suggest,” “view,” “potential,” “pursue,” “target,” “continue” and similar expressions as well as the negative of these terms. These statements involve risks, uncertainties, assumptions and other factors that are difficult to predict and that could cause actual results to differ materially from those expressed in them or indicated by them.

These risks and uncertainties are not exhaustive. Other sections of this Quarterly Report on Form 10-Q describe additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible to predict all risks and uncertainties, 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.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our prior statements to actual results or revised expectations and we do not intend to do so.

These forward-looking statements appear in a number of places and include statements with respect to, among other things:

- estimates of our oil and natural gas reserves;
- our future financial condition, results of operations, revenues, cash flows, and expenses;
- our future levels of indebtedness, liquidity, and compliance with debt covenants;
- our ability to access the capital markets and the terms on which capital may be available to us;
- our ability to fund our operations and capital expenditures;
- our future business strategy and other plans and objectives for future operations;

- our ability to integrate the historical Forest and Sabine O&G businesses and achieve synergies related to the Combination;
- our business' competitive position;
- our outlook on oil and natural gas prices;

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- the amount, nature, and timing of our future capital expenditures, including future development costs;
- our potential future asset dispositions and other transactions, the timing of closing of such transactions and the use of proceeds, if any, from such transactions;
- the risks associated with potential acquisitions or alliances by us;
- the recruitment and retention of our officers and employees;
- our expected levels of compensation;
- the likelihood of success of and impact of litigation on us;
- our assessment of our counterparty risk and the ability of our counterparties to perform their future obligations; and
- the impact of federal, state, and local political, regulatory, and environmental developments in the United States where we conduct business operations.

We expressly qualify in its entirety each forward-looking statement attributable to us or any person acting on our behalf by the cautionary statements contained or referred to in this section. Except to the extent required by applicable law or regulation, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about potential exposure to market risk. The term “market risk” refers to the risk of loss arising from adverse changes in oil and natural gas and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures. All of our market risk sensitive instruments were entered into for hedging purposes, rather than for speculative trading.

Commodity Price Risk and Hedges

We periodically enter into derivative positions on a portion of projected oil and natural gas production through a variety of financial and physical arrangements intended to manage fluctuations in cash flows resulting from changes in commodity prices. We typically use swaps and options to mitigate commodity price risk.

On March 31, 2015, we had open natural gas derivatives with a fair value asset position of \$62.0 million. A ten percent increase in natural gas prices would reduce the asset by approximately \$18.9 million, while a ten percent decrease in prices would increase the asset by approximately \$17.8 million. We also had open oil derivatives with a fair value asset position of \$81.4 million. A ten percent increase in oil prices would reduce the asset by approximately \$18.7 million, while a ten percent decrease in prices would increase the asset by approximately \$18.5 million. These fair value changes assume volatility based on prevailing market parameters at March 31, 2015. For additional discussion of how we use financial commodity derivative contracts to mitigate some of the potential negative impact on our cash flow caused by changes in oil and natural gas prices, see “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Commodity Hedging Activities”.

Interest Rate Risks

At March 31, 2015 and December 31, 2014, we had indebtedness outstanding under the New Revolving Credit Facility of approximately \$971 million and \$545 million, respectively, and approximately \$29 million of letters of credit. The average interest rate incurred on this indebtedness for the three month periods ended March 31, 2015 and 2014 was approximately 2.6% and 2.3%, respectively. A 100 basis points increase in each of the average LIBOR rate and federal

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funds rate for the three months ended March 31, 2015 and 2014 would have resulted in an estimated \$1.8 million and \$0.7 million increase in interest expense for the three months ended March 31, 2015 and 2014, respectively.

On December 14, 2012, Sabine O&G entered into a second lien term loan agreement with a syndicate of banks. As of March 31, 2015, we had indebtedness outstanding under the Term Loan Facility of \$700 million which bears interest at a floating rate. The average interest rate incurred on this indebtedness for both the three months ended March 31, 2015 and 2014 was approximately 8.8%. Interest is accrued on Eurodollar loans at a rate per annum equal to the Eurodollar rate, with a Eurodollar floor of 1.25%, plus an applicable margin of 750 basis points.

A 100 basis points increase in each of the average LIBOR rate and federal funds rate for the three months ended March 31, 2015 and 2014 would have resulted in an estimated \$1.8 million and \$1.6 million increase in interest expense for the three months ended March 31, 2015 and 2014, respectively.

We do not currently have any derivatives in place to mitigate the effects of interest rate risk. We may implement an interest rate hedging strategy in the future.

Counterparty and Customer Credit Risk

Our principal exposure to credit risk is through receivables resulting from commodity derivative instruments (\$147.2 million at March 31, 2015), joint interest receivables (\$18.8 million at March 31, 2015) and the sale of oil and natural gas production (\$59.3 million in receivables at March 31, 2015), which the Company markets to energy marketing companies and refineries. Joint interest receivables arise from billing entities who own partial interest in the wells we operate. These entities participate in our wells primarily based on their ownership in leases on which we drill. We can do very little to choose who participates in our wells. We are also subject to credit risk due to concentration of oil and natural gas receivables with several significant customers. We do not require our customers to post collateral unless required based on our evaluation of their creditworthiness. 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.

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Item 4. Controls and Procedures

Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer, David J. Sambrooks, and our Chief Financial Officer, Michael D. Magilton, Jr., we evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15 (e) and 15d-15 (e) under the Exchange Act, as of the end of the period covered by this report. Because of the matters discussed below under “Commentary Regarding Transition of Internal Controls Following the Combination; Omission of Management’s Annual Report on Internal Controls Over Financial Reporting from Annual Report on Form 10-K” and “Commentary Regarding an Immaterial Misstatement,” Messrs. Sambrooks and Magilton have concluded that as of March 31, 2015, our disclosure controls and procedures were ineffective in providing reasonable assurance that information required to be disclosed by us in the reports filed or submitted by us under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Commentary Regarding Transition of Internal Controls Following the Combination; Omission of Management’s Annual Report on Internal Controls Over Financial Reporting from Annual Report on Form 10-K

During the evaluation of disclosure controls and procedures as of December 31, 2014 conducted during the preparation of our financial statements, which were included in our Annual Report on Form 10-K for the year ended December 31, 2014 the management of Sabine determined that, due to the issues set forth and included within Item 9A on our Annual Report on Form 10-K for the year ended December 31, 2014, performing an assessment of internal controls over financial reporting as of December 31, 2014 that would be meaningful to investors was not practicable, and, accordingly, that it was appropriate to omit such an assessment from our Annual Report on Form 10-K for the year ended December 31, 2014. In late 2014 and continuing into 2015, our management initiated, and is progressing with an evaluation and program of documentation, implementation, assessment and testing of internal control over financial reporting, with the expectation that we will provide management’s report on internal control over financial reporting as of December 31, 2015.

As of March 31, 2015, and as described under “Commentary Regarding Previously Disclosed Forest Internal Control Issues” below, the management of Sabine identified that certain control deficiencies, related to the material weaknesses, continued to exist post-Combination. As a result, our principal executive officer and principal financial officer concluded that, as of March 31, 2015, our disclosure controls and procedures were ineffective.

Commentary Regarding Previously Disclosed Forest Internal Control Issues

As set forth and included in our Annual Report on Form 10-K for the year ended December 31, 2014, prior to the Combination and as of the end of the quarterly period ended September 30, 2014, Forest disclosed that its internal control over financial reporting was ineffective as of, and for certain periods prior to, September 30, 2014. Subsequent to the completion of the Combination, Sabine management reviewed the plans adopted and actions implemented by Forest management to remediate the material weaknesses previously disclosed. While many steps to remediate the previously disclosed material weaknesses were largely complete and new internal controls were in place, had been tested and found effective by Forest, Sabine management identified that certain control deficiencies, related to the material weaknesses, continued to exist as of the completion of the Combination or there was no evidence of remediation as of December 31, 2014. Since we did not perform an assessment of internal controls over financial

reporting, we can give no assurance that the material weaknesses were remediated.

As of March 31, 2015, we are actively testing and evaluating the implementation of these new processes and internal controls to ascertain whether they are designed and operating effectively to provide reasonable assurance that they will prevent or detect a material error in the financial statements with the expectation that we will provide management's report on internal control over financial reporting as of December 31, 2015. The evaluation and program underway is designed to identify and also remediate material weaknesses in our internal controls over financial reporting as of December 31, 2015 and will be reviewed with the Audit Committee of the Board of Directors. Management continues to

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assign the highest priority to the program and devotes significant planning, execution and integration efforts toward those items previously identified by Forest, which are set forth and included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Commentary Regarding an Immaterial Misstatement

As discussed in Note 2, subsequent to the issuance of the Consolidated Financial Statements for the year ended December 31, 2014, management identified a misstatement in the presentation of deferred taxes associated with the 2019 Notes and 2020 Notes. This misstatement arose due to ineffective communication and management review controls following the reclassification of debt in the Consolidated Balance Sheet at December 31, 2014.

Management evaluated the severity of these deficiencies and concluded that there was a material weakness in internal control over financial reporting as of December 31, 2014 that had not been remediated as of March 31, 2015.

Along with those items included in the above section, “Commentary Regarding Previously Disclosed Forest Internal Control Issues,” remediation effort related to this misstatement has been incorporated within the evaluation and program underway designed to remediate material weaknesses in our internal control over financial reporting as of December 31, 2015.

Changes in Internal Control over Financial Reporting

Changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting have been described above.

PART II. OTHER INFORMATION

ITEM 1.LEGAL PROCEEDINGS

We are party to lawsuits arising in the ordinary course of our business. We cannot predict the outcome of any such lawsuits with certainty, but our management team does not expect the outcome of pending or threatened legal matters to have a material adverse impact on our financial condition.

The Parish of Jefferson v. Destin Operating Company, Inc., et al.

On November 11, 2013, Jefferson Parish filed suit against Forest and fourteen (14) other defendants, alleging that certain of defendants’ oil and gas exploration, production, and transportation operations associated with the development of the Bay de Chene, Queen Bess Island, and Saturday Island oil and gas fields in Jefferson Parish, Louisiana were conducted in violation of Louisiana’s State and Local Coastal Resources Management Act and its associated rules and regulations, and that these activities caused substantial damage to land and waterbodies located in the Jefferson Parish Coastal Zone. Forest tendered a claim for indemnity to Texas Petroleum Investment Company (“TPIC”), which TPIC rejected. Forest responded with a reservation of rights to indemnity from TPIC. The case was removed to federal court and is currently pending in the United States District Court for the Eastern District of Louisiana. The case was administratively closed pending the court’s decision regarding federal jurisdiction in other similar lawsuits. Those lawsuits were recently remanded to Louisiana state court. On March 12, 2015, the case was administratively reopened and the court directed the defendants to show cause as to how and why the jurisdictional issues in this case differ from those issues presented in the similar lawsuits. Defendants filed the requisite briefing and

the matter is under advisement. Plaintiffs seek unspecified monetary damages and restoration of the Jefferson Parish Coastal Zone to its original condition. This matter is in the very early stages of litigation.

The Parish of Plaquemines v. ConocoPhillips Company, et al.

On November 8, 2013, Plaquemines Parish filed suit against Forest and seventeen (17) other defendants, alleging that certain of defendants' oil and gas exploration, production, and transportation operations associated with the

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development of the Bay Batiste, Grand Ecaille, Lake Washington, Manila Village, Manila Village Southeast, Saturday Island, and Saturday Island Southeast oil and gas fields in Plaquemines Parish, Louisiana were conducted in violation of Louisiana's State and Local Coastal Resources Management Act and its associated rules and regulations, and that these activities caused substantial damage to land and waterbodies in the Plaquemines Parish Coastal Zone. Forest tendered a claim for indemnity to Texas Petroleum Investment Company ("TPIC"), which TPIC rejected. Forest responded with a reservation of rights to indemnity from TPIC. The case was removed to the United States District Court for the Eastern District of Louisiana, but was remanded to Louisiana state court on March 10, 2015. The matter is now pending before the 25th Judicial District Court for the Parish of Plaquemines, State of Louisiana. Plaintiffs seek unspecified monetary damages and restoration of the Plaquemines Parish Coastal Zone to its original condition. This matter is in the very early stages of litigation.

Forest Oil Corporation v. El Rucio Land and Cattle Company, Inc., et al.

On February 29, 2012, two members of a three-member arbitration panel reached a decision adverse to Forest in the proceeding styled Forest Oil Corp., et al. v. El Rucio Land & Cattle Co., et al., which occurred in Harris County, Texas. The third member of the arbitration panel dissented. The proceeding was initiated in January 2005 and involves claims asserted by the landowner-claimant based on the diminution in value of its land and related damages allegedly resulting from operational and reclamation practices employed by Forest in the 1970s, 1980s, and early 1990s. The arbitration decision awarded the claimant \$23 million in damages and attorneys' fees and additional injunctive relief regarding future surface-use issues. On October 9, 2012, after vacating a portion of the decision imposing a future bonding requirement on Forest, the trial court for the 55th Judicial District, in the District Court in Harris County, Texas, reduced the arbitration decision to a judgment. The judgment was affirmed by the Court of Appeals for the First District of Texas on July 24, 2014, and a motion for rehearing was denied on August 8, 2014. Forest filed a petition for review with the Texas Supreme Court on January 5, 2015. On May 1, 2015, the Texas Supreme Court requested full briefing on the merits.

Stourbridge Investments, LLC v. Forest Oil Corporation, et al., Raul v. Carroll, et al., Rothenberg v. Forest Oil Corporation, et al., Gawlikowski v. Forest Oil Corporation, et al., Edwards v. Carroll, et al., Jabri v. Forest Oil Corporation, et al., Olinatz v. Forest Oil Corporation, et al.

Following the May 6, 2014 announcement of the proposed Combination, six putative class action lawsuits were filed by Forest Oil shareholder in the Supreme Court of the State of New York, County of New York, alleging breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by Sabine entities in connection with the proposed Combination. By order dated July 8, 2014, the six New York cases were consolidated for all purposes under the caption In re Forest Oil Corporation Shareholder Litigation, Index No. 651418/2014. On July 17, 2014, plaintiffs in the consolidated New York action filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). The Consolidated Complaint seeks to certify a plaintiff class consisting of all holders of Forest Oil common stock other than the defendants and their affiliates. The defendants named in these actions include the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), as well as Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC). The Consolidated Complaint also purports to identify FR XI Onshore AIV, L.L.C. as a defendant, but no causes of action are alleged against that entity.

The Consolidated Complaint alleges that the proposed Combination arises out of a series of unlawful actions by the board of directors of Forest Oil seeking to ensure that Sabine and affiliates of First Reserve Corporation ("First Reserve") acquire the assets of, and take control over, Forest Oil through an alleged "three-step merger transaction" that allegedly does not represent a value-maximizing transaction for the shareholders of Forest Oil. The Consolidated Complaint also complains that the proposed Combination has been improperly restructured to require only a majority

vote of current Forest Oil shareholders to approve the Combination with Sabine, rather than a two-thirds majority as would have been required under the original transaction structure. The Consolidated Complaint additionally alleges that members of Forest Oil's board, as well as Forest Oil's financial adviser for the proposed Combination, are subject to conflicts of interest that compromise their loyalty to Forest Oil's shareholders, that the defendants have improperly sought to "lock up" the proposed Combination with certain inappropriate "deal protection devices" that impede Forest Oil from pursuing superior potential transactions with other bidders.

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The Consolidated Complaint asserts causes of action against the directors of Forest Oil for breaches of fiduciary duty and violations of the New York Business Corporation Law, as well as a cause of action against the Sabine defendants for aiding and abetting the directors' breaches of duty and violations of law, and it seeks preliminary and permanent injunctive relief to enjoin consummation of the proposed Combination or, in the alternative, rescission and/or rescissory and other damages in the event that the proposed Combination is consummated before the lawsuit is resolved.

In addition to these New York proceedings, one putative class action lawsuit has been filed by Forest Oil shareholders in the United States District Court for the District of Colorado. That action, captioned *Olinatz v. Forest Oil Corp.*, No. 1:14-cv-01409-MSK-CBS, was commenced on May 19, 2014, and plaintiffs filed an Amended Complaint (the "Olinatz Complaint") on June 13, 2014. The Olinatz Complaint also alleges breaches of fiduciary duty by the directors of Forest Oil and aiding and abetting of those breaches of fiduciary duty by the Sabine defendants in connection with the proposed Combination, as well as related claims alleging violations of Section 14 (a) and 20 (a) of the Securities Exchange Act of 1934, and Securities and Exchange Commission Rule 14a-9 promulgated thereunder, in connection with alleged misstatements in a Form S-4 Registration Statement filed by Forest Oil on May 29, 2014, which recommends that Forest Oil shareholders approve the proposed Combination. The Olinatz Complaint names as defendants Forest Oil and certain of its affiliates (specifically, Forest Oil Corporation, New Forest Oil Inc., and Forest Oil Merger Sub Inc.), the directors of Forest Oil (Patrick R. McDonald, James H. Lee, Dod A. Fraser, James D. Lightner, Loren K. Carroll, Richard J. Carty, and Raymond I. Wilcox), and Sabine and certain of its affiliates (specifically, Sabine Oil & Gas LLC, Sabine Investor Holdings LLC, Sabine Oil & Gas Holdings LLC, and Sabine Oil & Gas Holdings II LLC), and seeks preliminary and permanent injunctive relief to enjoin consummation of the Combination or, in the alternative, rescission in the event the proposed Combination is consummated before the lawsuit is resolved, as well as imposition of a constructive trust on any alleged benefits improperly received by defendants.

On October 14, 2014, on motion by the Colorado plaintiffs, the Court in the Colorado action entered an order directing the Clerk of the Court to administratively close the action, subject to reopening on good cause shown.

On November 11, 2014, the defendants reached an agreement in principle with plaintiffs in the New York action regarding a settlement of that action, and that agreement is reflected in a memorandum of understanding executed by the parties on that date. The settlement, if consummated, will also resolve the Colorado action. In connection with the settlement contemplated by the memorandum of understanding, Forest Oil agreed to make certain additional disclosures related to the proposed transaction with Sabine, which are contained in Forest Oil's November 12, 2014 Form 8-K, and Sabine agreed that, within 120 days after the closing of the proposed combination transaction, Sabine Investor Holdings LLC will designate for a period of no less than three (3) years at least one additional independent director, as defined in Section 303A.02 of the New York Stock Exchange Listed Company Manual, as a Sabine Nominee (as defined in Section 1.4 of the Amended and Restated Agreement and Plan of Merger). The total number of Sabine Nominees will remain unchanged, but at least one of the remaining two Sabine Nominees that had not yet been determined was required to be independent. In connection with the closing of the Combination, Thomas Chewing, an independent director as defined in Section 303A.02 of the New York Exchange Listed Company Manual, was appointed as a Sabine Nominee. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement.

On March 13, 2015, plaintiffs informed Sabine that they believed Sabine had materially violated the terms of the memorandum of understanding by (i) failing to replace or create a mechanism to replace an independent director who resigned from the board of directors in January of 2015, and (ii) making changes to the terms of the merger agreement that were not necessary or required to facilitate the consummation of the proposed transaction without first disclosing and permitting shareholders to vote on the changes. Sabine disagrees with plaintiffs' position and believes it has fully complied with the memorandum of understanding. In an attempt to facilitate a resolution, however, Sabine offered to:

(i) appoint an independent director if an additional director was added to the Board of Directors (bringing the total number of directors eight) in the next twelve months, and (ii) remove or waive the “Reincorporation Penalty” provision. Plaintiffs accepted the offer on April 22, 2015, contingent upon the Parties’ reaching agreement on a stipulation of settlement, which they are presently negotiating.

The stipulation of settlement will be subject to customary conditions, including court approval. In the event the parties enter into a stipulation of settlement, a hearing will be scheduled at which the New York Court will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims or actions that were or could have been brought challenging any aspect of the proposed

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combination transaction, the Amended and Restated Agreement and Plan of Merger, the merger agreement originally entered into by Sabine Investor Holdings LLC, Forest Oil, New Forest Oil Inc. and certain of their affiliated entities on May 5, 2014, any disclosure made in connection therewith, including the Definitive Proxy Statement, and all other matters that were the subject of the complaint in the New York action, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that the parties will negotiate in good faith regarding the amount of attorney's fees and expenses that shall be paid to plaintiffs' counsel in connection with the Actions. There can be no assurances that the parties will ultimately enter into a stipulation of settlement or that the New York Court will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated. The parties are presently negotiating the stipulation of settlement. At this time, the Company is unable to guarantee the potential outcome of this litigation or the ultimate exposure.

Wilmington Savings Fund Society, FSB v. Forest Oil Corporation

On February 26, 2015, we were served with a complaint concerning the indenture governing our 2019 Notes. The complaint is pending in the Supreme Court of the State of New York and generally alleges that certain events of default occurred with respect to the 2019 Notes due to the business combination between Forest Oil Corporation and Sabine Oil & Gas LLC. We also received a notice of default and acceleration from the trustee with respect to the 2019 Notes containing similar allegations. If we are not successful in our defense of this complaint, we may be required to redeem the holders of the 2019 Notes at 101% of the outstanding principal, plus accrued and outstanding interest of the notes, and if the court determines we are in default under the indenture governing the 2019 Notes, a cross-default and acceleration under our other debt agreements may result. Sabine filed its Answer to the complaint on April 17, 2015. We believe these allegations against us are without merit and intend to vigorously defend against such claims and pursue any and all defenses available. However, we are unable to predict the outcome of such matter, and the proceedings may have a negative impact on our liquidity, financial condition and results of operations.

We are separately evaluating potential claims that we may assert against the trustee for the 2019 Notes for any and all losses we may suffer as a result of the complaint or notice. We can provide no guarantee that any such claims, if brought by us, will be successful or, if successful, that the responsible parties will have the financial resources to address any such claims. While we intend to vigorously defend the claims against us and believe they are without merit, an adverse ruling could cause our indebtedness to become immediately due and payable.

Additional claims, lawsuits, or proceedings may be filed or commenced arising out of the indentures to which we are a party and with respect to the business combination.

Patrick R. McDonald v. Sabine Oil & Gas Corporation

On March 30, 2015, Mr. Patrick R. McDonald filed a complaint against us in the District Court, City and County of Denver, State of Colorado, alleging that we breached our obligations under a severance agreement with Mr. McDonald, and violated the Colorado Wage Act by allegedly not paying Mr. McDonald certain accrued vacation. The complaint arises from our decision to defer the payment of severance and associated benefits to certain of our former executive officers. In the complaint, Mr. McDonald seeks relief in the form of monetary damages. Mr. McDonald served as an executive officer until December 2014, and he continues to serve on our Board of Directors. On April 29, 2015, we removed the lawsuit from state court to the U.S. District Court for the District of Colorado, where it now pending. We filed an answer to Mr. McDonald's complaint on May 6, 2015.

ITEM 1A.RISK FACTORS

The following risk factors update the Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the "Annual Report"). Except as set forth below, there have been no material changes to the risks described in the Annual Report.

Due to our substantial liquidity concerns, we may be unable to continue as a going concern.

Our existing and future debt agreements could create issues as interest payments become due and the debt matures that will threaten our ability to continue as a going concern. For example, absent any action with respect to the

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repayment or refinancing of our existing indebtedness or any waivers or amendments to the agreements governing our existing indebtedness, our Term Loan Facility will mature on November 16, 2016. Additionally, our New Revolving Credit Facility will mature on April 7, 2016, unless the Term Loan Facility is paid-off or satisfied in full prior to such time or the agent or lenders under the Term Loan Facility consent. See the definition of “New Revolving Credit Facility Maturity Date”. Additionally, the borrowing base under our New Revolving Credit Facility is subject to at least semi-annual redetermination. On April 27, 2015, our borrowing base under the New Revolving Credit Facility was subject to its semi-annual redetermination and was decreased from \$1.0 billion to \$750 million, resulting in required mandatory deficiency payments. In the future, availability thereunder could be further reduced and advances in excess of the new availability would need to be repaid. We also have substantial interest payments due during the next twelve months on our 2017 Notes and Legacy Forest Notes. If we fail to satisfy our obligations with respect to our indebtedness or fail to comply with the financial and other restrictive covenants contained in the debt agreements governing our indebtedness, an event of default could result, which would permit acceleration of such debt and which could result in an event of default under and acceleration of our other debt and could permit our secured lenders to foreclose on any of our assets securing such debt. Any accelerated debt would become immediately due and payable. While we will attempt to take appropriate mitigating actions to refinance any indebtedness prior to its maturity or otherwise extend the maturity dates, and to cure any potential defaults, there is no assurance that any particular actions with respect to refinancing existing indebtedness, extending the maturity of existing indebtedness or curing potential defaults in our existing and future debt agreements will be sufficient. Additionally, we have elected to exercise our right to a grace period with respect to a \$15.3 million interest payment under our Term Loan Facility. The interest payment was due April 21, 2015; however, such grace period permits us 30 days to make such interest payment before an event of default occurs. If we continue to fail to pay the interest payment such failure could constitute a cross default under certain terms of our other indebtedness. If the indebtedness under the Term Loan Facility or any of our other indebtedness is accelerated, we may have to file for bankruptcy. The uncertainty associated with our ability to repay our outstanding debt obligations as they become due raises substantial doubt about our ability to continue as a going concern.

The report of our independent registered public accounting firm that accompanies our audited consolidated financial statements for the year ended December 31, 2014 contains an explanatory paragraph regarding the substantial doubt about our ability to continue as a going concern. As a result, we are in default under our New Revolving Credit Facility and Term Loan Facility.

Our New Revolving Credit Facility and Term Loan Facility require that our annual financial statements include a report from our independent registered public accounting firm with an unqualified opinion without an explanatory paragraph as to going concern. In consideration of the uncertainty mentioned above, the report of our independent registered public accounting firm that accompanies our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2014 contains an explanatory paragraph regarding the substantial doubt about our ability to continue as a going concern. As a result, we are in default under our New Revolving Credit Facility and Term Loan Facility. On May 4, 2015, we entered into a Forbearance Agreement with respect to certain anticipated events of default, including the default under the New Revolving Credit Facility as a result of the “going concern” qualification in our 2014 audited financial statements. The administrative agent under the New Revolving Credit Facility has agreed to forbear certain anticipated events of default until June 30, 2015, or earlier if certain events occur, including the acceleration or exercise of remedies by any other lender or creditor and certain events of default under the Forbearance Agreement and New Revolving Credit Facility. Similarly, if we do not obtain a waiver under the Term Loan Facility within 180 days of notice, there will exist an event of default under the Term Loan Facility that will allow the lenders under the Term Loan Facility to be able to accelerate the debt. Any acceleration of the debt obligations under the New Revolving Credit Facility or Term Loan Facility would result in a cross-default and potential acceleration of the maturity of our other outstanding debt obligations. Therefore, all our outstanding debt obligations in the amount of \$2,437 million (net of discount) and \$1,989 million (net of discount) are presented in current liabilities as of March 31, 2015 and December 31, 2014, respectively. Additionally, the lenders

under the Term Loan Facility are subject to a 180-day standstill before they are able to exercise remedies as a result of the uncured event of default. Following the expiration of the 180-day standstill, the lenders are permitted to foreclose on the collateral securing the Term Loan Facility.

Due to reduced commodity prices and lower operating cash flows, coupled with substantial interest payments, we may be unable to maintain adequate liquidity and our ability to make interest payments in respect of our indebtedness could be adversely affected.

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Recent declines in commodity prices have caused a reduction in our available liquidity and we may not have the ability to generate sufficient cash flows from operations and, therefore, sufficient liquidity to meet our anticipated working capital, debt service and other liquidity needs. We are currently evaluating strategic alternatives to address our liquidity issues and high debt levels. We cannot assure you that any of these efforts will be successful or will result in cost reductions or additional cash flows or the timing of any such cost reductions or additional cash flows. In order to increase our liquidity to levels sufficient to meet our commitments, we are currently pursuing or considering a number of actions including (i) actively managing our debt capital structure through a number of alternatives, including debt repurchases, debt-for-debt exchanges, debt-for-equity exchanges and secured financing, (ii) in- and out-of-court restructuring, (iii) minimizing our capital expenditures, (iv) obtaining waivers or amendments from our lenders, (v) effectively managing our working capital and (vi) improving our cash flows from operations. There can be no assurance that sufficient liquidity can be raised from one or more of these transactions or that these transactions can be consummated within the period needed to meet certain obligations. We cannot assure you that any refinancing or debt or equity restructuring would be possible or that additional equity or debt financing could be obtained on acceptable terms, if at all. Furthermore, we cannot assure you that any of our strategies will yield sufficient funds to meet our working capital or other liquidity needs, including for payments of interest and principal on our debt in the future, and any such alternative measures may be unsuccessful or may not permit us to meet scheduled debt service obligations, which could cause us to default on our obligations.

Our level of indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in our business or our industry and place us at a competitive disadvantage.

As of May 11, 2015, the total outstanding principal amount of our long-term indebtedness was \$2.821 billion, consisting of indebtedness under the New Revolving Credit Facility, our 2017 Notes, our 2019 Notes, 2020 Notes, and our Term Loan Facility, and, as of May 11, 2015, no extensions of credit are available under the New Revolving Credit Facility after giving effect to \$28 million of outstanding letters of credit.

If we do not generate sufficient cash flow from operations to satisfy our debt obligations, we may have to undertake alternative financing plans such as refinancing or restructuring our debt, selling assets, reducing or delaying scheduled expansions and capital investments, including planned drilling and completion activity, or seeking to raise additional capital.

We cannot assure you that we would be able to enter into these alternative financing plans on commercially reasonable terms or at all. However, any alternative financing plans that we undertake, if necessary, may not allow us to meet our debt obligations. Our inability to generate sufficient cash flow to satisfy our debt obligations or to obtain alternative financing could materially and adversely affect our business, results of operations, financial condition and business prospects, as well as our ability to satisfy our obligations in respect of the New Revolving Credit Facility, the 2017 Notes, the 2019 Notes, the 2020 Notes and the Term Loan Facility.

Our debt could have important consequences to you. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions, (ii) limit our ability to fund future capital expenditures and working capital, to engage in future acquisitions or development activities, or to otherwise realize the value of our assets and opportunities fully because of the need to dedicate a substantial portion of our cash flow from operations to payments of interest and principal on our debt or to comply with any restrictive terms of our debt, (iii) result in an event of default if we fail to satisfy our obligations with respect to our indebtedness or fail to comply with the financial and other restrictive covenants contained in the New Revolving Credit Facility, the indentures governing the 2017 Notes, the 2019 Notes and the 2020 Notes, the Term Loan Facility or other agreements governing our indebtedness, which event of default could result in all of our debt becoming immediately due and payable and could permit our lenders to foreclose on any of our assets securing such debt, (iv) increase our cost of borrowing, (v) restrict us from making strategic acquisitions or causing us to make non-strategic divestitures, (vi) limit our flexibility in planning for, or

reacting to, changes in our business or industry in which we operate, placing us at a competitive disadvantage compared to our competitors who are less highly leveraged and who therefore may be able to take advantage of opportunities that our leverage prevents us from exploring and (vii) impair our ability to obtain additional financing in the future.

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In addition, if we fail to comply with the covenants or other terms of any agreements governing our debt, our lenders may have the right to accelerate the maturity of that debt and foreclose upon the collateral securing that debt. Such an occurrence would adversely affect our financial condition.

The borrowing base under the New Revolving Credit Facility was recently reduced by our lenders, and we are required to repay a portion of the borrowings under the New Revolving Credit Facility. Additionally, in the future, our borrowing base under the New Revolving Credit Facility may be further reduced by our lenders.

The New Revolving Credit Facility limits the amounts we can borrow up to the lesser of the committed amount and a borrowing base amount, which is subject to redeterminations by the lenders semi-annually each April 1 and October 1, beginning April 1, 2015 or such later time as we may agree upon request of the administrative agent, or as the majority lenders may agree upon our request. We and the lenders comprising two-thirds of the lenders as measured by exposure may each request two unscheduled borrowing base redeterminations during any 12-month period. Our borrowing base under the New Revolving Credit Facility was subject to its semi-annual redetermination on April 27, 2015 and was decreased from \$1.0 billion to \$750 million. Because our New Revolving Credit Facility is fully drawn, the decrease in our borrowing base as a result of the redetermination resulted in a deficiency of approximately \$250 million which must be repaid in six monthly installments of \$41.54 million. We may not have the financial resources to make the mandatory deficiency principal prepayments required under our New Revolving Credit Facility, which could result in an event of default. Additionally, failure to make any mandatory deficiency principal payment under our New Revolving Credit Facility may result in a cross-default under our Term Loan Facility and certain of our senior notes.

Additionally, the borrowing base under the New Revolving Credit Facility could increase or decrease further in connection with a future redetermination with increases being subject to the approval of all lenders and decreases (and redeterminations maintaining the borrowing base) being subject to the approval of two-thirds of the lenders as measured by exposure. If the prices for oil and natural gas remain weak or deteriorate, if we have a downward revision in estimates of our proved reserves, or if we sell oil and natural gas reserves, our borrowing base may be reduced. The borrowing base is also subject to reduction as a result of certain issuances of additional debt, certain asset sales, cancellation of certain hedging positions or lack of sufficient title information.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following sets forth information with respect to repurchases by the Company of its shares of restricted stock during the first quarter of 2015.

Period	Total number of shares purchased (1)	Average price per share
January	871,499	\$ 0.2
February	—	—
March	—	—
Total	871,499	\$ 0.2

Item 3. Defaults Upon Senior Securities.

See Note 3 to the Notes to Condensed Consolidated Financial Statements, “Liquidity and Ability to Continue as a Going Concern,” within Part I, Item I of this Quarterly Report on Form 10-Q.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

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Exhibit No.	Description
3.1	Restated Certificate of Incorporation of Sabine Oil & Gas Corporation, restated as of December 19, 2014, incorporated herein by reference to Exhibit 3.1 to Form 10-K for Sabine Oil & Gas Corporation filed March 31, 2015 (File No. 001-13515).
3.2	Amended and Restated Bylaws, as amended December 16, 2014, incorporated herein by reference to Exhibit 3.4 to Form 8-K for Sabine Oil & Gas Corporation filed December 22, 2014 (File No. 001-13515).
10.1	Sabine Oil & Gas Corporation Severance and Change in Control Agreement with Michael Magilton, dated January 6, 2015, incorporated herein by reference to Exhibit 10.1 to Form 8-K for Sabine Oil & Gas Corporation dated January 7, 2015 (File No. 001-13515).
10.2	Offer letter between Sabine Oil & Gas and Michael Magilton, dated December 12, 2014, incorporated herein by reference to Exhibit 10.2 to Form 8-K for Sabine Oil & Gas Corporation dated January 7, 2015 (File No. 001-13515).
10.3*	Sabine Oil & Gas Corporation 2014 Long-Term Incentive Plan – Form of Performance Award Letter.
10.4	Forbearance Agreement and First Amendment to Second Amended and Restated Credit Agreement, dated as of May 4, 2015, by and among Sabine Oil & Gas Corporation, Wells Fargo Bank, N.A., as administrative agent, and the lenders party thereto, incorporated herein by reference to Exhibit 10.1 to Form 8-K for Sabine Oil & Gas Corporation dated May 5, 2015 (File No. 001-13515).
31.1*	Certification of the Company’s Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Company’s Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certificate by the Company’s Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certificate by the Company’s Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith.

**Furnished herewith.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, Sabine Oil & Gas Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SABINE OIL & GAS CORPORATION

Date: May 11, 2015 By: /s/ David J. Sambrooks
Name: David J. Sambrooks
Title: President, Chief Executive Officer and Chairman

By: /s/ Michael D. Magilton, Jr.
Name: Michael D. Magilton, Jr.
Title: Senior Vice President and Chief Financial Officer