

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2020

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-37712

ROSEHILL RESOURCES INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

90-1184262

(IRS Employer Identification No.)

16200 Park Row, Suite 300

Houston, Texas 77084

(Address of principal executive offices) (Zip Code)

(281) 675-3400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock	ROSE	The NASDAQ Capital Market
Class A Common Stock Public Warrants	ROSEW	The NASDAQ Capital Market
Class A Common Stock Public Units	ROSEU	The NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

As of June 26, 2020, 28,944,000 shares of Class A Common Stock, par value \$0.0001 per share, and 15,707,692 shares of Class B Common Stock, par value \$0.0001 per share, were issued and outstanding.

### **Explanatory Note**

On March 4, 2020, the Securities and Exchange Commission issued an order (Release No. 34-88318) under Section 36 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), granting exemptions from specified provisions of the Exchange Act and certain rules thereunder. On March 25, 2020, the order was modified and superseded by a new SEC order (Release No. 34-88465) (the “SEC Order”), that provides conditional relief to public companies that are unable to timely comply with their filing obligations as a result of the outbreak and spread of the COVID-19 coronavirus pandemic (“COVID-19”). Rosehill Resources Inc. relied on the SEC Order to delay the filing of this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 due to circumstances related to COVID-19. In particular, as a result of office closures due to “lock-down” or “stay at home” orders implemented in response to the COVID-19 pandemic, remote working arrangements we have implemented, and material reductions in personnel, we experienced delays in our accounting and control procedures. In addition, the disruptions to our business caused by COVID-19 have resulted in a significant diversion of resources to attend to the operational needs of the business. As a result, we required additional time to prepare and finalize this report.

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**ROSEHILL RESOURCES INC.**  
**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2020**

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

**ROSEHILL RESOURCES INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

*(In thousands, except share and per share amounts)*

	March 31, 2020	December 31, 2019
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 78,309	\$ 2,991
Accounts receivable	21,333	34,910
Derivative assets	79,907	10,340
Prepaid and other current assets	1,464	2,393
Total current assets	181,013	50,634
<b>Property and equipment:</b>		
Oil and natural gas properties (successful efforts), net	409,322	744,597
Other property and equipment, net	2,739	2,984
Total property and equipment, net	412,061	747,581
Derivative assets	60,784	33,105
Deferred tax assets	—	37,726
Other assets, net	5,180	3,466
<b>Total assets</b>	<b>\$ 659,038</b>	<b>\$ 872,512</b>
<b>LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt, net	\$ 435,834	\$ —
Accounts payable	10,928	15,922
Accounts payable, related parties	499	209
Derivative liabilities	2,122	4,016
Accrued liabilities and other	21,823	26,513
Accrued capital expenditures	22,613	23,031
Total current liabilities	493,819	69,691
<b>Long-term liabilities:</b>		
Long-term debt, net	—	355,511
Asset retirement obligations	14,671	14,431
Deferred tax liabilities	378	1,196
Derivative liabilities	3,041	1,300
Liability related to tax receivable agreement	166	53,809
Other liabilities	1,064	432
Total long-term liabilities	19,320	426,679
<b>Total liabilities</b>	<b>513,139</b>	<b>496,370</b>
<b>Commitments and contingencies (Note 19)</b>		
<b>Mezzanine equity</b>		
Series B Preferred Stock; \$0.0001 par value, 10.0% Redeemable, \$1,000 per share liquidation preference; of the 1,000,000 shares of Preferred Stock authorized, 210,000 shares designated, 156,746 shares issued and outstanding as of March 31, 2020 and December 31, 2019	168,924	163,026
<b>Stockholders' equity</b>		
Series A Preferred Stock; \$0.0001 par value, 8.0% Cumulative Perpetual Convertible, \$1,000 per share liquidation preference; of the 1,000,000 shares of Preferred Stock authorized, 150,000 shares designated, 107,658 and 105,589 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	90,620	88,551
Class A Common Stock; \$0.0001 par value, 250,000,000 shares authorized and 28,811,078 and 28,554,526 shares issued and outstanding as of March 31, 2020 and December 31, 2019, respectively	3	3
Class B Common Stock; \$0.0001 par value, 30,000,000 shares authorized, 15,707,692 shares issued and outstanding as of March 31, 2020 and December 31, 2019	2	2
Additional paid-in capital	64,754	72,859
Retained earnings (accumulated deficit)	(129,223)	11,126
Total common stockholders' equity (deficit)	(64,464)	83,990
Noncontrolling interest	(49,181)	40,575
<b>Total stockholders' equity (deficit)</b>	<b>(23,025)</b>	<b>213,116</b>
<b>Total liabilities, mezzanine equity and stockholders' equity</b>	<b>\$ 659,038</b>	<b>\$ 872,512</b>

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

**ROSEHILL RESOURCES INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**  
*(In thousands, except per share amounts)*

	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Revenues:</b>		
Oil sales	\$ 57,752	\$ 65,853
Natural gas sales	104	1,474
Natural gas liquids sales	2,338	4,533
Total revenues	<u>60,194</u>	<u>71,860</u>
<b>Operating expenses:</b>		
Lease operating expenses	12,095	9,635
Production taxes and ad valorem taxes	3,759	4,238
Gathering and transportation	1,371	2,361
Depreciation, depletion, amortization and accretion	31,486	35,964
Impairment of oil and natural gas properties	333,840	—
Exploration costs	13,720	1,255
General and administrative	10,620	9,055
Loss on disposition of property and equipment	18	9
Total operating expenses	<u>406,909</u>	<u>62,517</u>
<b>Operating income (loss)</b>	<u>(346,715)</u>	<u>9,343</u>
<b>Other income (expense):</b>		
Interest expense, net	(10,814)	(5,600)
Gain (loss) on commodity derivative instruments, net	110,120	(104,571)
Other income, net	54,108	62
Total other income (expense), net	<u>153,414</u>	<u>(110,109)</u>
<b>Loss before income taxes</b>	<u>(193,301)</u>	<u>(100,766)</u>
Income tax expense	37,027	3,306
<b>Net loss</b>	<u>(230,328)</u>	<u>(104,072)</u>
Net loss attributable to noncontrolling interest	(89,979)	(73,909)
Net loss attributable to Rosehill Resources Inc. before preferred stock dividends	(140,349)	(30,163)
Series A Preferred Stock dividends and deemed dividends	2,102	2,006
Series B Preferred Stock dividends, deemed dividends, and return	5,898	5,808
<b>Net loss attributable to Rosehill Resources Inc. common stockholders</b>	<u>\$ (148,349)</u>	<u>\$ (37,977)</u>
<b>Loss per common share:</b>		
Basic	\$ (5.19)	\$ (2.75)
Diluted	\$ (5.38)	\$ (2.75)
<b>Weighted average common shares outstanding:</b>		
Basic	28,566	13,830
Diluted	44,274	13,830

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

**ROSEHILL RESOURCES INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)**  
**(Unaudited)**  
*(In thousands, except share amounts)*

**Three Months Ended March 31, 2020:**

	Preferred Stock Series A		Common Stock				Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Common Stockholders' Equity (Deficit)	Non- controlling Interest	Total Equity (Deficit)
	Shares	Value	Class A		Class B						
	Shares	Value	Shares	Value	Shares	Value					
Balance at December 31, 2019	105,589	\$88,551	28,554,526	\$ 3	15,707,692	\$ 2	\$ 72,859	\$ 11,126	\$ 83,990	\$ 40,575	\$213,116
Net loss	—	—	—	—	—	—	—	(140,349)	(140,349)	(89,979)	(230,328)
Restricted stock issued	—	—	339,001	—	—	—	—	—	—	—	—
Restricted stock withheld for taxes	—	—	(82,449)	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	—	—	—	118	—	118	—	118
Series A Preferred Stock dividends	2,069	2,069	—	—	—	—	(2,102)	—	(2,102)	—	(33)
Series A Preferred Stock conversions	—	—	—	—	—	—	—	—	—	—	—
Series B Preferred Stock dividends, deemed dividends and return	—	—	—	—	—	—	(5,898)	—	(5,898)	—	(5,898)
Equity shift	—	—	—	—	—	—	(223)	—	(223)	223	—
Balance at March 31, 2020	<u>107,658</u>	<u>\$90,620</u>	<u>28,811,078</u>	<u>\$ 3</u>	<u>15,707,692</u>	<u>\$ 2</u>	<u>\$ 64,754</u>	<u>\$ (129,223)</u>	<u>\$ (64,464)</u>	<u>\$ (49,181)</u>	<u>\$(23,025)</u>

**Three Months Ended March 31, 2019:**

	Preferred Stock Series A		Common Stock				Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Common Stockholders' Equity (Deficit)	Non- controlling Interest	Total Equity (Deficit)
	Shares	Value	Class A		Class B						
	Shares	Value	Shares	Value	Shares	Value					
Balance at December 31, 2018	101,669	\$84,631	13,760,136	\$ 1	29,807,692	\$ 3	\$ 42,271	\$ 26,661	\$ 68,936	\$ 113,770	\$267,337
Net loss	—	—	—	—	—	—	—	(30,163)	(30,163)	(73,909)	(104,072)
Restricted stock issued	—	—	558,239	—	—	—	—	—	—	—	—
Restricted stock withheld for taxes	—	—	(31,054)	—	—	—	(89)	—	(89)	—	(89)
Stock-based compensation	—	—	—	—	—	—	974	—	974	—	974
Series A Preferred Stock dividends	—	—	—	—	—	—	(2,006)	—	(2,006)	—	(2,006)
Series B Preferred Stock dividends, deemed dividends and return	—	—	—	—	—	—	(5,808)	—	(5,808)	—	(5,808)
Equity shift	—	—	—	—	—	—	(86)	—	(86)	86	—
Balance at March 31, 2019	<u>101,669</u>	<u>\$84,631</u>	<u>14,287,321</u>	<u>\$ 1</u>	<u>29,807,692</u>	<u>\$ 3</u>	<u>\$ 35,256</u>	<u>\$ (3,502)</u>	<u>\$ 31,758</u>	<u>\$ 39,947</u>	<u>\$156,336</u>

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

**ROSEHILL RESOURCES INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(In thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net loss	(230,328)	(104,072)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	31,486	35,964
Impairment of oil and gas properties	333,840	—
Deferred income taxes	37,027	2,994
Stock-based compensation	19	974
(Gain) loss on derivative instruments	(106,025)	104,490
Net cash received (paid) in settlement of derivative instruments	8,627	(1,821)
Amortization of debt issuance costs	518	427
Write-off of undeveloped and exploratory costs	12,806	—
Other	283	1
Revaluation of Tax Receivable Agreement liability	(53,643)	—
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable and accounts receivable, related parties	13,577	(650)
Decrease (increase) in prepaid and other assets	918	(329)
Increase (decrease) in accounts payable and accrued liabilities and other	(4,507)	13,670
Increase (decrease) in accounts payable, related parties	290	(275)
Increase (decrease) in lease liabilities	(305)	—
Net cash provided by operating activities	<u>44,583</u>	<u>51,373</u>
<b>Cash flows from investing activities:</b>		
Additions to oil and natural gas properties	(45,204)	(75,825)
Proceeds received from disposition of oil and natural gas properties	—	1,100
Additions to other property and equipment	(120)	(55)
Proceeds from sale of other property and equipment	10	—
Net cash used in investing activities	<u>(45,314)</u>	<u>(74,780)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from revolving credit facility	96,000	13,000
Repayment on revolving credit facility	(16,000)	—
Debt issuance costs	—	(644)
Dividends paid on preferred stock	(3,951)	(3,362)
Restricted stock used for tax withholdings	—	(89)
Payment on capital lease obligation	—	(3)
Net cash provided by financing activities	<u>76,049</u>	<u>8,902</u>
Net decrease in cash, cash equivalents, and restricted cash	<u>75,318</u>	<u>(14,505)</u>
<b>Cash and cash equivalents beginning of period</b>	<u>2,991</u>	<u>20,157</u>
<b>Cash and cash equivalents end of period</b>	<u>\$ 78,309</u>	<u>\$ 5,652</u>

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

**ROSEHILL RESOURCES INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)**  
(Unaudited)  
(In thousands)

Supplemental cash flow information and noncash activity:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
<b>Supplemental disclosures:</b>		
Cash paid for interest	\$ 5,598	\$ 3,424
<b>Supplemental noncash activity:</b>		
Asset retirement obligations incurred, net of revision of estimates	\$ (22)	\$ 66
Changes in accrued capital expenditures	418	(4,618)
Changes in accounts payable for capital expenditures	2,504	8,264
Series A Preferred Stock dividends paid-in-kind	2,102	—
Series A Preferred Stock cash dividends declared and payable	—	2,006
Series B Preferred Stock accrued dividends	4,677	—
Series B Preferred Stock cash dividends declared and payable	—	3,866
Series B Preferred Stock return	816	1,577
Series B Preferred Stock deemed dividend	405	365

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

**ROSEHILL RESOURCES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**Note 1 – Organization and Basis of Presentation**

***Organization***

Rosehill Resources Inc. (the “Company” or “Rosehill”) is an independent oil and natural gas company focused on the acquisition, exploration, development and production of unconventional oil and associated liquids-rich natural gas reserves in the Permian Basin. The Company’s assets are concentrated in the Delaware Basin, a sub-basin of the Permian Basin.

***Recent Developments***

The adverse economic effects of COVID-19 have materially decreased demand for crude oil as a result of the restrictions implemented by governments trying to curb the outbreak and changes in consumer behavior. This has led to a significant global oversupply of oil and consequently a substantial decrease in crude oil prices. While global oil producers, including the Organization of Petroleum Exporting Countries (“OPEC”) and other oil producing nations (together with OPEC, “OPEC+”), have reached agreement to cut oil production to a limited extent, downward pressure on commodity prices has remained and could continue for the foreseeable future, particularly given concerns over available storage capacity for oil. The Company considered the impact of COVID-19 and the substantial decline in crude oil prices on the assumptions and estimates used in preparation of its financial statements and as a result has recognized a number of material charges during the three months ended March 31, 2020, including impairments to its capitalized costs for proved and unproved crude oil and natural gas properties. The Company has also recorded a full valuation allowance on its deferred tax assets and reduced its Tax Receivable Agreement liability. These items are discussed further in the following notes. In response to adverse effects of COVID-19 on the Company’s financial condition, the Company halted its capital drilling activities and reduced personnel. The full extent of the impact of COVID-19 on the Company’s operations is uncertain. A prolonged pandemic and low commodity prices could have a further material adverse effect on the Company’s results of operations, financial condition, and liquidity, including additional impairments to oil and natural gas properties.

On March 27, 2020, President Trump signed into U.S. federal law the “Coronavirus Aid, and Economic Security Act” (“CARES Act”), which is aimed at providing emergency assistance and health care for individuals, families, and businesses affected by the COVID-19 pandemic and generally supporting the U.S. economy. We have analyzed the different aspects of the CARES Act and determined that there is no impact on the Company’s financial statements.

Certain events of default under the Amended and Restated Credit Agreement and the Note Purchase Agreement (in each case, as defined below) have occurred, and the Company entered into a forbearance agreement with the lenders under the Amended and Restated Credit Agreement. On June 30, 2020, the Company entered into a Restructuring Support Agreement (“RSA”) with the stakeholders named therein, pursuant to which the Company expects to file for protection under Chapter 11 of the Bankruptcy Code for the purpose of confirming the Plan (as defined below). See further information, please read Note 3 - *Liquidity* and Note 20 - *Subsequent Events*.

***Basis of Presentation***

The condensed consolidated financial results of the Company consist of the financial results of Rosehill and Rosehill Operating Company, LLC (“Rosehill Operating”), its consolidated subsidiary. As of March 31, 2020, the Company owns approximately 64.7% of the common units of Rosehill Operating (the “Rosehill Operating Common Units”) and Tema Oil & Gas Company (“Tema”) owns approximately 35.3% of the Rosehill Operating Common Units.

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”) and the rules and regulations of the United States Securities and Exchange Commission (“SEC”) for interim financial reporting. Accordingly, certain disclosures normally included in an Annual Report on Form 10-K have been condensed or omitted, although the company believes that the disclosures made are adequate to make the information not misleading. The condensed consolidated financial statements and related notes included in this Quarterly Report should be read in conjunction with the Company’s consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2019. Except as disclosed herein, there have been no material changes to the information disclosed in the notes to the consolidated financial statements included in the Company’s Annual Report on Form 10-K for the period ended December 31, 2019. In the opinion of management, all normal, recurring adjustments and accruals considered necessary to present fairly, in all material respects, the Company’s interim financial results have been included. Operating results for the periods presented are not indicative of expected results for

**ROSEHILL RESOURCES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

the full year. The Company has disclosed that it has substantial doubt about its ability to continue as a going concern within one year after the date that these condensed consolidated financial statements are issued and the impact on the presentation of these condensed consolidated financial statements in Note 3 - *Liquidity*.

All intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current presentation on the accompanying consolidated financial statements. Such reclassifications had no impact on net income, cash flows or shareholders' equity previously reported.

***Variable Interest Entities***

Rosehill Operating is a variable interest entity. The Company determined that it is the primary beneficiary of Rosehill Operating as the Company is the sole managing member and has the power to direct the activities most significant to Rosehill Operating's economic performance as well as the obligation to absorb losses and receive benefits that are potentially significant and the Company now holds a majority of the ownership interest of Rosehill Operating. The Company consolidated 100% of Rosehill Operating's assets and liabilities and results of operations in the Company's consolidated financial statements. For further discussion, see Noncontrolling Interest in Note 16 - *Stockholders' Equity*.

**Note 2 – Summary of Significant Accounting Policies and Recently Issued Accounting Standards**

The significant accounting policies followed by the Company are set forth in Note 2 –*Summary of Significant Accounting Policies* included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

***Accounting Standard Adopted in 2020***

On January 1, 2020 we adopted ASC Topic 842, *Leases*, which requires companies to generally recognize on the balance sheet operating and financing lease liabilities and a corresponding right-of-use assets. We adopted this standard using the modified retrospective method. The Company has elected the following practical expedients that allow an entity to carry forward historical accounting treatment relating to: (i) lease identification and classification for existing leases and (ii) existing land easements. The adoption of the standard resulted in the recognition of approximately \$2.1 million of right-of-use assets and \$2.6 million of lease liabilities as of January 1, 2020, with the entire amount relating to our operating leases. The adoption of this standard did not have a significant impact on the Company's Consolidated Statements of Operations or Consolidated Statements of Cash Flows. Refer to Note 5 - *Leases* for additional information.

*Fair Value Measurement Disclosures.* In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which removes, modifies and adds disclosure requirements on fair value measurements. ASU 2018-13 is effective for the Company for fiscal years beginning after December 15, 2019. The Company adopted ASU 2018-13 on January 1, 2020. The impact to the Company was additional disclosures to provide the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measures. Refer to Note 9 - *Fair Value Measurements* for more detail on the additional disclosures.

***Recently Issued Accounting Standards Not Yet Adopted***

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). ASU 2019-12 was issued to reduce the complexity of accounting for income taxes for those entities that fall within the scope of the accounting standard. The guidance is to be applied using a prospective method, excluding amendments related to franchise taxes, which should be applied on either a retrospective basis for all periods presented or a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. ASU 2019-12 is effective for the Company for fiscal years beginning after December 15, 2021 due to its emerging growth company status, with early adoption permitted. The Company is still evaluating the impact of ASU 2019-12.

**Note 3 – Liquidity**

On March 19, 2020, the Company announced that it had fully drawn the available capacity under the revolving credit facility, pursuant to the Amended and Restated Credit Agreement (as defined in Note 13 - *Long term debt, net*). The draw was a precautionary measure in order to increase the Company's cash position and preserve financial flexibility in light of uncertainty in the global markets and commodity prices. The draw brought the Company's total outstanding principal under the Amended and Restated Credit Agreement to \$340 million as of March 31, 2020.

**ROSEHILL RESOURCES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

On March 23, 2020, the Company received a letter from The Nasdaq Stock Market LLC (“Nasdaq”) indicating that for the 30 consecutive business days ending March 20, 2020, the bid price of the Company’s Class A Common Stock had closed below the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2). Under Nasdaq Listing Rule 5810(c)(3)(A), the Company has 180 calendar days to regain compliance by meeting the continued listing standard, which was extended by Nasdaq in light of market conditions resulting from the COVID-19 pandemic to December 3, 2020.

In March 2020, in response to the substantial decrease in crude oil prices resulting from COVID-19 and the adverse effects on the Company’s financial condition as a result thereof, the Company halted all drilling and completion activity, which has resulted in a reduction in anticipated production and cash flows. The Company’s future cash flows from operations are subject to a number of variables, including uncertainty in forecasted commodity pricing and production, redetermined borrowing base capacity after the forbearance expires, which may be significantly reduced, and the Company’s ability to reduce costs. The Company may generate additional funds through (i) monetization of its commodity derivatives, subject to any required approval from lenders, (ii) the sale of non-core assets and (iii) other sources of capital. The Company may not accomplish any of these alternatives on acceptable terms or at all.

On April 1, 2020, the Company received a default notice from the agent under the Note Purchase Agreement (as defined in Note 13 -*Long term debt, net*), advising that a Default (as defined in the Note Purchase Agreement) under the Note Purchase Agreement had occurred on account of the Rosehill Operating’s failure to deliver or file audited financial statements in accordance with Section 8.01(a) of the Note Purchase Agreement by March 30, 2020, which failure constituted a Default under Section 10.01(e) of the Note Purchase Agreement and would mature into an Event of Default under and within the time period provided in Section 10.01(e) (the “Identified Default”).

On April 2, 2020, the Company received a default notice from JPMorgan Chase Bank, N.A., as agent under the Amended and Restated Credit Agreement, advising the Company that Rosehill Operating had failed to deliver or file certain of its or the Company’s audited financial statements without a “going concern” or like qualification or exception by March 30, 2020, as required pursuant to Section 8.01(a) of the Amended and Restated Credit Agreement, as well as the accompanying certificates and reports contemplated by Sections 8.01(c), (d), (e) and (m) of the Amended and Restated Credit Agreement. The default notice served as notice that the lenders deemed such failure to be a Default (as defined in the Amended and Restated Credit Agreement) under Section 10.01(e) of the Amended and Restated Credit Agreement.

On April 15, 2020, the Company did not declare or pay cash dividends on its Series B Preferred Stock (the “Series B Preferred Stock Dividend”) that were due on that day. In order to make a dividend payment, the Company’s Amended and Restated Credit Agreement requires that the Company’s borrowings outstanding be 20% less than the committed borrowing capacity in place at the time of a dividend payment. The Company was prohibited from declaring the Series B Preferred Stock Dividend due to insufficient borrowing capacity under the Amended and Restated Credit Agreement. As a result, the dividend rate of the Series B Preferred Stock Dividend increased to 12% per annum until such a time as dividends are fully paid and current, at which time the dividend rate will revert back to 10% per annum. If the Company fails to pay the Series B Preferred Stock Dividend for nine consecutive months, the holders of the Series B Preferred Stock may elect to seek redemption of all or a portion of the Series B Preferred Stock, which redemption amount was approximately \$195.2 million had the full redemption occurred as of March 31, 2020. The Company does not expect to be able to pay dividends on the Series B Preferred Stock within the nine consecutive months following April 15, 2020; as such, we expect the Series B Preferred Stock would be redeemable at the holders’ option after that time. If the full redemption had occurred as of March 31, 2020, the redemption amount would have been approximately \$195.2 million.

On April 29, 2020, the Company received a default notice from the agent under the Note Purchase Agreement, advising that, in addition to the Identified Default, an Event of Default under the Note Purchase Agreement had occurred on account of Rosehill Operating’s failure to cause Rosehill Intermediate Holdco, LLC, Rosehill Holdco, LLC, and Rosehill Mergerco, LLC (collectively, the “New Rosehill Entities”) to (x) guarantee the Obligations pursuant to Guaranty Agreements and to grant liens and security interests in all of such New Rosehill Entities’ collateral pursuant to a security agreement, and (y) pledge all of the Equity Interests (as defined in the Note Purchase Agreement) of the New Rosehill Entities and to execute and deliver such other additional closing documents, legal opinions and certificates as reasonably requested by the Requisite Holders (as defined in the Note Purchase Agreement), in each case as required pursuant to Section 8.14(b) of the Note Purchase Agreement, which failure constituted an Event of Default under Section 10.01(d) of the Note Purchase Agreement (the “Identified Event of Default”).

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On April 29, 2020, the New Rosehill Entities were dissolved pursuant to their organizational documents and the Delaware Limited Liability Company Act.

On May 4, 2020, the Company entered into a forbearance agreement (the “Forbearance Agreement”) with the lenders under the Amended and Restated Credit Agreement. As a condition to the forbearance, Rosehill Operating made a \$20 million payment on the amounts outstanding under the Amended and Restated Credit Agreement. Under the Forbearance Agreement, the periodic redetermination of the borrowing base that was scheduled to occur on or about April 1, 2020, which the Company expected to result in a borrowing base deficiency, was postponed throughout the forbearance period, and the lenders agreed not to accelerate the amounts owed under the Amended and Restated Credit Agreement as a result of certain existing and anticipated Events of Default during the forbearance period. During the forbearance period, the lenders have no obligation to make any further loans under the Amended and Restated Credit Agreement. In addition, the Forbearance Agreement requires the Company to comply with certain other provisions, including that within 25 days of entering into the Forbearance Agreement, the Company and certain stakeholders agree in principle to a term sheet for a restructuring transaction (or “Restructuring Term Sheet,” as defined in the Forbearance Agreement) and within 40 days of entering into the Forbearance Agreement, the Company and those certain stakeholders enter into a restructuring support agreement, which shall provide for a restructuring under Chapter 11 of the U.S. Bankruptcy Code. The Forbearance Agreement will terminate on July 3, 2020 unless terminated earlier under these provisions. The dates by which the Company and certain stakeholders were required to agree in principle to the Restructuring Term Sheet and enter into the RSA were subsequently extended pursuant to certain letter agreements between the Company, Rosehill Operating and the lenders under the Amended and Restated Credit Agreement. As a condition to such letter agreements, the Company and Rosehill Operating agreed that all settlement payments and other net cash proceeds received in respect of any swap agreement be applied to the prepayment of Borrowings (as defined in the Amended and Restated Credit Agreement) then outstanding under the Amended and Restated Credit Agreement.

On May 8 and 19, 2020, the Company received separate notices from the agent under the Note Purchase Agreement, advising the Company that the Identified Default and the Identified Event of Default had matured into Events of Default (collectively, the “Identified Events of Default”) and that the holders reserved all of their rights, powers, privileges and remedies under the Note Purchase Agreement, and asserted a right to an additional 2% interest on the amounts outstanding under the Note Purchase Agreement.

The Company did not provide the lenders under the Amended and Restated Credit Agreement and the Note Purchase Agreement with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constituted a default under the Amended and Restated Credit Agreement and the Note Purchase Agreement. The Amended and Restated Credit Agreement and the Note Purchase Agreement each give the Company a 30-day cure period before it becomes an event of default under the respective agreement. However, the Company was unable to satisfy these requirements within the cure period. As such, this represents an event of default under the Amended and Restated Credit Agreement and Note Purchase Agreement.

Due to the matters noted above, debt outstanding under the Amended and Restated Credit Agreement and the Second Lien Notes have been reflected as current in the accompanying condensed consolidated balance sheet as of March 31, 2020.

On June 30, 2020, the Company entered into the RSA with the stakeholders named therein, pursuant to which the Company expects to file for protection under Chapter 11 of the Bankruptcy Code to effect consummation of the Plan. Please read Note 20 - *Subsequent Events* for more details.

These matters raise substantial doubt about the Company’s ability to continue as a going concern for a period of one year after the date that these condensed consolidated financial statements are issued. The condensed consolidated financial statements included in this report have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not include adjustments that might result from the outcome of these uncertainties.

**Note 4— Revenue from Contracts with Customers**

The Company recognizes oil, natural gas and NGL revenue at the point in time when control of the product transfers to the customer, which differs depending on the contractual terms of each of the Company’s arrangements. Transfer of control drives the presentation of gathering, transportation, processing and other post-production expenses (“gathering and transportation expense”) within the Company’s Condensed Consolidated Statements of Operations. In these scenarios below, the Company evaluates whether it is the principal or the agent in the transaction and the analysis includes considerations of product redelivery, take-in-kind rights

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and risk of loss. For those contracts where the Company has concluded that control of the product transfers at the tailgate of the plant, meaning that the Company is the principal and the ultimate third party purchaser is its customer, the Company recognizes revenue on a gross basis, with transportation, processing and gathering expenses presented within the Gathering and transportation line item on the Company's Condensed Consolidated Statements of Operations. Alternatively, for those contracts where the Company has concluded control of the product transfers at or near the wellhead or inlet of the plant, meaning that the Company is the agent and the midstream processing company is the Company's customer, the Company recognizes natural gas and NGL revenues based on the net amount of proceeds received from the midstream processing company.

***Performance obligations***

The Company's contractual performance obligations arise upon the production of hydrocarbons from wells in which the Company has an ownership interest. The performance obligations are considered satisfied upon control transferring to a customer at the wellhead, inlet, or tailgate of the midstream processor's processing facility, or other contractually specified delivery point. For all commodity products, the Company records revenue in the month production is delivered to the customer. Settlement statements for certain natural gas and NGL sales may not be received for 30 to 90 days after the date production volumes are delivered and for oil, generally within 30 days after delivery has occurred. However, payment is unconditional once the performance obligations have been satisfied. At this time, the volume and price can be reasonably estimated and amounts due from customers are accrued in Accounts receivable, net in the Condensed Consolidated Balance Sheets. As of March 31, 2020 and December 31, 2019, such receivable balances were \$15.6 million and \$34.5 million, respectively, as disclosed in Note 7 - *Accounts Receivable*.

The Company records any differences between its estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. Historically, any identified differences between revenue estimates and actual revenue received have not been significant.

***Transaction price allocated to remaining performance obligations***

For the Company's product sales that have a contract term greater than one year, the Company has utilized the practical expedient in ASC Topic 606 which states the Company is not required to disclose the transaction price allocated to the remaining performance obligations if the variable consideration is allocated entirely to a wholly unsatisfied performance obligation. Under these sales contracts, monthly sales of a product generally represent a separate performance obligation; therefore, future commodity volumes to be delivered and sold are wholly unsatisfied and disclosure of the transaction price allocated to such unsatisfied performance obligations is not required.

**Note 5 – Leases**

Effective January 1, 2020, the Company adopted Topic 842, which requires lessees to recognize operating and finance leases with terms greater than 12 months on the balance sheet. The Company adopted this standard using the modified retrospective method and elected to use the optional transition methodology whereby reporting periods prior to adoption continue to be presented in accordance with legacy accounting guidance. As of March 31, 2020, the Company did not have any agreements in place that were classified as finance leases under Topic 842. Arrangements classified as operating leases are included on the accompanying Condensed Consolidated Balance Sheets within the "Other assets, net", "Accrued liabilities and other" and "Other liabilities" line items. For any agreement that contains both lease and non-lease components, such as a service arrangement that also includes an identifiable right-of-use ("ROU") asset, the Company's policy for all asset classes is to combine lease and non-lease components together and account for the arrangement as a single lease. Aside from the recognition of ROU assets and corresponding lease liabilities on the accompanying balance sheets, Topic 842 does not have a material impact on the timing or classification of costs incurred for those agreements considered to be leases.

As outlined in Topic 842, a ROU asset represents a lessee's right to use an underlying asset for the lease term, while the associated lease liability represents the lessee's obligations to make lease payments. At the commencement date, which is the date on which a lessor makes an underlying asset available for use by a lessee, a lease ROU asset and corresponding lease liability is recognized based on the present value of the future lease payments. The initial measurement of lease payments may also be adjusted for certain items, including options that are reasonably certain to be exercised, such as options to purchase the asset at the end of the lease term, or options to extend or early terminate the lease. Excluded from the initial measurement are certain variable lease payments, which for the Company's office rental agreements, may be a significant component of the total lease costs.

The Company evaluates a contractual arrangement at its inception to determine if it is a lease or contains an identifiable lease component as defined by Topic 842. When evaluating a contract to determine appropriate classification and recognition under

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Topic 842, significant judgment may be necessary to determine, among other criteria, if an embedded leasing arrangement exists, the length of the term, classification as either an operating or financing lease, which options are reasonably likely to be exercised, fair value of the underlying ROU asset or assets, upfront costs, and future lease payments that are included or excluded in the initial measurement of the ROU asset.

Currently, the Company has operating leases for office lease agreements, apartment lease agreement and certain wellhead equipment. For those operating leases included on the accompanying balance sheets, which only include leases with terms greater than 12 months at commencement, the present value of future lease payments was determined based upon the Company's incremental borrowing rate. The table below summarizes our discount rate and remaining lease term as of March 31, 2020.

	<b>As of March 31, 2020</b>
Weighted-average discount rate	4.5%
Weighted-average remaining lease term (years)	1.94

Subsequent to initial measurement, costs associated with the Company's operating leases are either expensed or capitalized depending on how the underlying ROU asset is utilized and in accordance with U.S. GAAP requirements. Variable lease payments are recognized in the period in which they are incurred. Expenses related to short-term leases are recognized on a straight-line basis over the lease term. The following table presents the components of the Company's lease expenses for the three months ended March 31, 2020.

	<b>Three Months Ended March 31, 2020</b>
	(in thousands)
Lease costs	
Operating lease cost	\$ 291
Variable lease cost (1)	179
Short-term lease cost (2)	688
<b>Total Lease Cost</b>	<b>\$ 1,158</b>

(1) Variable lease payments include additional payments made that were not included in the initial measurement of the ROU asset and corresponding liability for lease agreements with terms longer than 12 months. Variable lease payments primarily relate to variable utility costs associated with the Company's leased office space.

(2) Costs associated with short-term lease agreements primarily relate to certain field equipment rentals.

Other information related to the Company's leases for three months ended March 31, 2020, was as follows:

	<b>Three Months Ended March 31, 2020</b>
	(in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases (fixed payments)	\$ 332
Operating cash flows from operating leases (liability reduction)	\$ 305
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,163

Maturities of the Company's operating lease liabilities included on the accompanying Condensed Consolidated Balance Sheet as of March 31, 2020 were as follows:

	<b>As of March 31, 2020</b>
	(in thousands)
2020	\$ 1,000
2021	1,051
2022	346
Total lease payments	\$ 2,397
Less: imputed interest	(100)
Present value of lease liabilities	\$ 2,297

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As of December 31, 2019, future total obligations on our noncancelable lease obligations were \$4.5 million in the aggregate, which consisted of the following: \$2.5 million in 2020, \$1.5 million in 2021 and \$0.5 million in 2022.

Amounts recorded in the accompanying Condensed Consolidated Balance Sheet for operating leases as of March 31, 2020, were as follows:

	Classification on our Balance Sheets	As of March 31, 2020	
		(in thousands)	
Operating lease ROU assets	Other assets, net	\$	1,898
Current operating lease liability	Accrued liabilities and other	\$	1,233
Non-current operating lease liability	Other liabilities	\$	1,064

**Note 6 – Loss Per Share**

The following table sets forth the calculation of basic and diluted weighted average shares outstanding and earnings (loss) per share for the indicated periods:

	Three Months Ended March 31,	
	2020	2019
(In thousands, except per share data)		
<b>Net loss (numerator):</b>		
Net loss attributable to common stockholders of Rosehill Resources Inc. - basic	\$ (148,349)	\$ (37,977)
Add: Net loss attributable to the noncontrolling interest, net of taxes	(90,036)	—
Net loss attributable to common stockholders of Rosehill Resources Inc. - diluted	\$ (238,385)	\$ (37,977)
<b>Weighted average shares (denominator):</b>		
Weighted average shares – basic	28,566	13,830
Add: Dilutive effects of Class B Common Stock	15,708	—
Weighted average shares – diluted	44,274	13,830
<b>Basic loss per share</b>	\$ (5.19)	\$ (2.75)
<b>Diluted loss per share</b>	\$ (5.38)	\$ (2.75)

For the three months ended March 31, 2020, the Company excluded 25.6 million shares of Class A Common Stock issuable upon exercise of the Company's warrants, 9.2 million shares of Class A Common Stock issuable upon conversion of the Company's Series A Preferred Stock and 1.8 million shares of Class A Common Stock issuable upon vesting of awards under the Company's Long-Term Incentive Plan (as amended and restated on May 22, 2018, the "LTIP") from the computation of diluted earnings per share because the effect of such instruments was anti-dilutive.

For the three months ended March 31, 2019, the Company excluded 29.8 million shares of Class A Common Stock issuable upon exchange of the Company's Class B Common Stock, 25.6 million shares of Class A Common Stock issuable upon exercise of the Company's warrants, 8.7 million shares of Class A Common Stock issuable upon conversion of the Company's Series A Preferred Stock and 1.0 million shares of Class A Common Stock issuable upon vesting under the Company's LTIP from the computation of diluted earnings per share because the effect of such instruments was anti-dilutive.

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**Note 7 – Accounts Receivable**

Accounts receivable is comprised of the following:

	<b>March 31, 2020</b>	<b>December 31, 2019</b>
(In thousands)		
Revenue receivable	\$ 15,604	\$ 34,518
Realized derivative receivable	5,586	273
Joint interest billings	84	95
Other	59	24
Accounts receivable	\$ 21,333	\$ 34,910

**Note 8 – Derivative Instruments**

*Commodity derivatives.* The Company enters into various derivative instruments primarily to mitigate a portion of the exposure to potentially adverse market changes in oil and natural gas commodity prices and the associated impact on cash flows. All contracts are entered into for other-than-trading purposes. Oil and natural gas commodity derivative instruments are recorded on the condensed consolidated balance sheets at fair value as either an asset or a liability with changes in fair value recognized in earnings. While commodity derivative instruments are utilized to manage the price risk attributable to expected oil and natural gas production, the Company’s commodity derivative instruments are not designated as accounting hedges under the accounting guidance. The related cash flow impact of the commodity derivative activities is reflected as cash flows from operating activities unless they are determined to have a significant financing element at inception, in which case they are classified within financing activities.

*Interest rate swaps* - The Company utilizes interest rate swaps to reduce its exposure to adverse fluctuations in London Interbank Offered (“LIBO”) rates on a portion of its revolving credit facility outstanding borrowings. The realized and unrealized gains and losses on the interest rate swaps are recognized in “Interest expense”, net. Entering into interest rate swaps allows the Company to mitigate, but not eliminate, the negative effects of increases in the LIBO rate, but reduces the Company’s ability to benefit from any decreases in the LIBO rate.

*Series B Preferred Stock bifurcated derivative.* In the event of a change of control, the Company shall redeem in cash all of the outstanding shares of Series B Preferred Stock out of funds legally available therefor, excluding Series B PIK Shares, each as defined in Note 14 - *10% Series B Redeemable Preferred Stock*, for a price per share equal to the Base Return Amount as defined in Note 14 - *10% Series B Redeemable Preferred Stock*. The Company assessed the change of control feature and determined that the redemption of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount was a bifurcated derivative. See Note 14 - *10% Series B Redeemable Preferred Stock* for defined terms and more detail. Because the Company recorded the Series B Preferred Stock at its current redemption value as of March 31, 2020, there was no value attributed to the bifurcated embedded derivative.

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The following tables summarize the location and fair value amounts of all the Company's derivative instruments in the Condensed Consolidated Balance Sheets, as well as the gross recognized derivative assets, liabilities and offset amounts in the Condensed Consolidated Balance Sheets:

<b>March 31, 2020</b>			
	<b>Gross Fair Value</b>	<b>Gross Amounts Offset (1)</b>	<b>Net Recognized Fair Value</b>
(In thousands)			
<b>Assets</b>			
Commodity derivatives - current	\$ 165,409	\$ (85,502)	\$ 79,907
Commodity derivatives - non-current	154,738	(93,954)	60,784
<b>Total assets</b>	<b>\$ 320,147</b>	<b>\$ (179,456)</b>	<b>\$ 140,691</b>
<b>Liabilities</b>			
Commodity derivatives - current	\$ (85,502)	\$ 85,502	\$ —
Commodity derivatives - non-current	(93,954)	93,954	—
Interest rate derivatives - current	(2,122)	—	(2,122)
Interest rate derivatives - non-current	(3,041)	—	(3,041)
<b>Total liabilities</b>	<b>\$ (184,619)</b>	<b>\$ 179,456</b>	<b>\$ (5,163)</b>

(1) The Company has agreements in place with all of its counterparties that allow for the financial right of offset for derivative assets and liabilities.

<b>December 31, 2019</b>			
	<b>Gross Fair Value</b>	<b>Gross Amounts Offset (1)</b>	<b>Net Recognized Fair Value</b>
(In thousands)			
<b>Assets</b>			
Commodity derivatives - current	\$ 28,512	\$ (18,172)	\$ 10,340
Commodity derivatives - non-current	61,241	(28,136)	33,105
Interest rate derivatives - current	10	(10)	—
<b>Total assets</b>	<b>\$ 89,763</b>	<b>\$ (46,318)</b>	<b>\$ 43,445</b>
<b>Liabilities</b>			
Commodity derivatives - current	\$ (22,014)	\$ 18,172	\$ (3,842)
Commodity derivatives - non-current	(28,528)	28,136	(392)
Interest rate derivatives - current	(184)	10	(174)
Interest rate derivatives - non-current	(492)	—	(492)
Series B Preferred Stock bifurcated derivative - non-current	(416)	—	(416)
<b>Total liabilities</b>	<b>\$ (51,634)</b>	<b>\$ 46,318</b>	<b>\$ (5,316)</b>

(1) The Company has agreements in place with all of its counterparties that allow for the financial right of offset for derivative assets and liabilities.

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As of March 31, 2020, the open derivative positions with respect to future production and interest rates were as follows:

	2020	2021	2022
<b>Commodity derivative swaps</b>			
<b>Oil:</b>			
Notional volume (Bbls) (1)(2)	760,000	—	—
Weighted average fixed price (\$/Bbl)	\$ 67.46	\$ —	\$ —
<b>Natural gas:</b>			
Notional volume (MMBtu)	1,595,368	1,615,792	1,276,142
Weighted average fixed price (\$/MMBtu)	\$ 2.73	\$ 2.79	\$ 2.85
<b>Commodity derivative three-way collars</b>			
<b>Oil:</b>			
Notional volume (Bbls)	2,475,000	4,200,000	2,000,000
Weighted average ceiling price (\$/Bbl)	\$ 70.29	\$ 60.40	\$ 61.45
Weighted average floor price (\$/Bbl)	\$ 57.50	\$ 54.49	\$ 55.00
Weighted average sold put option price (\$/Bbl)	\$ 47.50	\$ 45.51	\$ 45.00
<b>Crude oil basis swaps</b>			
<b>Midland / Cushing:</b>			
Notional volume (Bbls)	3,905,000	4,200,000	2,100,000
Weighted average fixed price (\$/Bbl)	\$ (0.85)	\$ 0.49	\$ 0.54
<b>Argus WTI roll:</b>			
Notional volume (Bbls)	370,650	—	—
Weighted average fixed price (\$/Bbl)	\$ 0.40	\$ —	\$ —
<b>NYMEX WTI roll:</b>			
Notional volume (Bbls)	2,102,752	—	—
Weighted average fixed price (\$/Bbl)	\$ 0.42	\$ —	\$ —
<b>Natural gas basis swaps</b>			
<b>EP Permian:</b>			
Notional volume (MMBtu)	1,617,388	—	—
Weighted average fixed price (\$/MMBtu)	\$ (1.03)	\$ —	\$ —
<b>Interest rate swaps:</b>			
Notional principal (3)	\$ 150,000,000	\$ 150,000,000	\$ —
Average fixed rate	1.721 %	1.721 %	—

- (1) During the second quarter of 2019, the Company entered into commodity derivative swaps where it bought 2,160,000 barrels of crude oil at a weighted average fixed price of \$50.48 per barrel to offset commodity derivative swaps for the year ended December 31, 2021, it previously sold off 2,160,000 barrels of crude oil at a weighted average fixed price of \$61.21 per barrel.
- (2) During the second quarter of 2019, the Company entered into commodity derivative swaps where it bought 1,100,000 barrels of crude oil at a weighted average fixed price of \$50.55 per barrel to offset commodity derivative swaps for the year ended December 31, 2022, it previously sold off 1,100,000 barrels of crude oil at a weighted average fixed price of \$58.42 per barrel.
- (3) Interest rate swaps expire in August 2022.

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The effect of the derivative activity on the Company's Condensed Consolidated Statements of Operations for the following periods was as follows:

	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
(In thousands)		
<b>Realized gain (loss) on derivatives</b>		
Commodity derivative options	\$ 2,033	\$ 1,500
Commodity derivative swaps	6,474	(2,523)
Interest rate swaps	(14)	—
<b>Total realized gain (loss) on derivatives</b>	<b>\$ 8,493</b>	<b>\$ (1,023)</b>
<b>Unrealized gain (loss) on derivatives</b>		
Commodity derivative options	\$ 52,842	\$ (25,566)
Commodity derivative swaps	48,771	(77,982)
Interest rate swaps	(4,497)	—
Series B Preferred Stock bifurcated derivative	416	81
<b>Total unrealized gain (loss) on derivatives</b>	<b>\$ 97,532</b>	<b>\$ (103,467)</b>

The gains and losses resulting from the cash settlement and mark-to-market of the commodity derivatives are included within "Gain (loss) on commodity derivative instruments, net" in the Condensed Consolidated Statements of Operations. The gains and losses resulting from mark-to-market of the Series B Preferred Stock bifurcated derivative are included within "Other income (expense), net" in the Condensed Consolidated Statements of Operations. The gains and losses resulting from the cash settlement and mark-to-market of the interest rate swaps are included within "Interest expense, net" in the Condensed Consolidated Statements of Operations. The Company's Proposed Plan of Reorganization as discussed in Note 20 - *Subsequent Events*, anticipates that the Company will unwind its derivative instruments to pay down on its Amended and Restated Credit Agreement.

**Note 9 – Fair Value Measurements**

The financial instruments measured at fair value on a recurring basis consist of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
(In thousands)		
<b>Derivative assets</b>		
Derivative assets - current	\$ 79,907	\$ 10,340
Derivative assets - non-current	60,784	33,105
<b>Total derivative assets</b>	<b>140,691</b>	<b>43,445</b>
<b>Derivative liabilities</b>		
Derivative liabilities - current	(2,122)	(4,016)
Derivative liabilities - non-current	(3,041)	(1,300)
<b>Total derivative liabilities</b>	<b>(5,163)</b>	<b>(5,316)</b>
<b>Total derivative assets, net</b>	<b>\$ 135,528</b>	<b>\$ 38,129</b>

Derivative assets and liabilities primarily represent unsettled amounts related to commodity derivative positions, including swaps, options, and interest rate swaps. Derivative liabilities also include the Series B Preferred Stock bifurcated derivative for the various redemption amounts that the Company could incur if a change of control event occurs. The Company utilizes Level 3 assumptions to estimate the probability of a change of control occurring and when that would occur as the timing impacts the Base Return Amount as defined in Note 14 - *10% Series B Redeemable Preferred Stock*.

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The tables below, set forth by level within the fair value hierarchy, represent the net components of the assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019.

	<b>March 31, 2020</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(In thousands)			
<b>Derivative assets</b>				
Commodity derivative assets - current	\$ —	\$ 79,907	\$ —	\$ 79,907
Commodity derivative assets - non-current	—	60,784	—	60,784
<b>Total derivative assets</b>	<b>\$ —</b>	<b>\$ 140,691</b>	<b>\$ —</b>	<b>\$ 140,691</b>
<b>Derivative liabilities</b>				
Interest rate swaps - current	—	(2,122)	—	\$ (2,122)
Interest rate swaps - non-current	—	(3,041)	—	(3,041)
<b>Total derivative liabilities</b>	<b>\$ —</b>	<b>\$ (5,163)</b>	<b>\$ —</b>	<b>\$ (5,163)</b>

	<b>December 31, 2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(In thousands)			
<b>Derivative assets</b>				
Commodity derivative assets - current	\$ —	\$ 10,340	\$ —	\$ 10,340
Commodity derivative assets - non-current	—	33,105	—	33,105
<b>Total derivative assets</b>	<b>\$ —</b>	<b>\$ 43,445</b>	<b>\$ —</b>	<b>\$ 43,445</b>
<b>Derivative liabilities</b>				
Commodity derivative liabilities - current	—	(3,842)	—	(3,842)
Commodity derivative liabilities - non-current	—	(392)	—	(392)
Interest rate swaps - current	—	(174)	—	\$ (174)
Interest rate swaps - non-current	—	(492)	—	(492)
Series B Preferred Stock bifurcated derivative - non-current	\$ —	\$ —	\$ (416)	\$ (416)
<b>Total derivative liabilities</b>	<b>\$ —</b>	<b>\$ (4,900)</b>	<b>\$ (416)</b>	<b>\$ (5,316)</b>

The table below sets forth a summary of changes in the fair value of the Company's level 3 derivatives for the three months ended March 31, 2020.

Balance at December 31, 2019	\$ 416
(Gains) losses reported in earnings	(416)
Balance at March 31, 2020	<u>\$ —</u>

**Financial Instruments**

The carrying amounts of the Company's cash, cash equivalents, accounts receivable and accounts payable approximate their fair values because of the short-term maturities and/or liquid nature of these assets and liabilities. The Company's revolving credit facility carrying value is representative of its fair value because the interest rate changes monthly based on the current market of the stated rates in the agreement. As of March 31, 2020 and December 31, 2019, the fair value of the Second Lien Notes was approximately \$80.8 million and \$98.5 million, respectively, which was determined using quoted prices for similar instruments, a Level 2 classification in the fair value hierarchy.

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**Non-Financial Assets and Liabilities**

Non-financial assets and liabilities that are initially measured at fair value are comprised of asset retirement obligations (“ARO”), impairments, and stock-based compensation.

*ARO.* The initial measurement of ARO at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property and equipment. Significant “Level 3” inputs used in the calculation of ARO include plugging costs and reserve lives.

*Proved oil and gas properties.* If the carrying amount of oil and natural gas properties exceeds the estimated undiscounted future cash flows, the carrying amount of the oil and natural gas properties will be adjusted to their fair value. The fair value of oil and natural gas properties is determined using valuation techniques consistent with the income and market approach. The factors used to determine fair value are subject to management’s judgment and expertise and include, but are not limited to, (i) recent sales prices of comparable properties; (ii) the present value of future cash flows, net of estimated operating and development costs using estimates of proved oil and natural gas reserves; (iii) future commodity prices; (iv) future production estimates; (v) anticipated capital expenditures; and (vi) various discount rates commensurate with the risk and current market conditions associated with the projected cash flows. These assumptions represent “Level 3” inputs.

As a result of the decrease in commodity price forecasts at the end of the first quarter of 2020, specifically decreases in oil and NGL prices, the Company recorded impairment expense of \$333.8 million to its proved oil and gas properties. The Company used a discount rate of 10% in its calculation of the present value of expected future cash flows based on its estimated average cost of capital as of March 31, 2020. The Company also used relevant commodity strip prices as of April 1, 2020 in its calculation.

*Stock-based compensation.* The Company measures stock-based compensation based on the fair value of the award on the date of grant. The fair value of the Company’s restricted stock, stock-settled time-based restricted stock units and cash-settled time-based restricted stock units are based on the Company’s trading stock price on the date of grant, which is a Level 1 input. The fair value of the Company’s market based performance share units is calculated using a Monte Carlo valuation model which performs an iterative run of likely outcomes of the performance metric based on assumptions such as expected volatility, correlation of coefficients, risk-free rates and expected dividend yields. These assumptions represent “Level 3” inputs. See Note 17 - *Stock-Based Compensation* for the weighted average of significant unobservable inputs used in the fair value measurement.

**Note 10 – Property and equipment, net**

Property and equipment, net is comprised of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Proved oil and natural gas properties	\$ 1,056,236	\$ 1,013,952
Unproved oil and natural gas properties	97,726	97,706
Land	1,575	1,575
Less: accumulated DD&A and impairment	(746,215)	(368,636)
Total oil and natural gas properties (successful efforts), net	409,322	744,597
Other property and equipment	7,415	7,348
Less: accumulated DD&A	(4,676)	(4,364)
Total other property and equipment	2,739	2,984
<b>Total property and equipment, net</b>	<b>\$ 412,061</b>	<b>\$ 747,581</b>

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The Company recorded depreciation, depletion and amortization (“DD&A”) to property and equipment as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	(in thousands)	
Proved oil and natural gas properties	\$ 30,933	\$ 35,567
Other property and equipment	336	207
<b>Total DD&amp;A related to property and equipment</b>	<b>\$ 31,269</b>	<b>\$ 35,774</b>

As a result of the decrease in commodity price forecasts at the end of the first quarter of 2020, specifically decreases in oil and NGL prices, the Company recorded impairment expense of \$333.8 million to its proved oil and gas properties for the three months ended March 31, 2020. The Company recorded an impairment of approximately \$12.8 million within Exploration costs for the three months ended March 31, 2020 related to actual and anticipated lease expirations, as well as anticipated losses on acreage due to title defects. There were no impairment charges to proved and unproved oil and natural gas properties for the three months ended March 31, 2019. Capitalized costs included in proved oil and natural gas properties not subject to DD&A totaled \$24.8 million at March 31, 2020 and \$19.9 million at December 31, 2019.

**Note 11 – Asset Retirement Obligations**

The following table summarizes the changes in the Company’s asset retirement obligation for the three months ended March 31, 2020 (in thousands):

Asset retirement obligations, beginning of period	\$ 14,431
Additional liabilities incurred	31
Accretion expense	217
Revision of estimates	(8)
Asset retirement obligations, end of period	<u>\$ 14,671</u>

**Note 12 – Accrued Liabilities and Other**

Accrued liabilities and other is comprised of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Accrued payroll	\$ 565	\$ 4,035
Accrued general and administrative expense	5,077	987
Royalties payable	5,676	9,592
Accrued lease operating expense	6,601	6,676
Operating lease liabilities	1,233	—
Preferred Stock dividends payable	—	3,951
Accrued interest expense	377	174
Accrued ad valorem taxes	990	—
Other	1,304	1,098
<b>Total accrued liabilities and other</b>	<b>\$ 21,823</b>	<b>\$ 26,513</b>

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**Note 13 – Long-term debt, net**

The Company's long-term debt is comprised of the following:

	March 31, 2020	December 31, 2019
(In thousands)		
Second Lien Notes	\$ 100,000	\$ 100,000
Revolving credit facility	340,000	260,000
Total debt	440,000	360,000
Debt issuance cost on Second Lien Notes, net	2,346	2,528
Discount on Second Lien Notes, net	1,820	1,961
Total debt issuance cost and discounts	4,166	4,489
Total long-term debt, net	\$ 435,834	\$ 355,511

**Revolving Credit Facility**

On March 28, 2018, Rosehill Operating entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") by and among Rosehill Operating, as borrower, JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, "JPMorgan"), and certain other financial institutions party thereto, as lenders. The borrowings under the Amended and Restated Credit Agreement bear interest at an adjusted base rate plus an applicable margin ranging from 1% to 2% or at an adjusted LIBO rate plus an applicable margin ranging from 2% to 3%. As of March 31, 2020, the weighted average interest rate of outstanding borrowings under the Amended and Restated Credit Agreement was 4.2%. Pursuant to the Amended and Restated Credit Agreement, the lenders party thereto have agreed to provide the Company with a \$500 million secured reserve-based revolving credit facility. The maturity date of the Amended and Restated Credit Agreement is August 31, 2022 and automatically extends to March 2023 upon the payment in full of the Second Lien Notes. The borrowing base is re-determined semi-annually, with the lenders and the Company each having the right to one interim unscheduled redetermination between any two consecutive semi-annual redeterminations. As of March 31, 2020, the borrowing base was \$340 million and the Company had fully drawn the \$340 million.

Please read Note 3 - *Liquidity* for details on the following items under the Amended and Restated Credit Agreement: (i) Forbearance Agreement, (ii) event of default related to the delivery of audited financial statements (without a going concern qualification), (iii) the letter from Nasdaq regarding the Company's stock price trading below the minimum bid price requirement for continued listing and (iv) restrictions on cash distributions on its Series A Preferred Stock and Series B Preferred Stock.

The Amended and Restated Credit Agreement requires Rosehill Operating to deliver unaudited financial statements to the lenders within 45 days after the end of each fiscal quarter. The Company can satisfy this requirement by delivery of unaudited financial statements of Rosehill Resources as filed with the SEC within 45 days after the end of each fiscal quarter. The Company failed to provide the lenders with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constituted a default under the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement gives the Company a 30-day cure period before it becomes an event of default that will allow the lenders to require the Company to repay a portion or all amounts outstanding. However, the Company was unable to satisfy these requirements within the cure period. As such, this represented an event of default under the Amended and Restated Credit Agreement.

The amounts outstanding under the Amended and Restated Credit Agreement are secured by first priority liens on substantially all of Rosehill Operating's property and all of the stock of Rosehill Operating's material operating subsidiaries that are guarantors of the Amended and Restated Credit Agreement. Subject to the Forbearance Agreement, if an event of default occurs under the Amended and Restated Credit Agreement, JPMorgan Chase Bank, N.A. will have the right to proceed against any pledged capital stock and take control of substantially all of the assets of Rosehill Operating and Rosehill Operating's material operating subsidiaries that are guarantors. There are currently no guarantors under the Amended and Restated Credit Agreement. An event of default can be triggered in a number of circumstances, including failure to maintain listing of the Company's Class A Common Stock on a national securities exchange or failure to timely repay deficiencies in the Company's borrowings.

The Company is subject to certain restrictions under the Amended and Restated Credit Agreement, including (without limitation) a negative pledge with respect to its equity interests in Rosehill Operating and a contingent obligation to guarantee the borrowings upon request by the lenders in the event that the Company incurs debt obligations. The Amended and Restated Credit

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Agreement contains various affirmative and negative covenants. These covenants may limit Rosehill Operating's ability to, among other things: incur additional indebtedness; make loans to others; make investments; enter into mergers; make or declare dividends or distributions; enter into commodity hedges exceeding a specified percentage of Rosehill Operating's expected production; enter into interest rate hedges exceeding a specified percentage of Rosehill Operating's outstanding indebtedness; incur liens; sell assets; and engage in certain other transactions without the prior consent of JPMorgan Chase Bank, N.A. or the lenders.

The Amended and Restated Credit Agreement also requires Rosehill Operating to maintain the following financial ratios: (1) a current ratio, which is the ratio of consolidated current assets (including unused commitments under the Amended and Restated Credit Agreement, but excluding non-cash assets) to consolidated current liabilities (excluding non-cash obligations, current maturities under the Amended and Restated Credit Agreement and the Note Purchase Agreement (as defined below)), of not less than 1.0 to 1.0; (2) (x) a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Total Debt to Annualized EBITDAX (as such terms are defined in the Amended and Restated Credit Agreement) for the four fiscal quarters then ended, of not greater than 4.0 to 1.0 and (y) commencing on and after repayment in full of the Second Lien Notes (other than surviving contingent indemnification obligations) and the repayment or redemption in full of the Series B Preferred Stock, a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Net Debt to Annualized EBITDAX (as such terms are defined in the Amended and Restated Credit Agreement), of not greater than 4.0 to 1.0 and (3) for so long as the Series B Preferred Stock remains outstanding, a coverage ratio, which is the ratio of (i) EBITDAX (as defined in the Amended and Restated Credit Agreement) to (ii) the sum of (x) Interest Expense (as defined in the Amended and Restated Credit Agreement) plus (y) the aggregate amount of Restricted Payments (as defined in the Amended and Restated Credit Agreement) made in cash pursuant to Sections 9.04(a)(iv) and (v) of the Amended and Restated Credit Agreement during the preceding four fiscal quarters, of not less than 2.5 to 1.0. The Company was in compliance with these financial ratios for the measurement period ended March 31, 2020. If the Company is not able to generate additional funds or if oil prices do not improve significantly, the Company will not be able to comply with its current ratio or leverage ratio under the Amended and Restated Credit Agreement in future periods.

***Second Lien Notes***

On December 8, 2017, Rosehill Operating issued and sold \$100,000,000 in aggregate principal amount of 10.00% Senior Secured Second Lien Notes due January 31, 2023 to EIG Global Energy Partners, LLC ("EIG") under and pursuant to the terms of that certain Note Purchase Agreement, dated as of December 8, 2017 (as amended by the Limited Consent and First Amendment to Note Purchase Agreement, dated as of March 28, 2018, the "Note Purchase Agreement"), among Rosehill Operating, the Company, the holders of the Second Lien Notes party thereto (the "Holders") and U.S. Bank National Association, as agent and collateral agent on behalf of the Holders. The Second Lien Notes were issued and sold to the Holders in a private placement exempt from the registration requirements under the Securities Act of 1933, as amended (such issuance and sale, the "Notes Purchase").

Under the Note Purchase Agreement, Rosehill Operating may, at its option, redeem the Second Lien Notes in whole or in part, together with accrued and unpaid interest thereon, (i) at any time after December 8, 2019 but on or prior to December 8, 2020, at a redemption price equal to 103% of the principal amounts of the Second Lien Notes being redeemed, (ii) at any time after December 8, 2020 but on or prior to December 8, 2021, at a redemption price equal to 101.5% of the principal amount of the Second Lien Notes being redeemed and (iii) at any time after December 8, 2021, at a redemption price equal to the principal amount of the Second Lien Notes being redeemed.

The Second Lien Notes may become subject to redemption under certain other circumstances, including upon the incurrence of non-permitted debt or, subject to various exceptions, reinvestment rights and prepayment or redemption rights with respect to other debt or equity of Rosehill Operating, upon an asset sale, hedge termination or casualty event. Rosehill Operating will be further required to make an offer to redeem the Second Lien Notes upon a Change in Control (as defined in the Note Purchase Agreement) at a redemption price equal to 101% of the principal amount being redeemed. Other than in connection with a Change in Control or casualty event, the redemption prices described in the foregoing paragraph shall also apply, at such times and to the extent set forth therein, to any mandatory redemption of the Second Lien Notes or any acceleration of the Second Lien Notes prior to the stated maturity thereof upon the occurrence of an Event of Default (as defined in the Note Purchase Agreement).

The Note Purchase Agreement requires Rosehill Operating to maintain a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Total Debt to Annualized EBITDAX (as such terms are defined in the Note Purchase Agreement) for the four fiscal quarters then ended, of not greater than 4.00 to 1.00. The Company was in compliance with the leverage ratio for the measurement period ended March 31, 2020. If the Company is not able to generate additional funds or if oil prices do not improve significantly, the Company will not be able to comply with its leverage ratio under the Note Purchase Agreement in future periods.

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Please read Note 3 - *Liquidity* for details on the event of default related to the delivery of audited financial statements (without a going concern qualification).

The Note Purchase Agreement requires the Company to deliver unaudited financial statements to the lenders within 45 days after the end of each fiscal quarter. The Company can satisfy this requirement by delivery of unaudited financial statements of Rosehill Resources as filed with the SEC within 45 days after the end of each fiscal quarter. The Company failed to provide the lenders with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constituted a default under the Note Purchase Agreement. The Note Purchase Agreement gives the Company a 30-day cure period before it becomes an event of default that will allow the noteholders to require the Company to redeem a portion or all of the notes outstanding. However, the Company was unable to satisfy these requirements within the cure period. As such, this represented an event of default under the Note Purchase Agreement.

The Note Purchase Agreement contains various affirmative and negative covenants, events of default and other terms and provisions that are based largely on the Amended and Restated Credit Agreement, with a number of important modifications reflecting the second lien nature of the Second Lien Notes and certain other terms that were agreed to with the Holders. The negative covenants may limit Rosehill Operating's ability to, among other things, incur additional indebtedness (including under senior unsecured notes), make investments, make or declare dividends or distributions, redeem its preferred equity, acquire or dispose of oil and gas properties and other assets or engage in certain other transactions without the prior consent of the Holders, subject to various exceptions, qualifications and value thresholds. Rosehill Operating is also required to meet minimum commodity hedging levels based on its expected production on an ongoing basis. Any event or condition that causes any debt under the Amended and Restated Credit Agreement becoming due prior to its scheduled maturity, with certain exceptions, including borrowing base deficiencies, is an event of default under the Note Purchase Agreement.

The Company is subject to certain restrictions under the Note Purchase Agreement, including (without limitation) a negative pledge with respect to its equity interests in Rosehill Operating and a contingent obligation to guarantee the Second Lien Notes upon request by the Holders in the event that the Company incurs debt obligations. The obligations of Rosehill Operating under the Note Purchase Agreement are secured on a second-lien basis by the same collateral that secures its first-lien obligations. In connection with the Notes Purchase, Rosehill Operating has granted second-lien security interests over additional collateral to meet the minimum mortgage requirements under the Note Purchase Agreement.

***Deferred Financing Costs and Debt Discount***

The Company capitalizes discounts and certain direct costs associated with the issuance of debt and amortizes such costs over the lives of the respective debt instruments. The Company amortized debt issuance costs and discounts of \$0.5 million and \$0.4 million for the three months ended March 31, 2020 and 2019, respectively. The deferred financing costs related to the Amended and Restated Credit Agreement are classified in prepaid assets and the deferred financing costs and discounts related to the Second Lien Notes are netted against the long-term debt. The following table summarizes the Company's deferred financing costs and debt discounts:

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The following table summarizes the Company's deferred financing costs and debt discounts:

	March 31, 2020	December 31, 2019
(In thousands)		
<b>Revolving credit facility</b>		
Debt issuance costs	\$ 3,167	\$ 3,167
Accumulated amortization of debt issuance costs	(1,286)	(1,092)
Net deferred costs - Revolving credit facility	\$ 1,881	\$ 2,075
<b>Second Lien Notes</b>		
Debt discount	\$ 3,000	\$ 3,000
Accumulated amortization of debt discount	(1,180)	(1,039)
Debt issuance costs	3,868	3,868
Accumulated amortization of debt issuance costs	(1,522)	(1,340)
Net deferred costs - Second Lien Notes	4,166	4,489
Total deferred financing costs and debt discount, net	\$ 6,047	\$ 6,564

**Note 14 – 10% Series B Redeemable Preferred Stock**

On December 8, 2017, in connection with the acquisition of mineral rights, royalty interests and other associated assets in the Southern Delaware Basin (the "White Wolf Acquisition"), the Company entered into a Series B Redeemable Preferred Stock Purchase Agreement (the "Series B Preferred Stock Agreement") to issue 150,000 shares of the Company's 10.00% Series B Redeemable Preferred Stock, par value of \$0.0001 per share (the "Series B Preferred Stock"), for an aggregate purchase price of \$150.0 million, less transaction costs, advisory and up-front fees of approximately \$10.0 million to certain private funds and accounts managed by EIG.

Holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board or a designated committee of the Board, cumulative dividends in cash, at a rate of 10.00% per annum on the \$1,000 liquidation preference per share of Series B Preferred Stock, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on January 15, 2018. The Company's Amended and Restated Credit Agreement restricts its cash distributions to an amount not to exceed \$25.0 million on its Series B Preferred Stock in any fiscal year. Such distributions on its Series B Preferred Stock can only be made so long as both before and immediately following such distributions, (i) the Company is not in any default under its Amended and Restated Credit Agreement, (ii) its unused borrowing capacity is equal to or greater than 20% of the committed borrowing capacity and (iii) its ratio of Total Debt to EBITDAX is not greater than 3.5 to 1.0. As of March 31, 2020, the Company was fully drawn and had existing defaults under its Amended and Restated Credit Agreement and did not declare and pay cash dividends to the Series B Preferred Stock holders on April 15, 2020. Failure to pay dividends on the Series B Preferred Stock results in the following:

- Upon the occurrence of not paying a dividend, the dividend rate will increase to 12% per annum and will remain at 12% per annum until all applicable quarterly dividends have been fully paid and are current, at which time a dividend rate of 10% per annum will once again apply.
- Upon the occurrence of not paying a dividend with respect to three out of any four consecutive quarters or failing to pay a dividend six times (whether or not consecutive) at anytime the Series B Preferred Stock is outstanding will entitle the holders of the Series B Preferred Stock to a seat on the Board of Directors and the right to approve (a) all indebtedness by the Company if such indebtedness would cause the Company's Leverage Ratio to exceed 3.25 to 1.00, (b) any budget or budget amendments and (c) any capital expenditures in excess of \$0.5 million.
- Upon the occurrence of not paying a dividend for a period of nine consecutive months, the holders of the Series B Preferred Stock may elect to cause the Company to redeem all or a portion of the Series B Preferred Stock. The Company does not expect to be able to pay dividends on the Series B Preferred Stock within the nine consecutive months following April 15, 2020.

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Holders of the Series B Preferred Stock have no voting rights, but have certain consent rights with respect to the taking of certain corporate actions by the Company. Upon the Company's voluntary or involuntary liquidation, winding-up or dissolution, each holder of Series B Preferred Stock will be entitled to receive the Base Return Amount (as defined in the Series B Preferred Stock Agreement) plus accrued and unpaid dividends.

In addition to the 10.00% per annum cumulative dividend holders of the Series B Preferred Stock are entitled to receive, upon redemption of the Series B Preferred Stock, a guaranteed base return on the initial 150,000 shares purchased in an amount equal to (x)\$1,500 per share of Series B Preferred Stock and (y) an amount necessary to achieve a 16% internal rate of return ("IRR") (the "Base Return Amount") with respect to such shares of Series B Preferred Stock, minus all dividends paid on shares of Series B Preferred Stock, including dividends paid-in-kind, and minus up-front fees incurred at issuance of the Series B Preferred Stock. The shares of Series B Preferred Stock are redeemable at the election of the holders on or after December 8, 2023 and upon certain conditions and at any time at the Company's option. As the holders of Series B Preferred Stock have an option to redeem the Series B Preferred Stock at a future date, the Series B Preferred Stock is included in temporary, or "mezzanine" equity, between total liabilities and stockholders' equity on the Condensed Consolidated Balance Sheets. The Series B Preferred Stock, while not currently redeemable at the option of the holders, is remeasured each reporting period by accreting the initial value to the estimated redemption value that will achieve a 16% IRR on December 8, 2023 when the Series B Preferred Stock is redeemable in whole or in part at the election of the holders of Series B Preferred Stock. The accretion is considered a deemed dividend, which increases the carrying value of the Series B Preferred Stock on the Condensed Consolidated Balance Sheets and is included within preferred dividends on the Condensed Consolidated Statements of Operations. If the Series B Preferred Stock would have been redeemed on March 31, 2020, the Base Return Amount was approximately \$195.2 million, which was higher than the redemption amount accrued, and will be reduced by subsequent dividend payments. Any redemption must be made out of funds legally available therefor.

In the event of a Change of Control (which includes failure to maintain the listing of our Class A Common Stock on a national securities exchange), the Company shall redeem in cash all of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount and all Series B PIK Shares at the purchase price of \$1,000 per share. The Company assessed the Change of Control feature and determined that the redemption of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount was an embedded derivative that required bifurcation and was accounted for at fair value. Because the Company recorded the Series B Preferred Stock at its current redemption value as of March 31, 2020, there was no value attributed to the bifurcated embedded derivative.

The Company reflected the following activity in mezzanine equity for the Series B Preferred Stock for the three months ended March 31, 2020:

	Series B Preferred Shares	Series B Preferred Stock Value	Guaranteed Return	Total
(In thousands, except share data)				
Total Series B Preferred Stock at December 31, 2019	156,746	\$ 149,132	\$ 13,894	\$ 163,026
Discount - transaction costs	—	—	—	—
Base return amount	—	—	5,493	5,493
Accrued dividends	—	4,677	(4,677)	—
Dividends declared and paid-in-kind	—	—	—	—
Accretion of discount - deemed dividend	—	405	—	405
Total Series B Preferred Stock at March 31, 2020	156,746	\$ 154,214	\$ 14,710	\$ 168,924

For the quarter ended March 31, 2020 the Company did not declare cash dividends on the Series B Preferred Stock. For the quarter ended March 31, 2019 dividends per share on the Company's Series B Preferred Stock was \$24.66.

The Company's Proposed Plan of Reorganization as discussed in Note 20 -*Subsequent Events*, anticipates that in exchange for all of the Series B Preferred Stock, holders of the Series B Preferred Stock will receive their pro rata share of 1.48% of the New Common Shares of the reorganized entity.

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**Note 15 – Income Taxes**

In 2017, the Company became the sole managing member of Rosehill Operating, the Company's accounting predecessor. Rosehill Operating is a limited liability company that is treated as a partnership for U.S. federal income tax purposes and is not generally subject to U.S. federal income tax at the entity level. Any taxable income or loss generated by Rosehill Operating is passed through to and included in the taxable income or loss of its members, including the Company. The Company is a C corporation and is subject to U.S. federal income tax and state and local income taxes.

The Company's income tax provision was an expense of \$37.0 million and an expense of \$3.3 million for the three months ended March 31, 2020 and 2019, respectively. The Company's effective tax rate was (19)% and (3)% for the three months ended March 31, 2020 and 2019, respectively. The effective tax rate differs from the enacted statutory rate of 21% in 2020 primarily due to the allocation of profits and losses to Rosehill and the noncontrolling interest holder in accordance with the LLC Agreement, the impact of state income taxes, and effects of the valuation allowance. The effective tax rate differs from the enacted statutory rate of 21% in 2019 primarily due to the allocation of profits and losses to Rosehill and the noncontrolling interest holder in accordance with the LLC agreement and the impact of state income taxes.

As of March 31, 2020, the Company had approximately \$55.7 million of U.S. federal net operating loss carryovers, which will begin to expire in 2037. The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets, including NOL carry forwards. A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax assets will not be realized. As of March 31, 2020, the Company had a full valuation allowance to offset its net deferred tax assets in excess of deferred tax liabilities because the Company thinks it is more likely than not that its deferred tax will not be realized prior to their expiration due to uncertainty of the market, the significant decline in oil prices that began during the first quarter of 2020 and the Company having substantial doubt about its ability to continue as a going concern.

The Company is subject to the following material taxing jurisdictions: the United States and Texas. As of March 31, 2020, the Company has no current tax years under audit. The Company remains subject to examination for federal income taxes and state income taxes for tax years 2016 to present.

The Company has evaluated all tax positions for which the statute of limitations remains open and believes that the material positions taken would more likely than not be sustained upon examination. Therefore, as of March 31, 2020, the Company had not established any reserves for, nor recorded any unrecognized benefits related to, uncertain tax positions. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense.

*Tax Receivable Agreement*

On April 27, 2017, the Company entered into a tax receivable agreement ("Tax Receivable Agreement") with the noncontrolling interest holder, Tema. The Tax Receivable Agreement provides that the Company will pay to Tema 90% of the net cash savings, if any, in U.S. federal, state and local income tax that the Company realizes (or is deemed to realize in certain circumstances) in periods beginning with and after the closing of the Transaction as a result of the following: (i) any tax basis increases in the assets of Rosehill Operating resulting from the distribution to Tema of \$35 million in cash, the shares of Class B Common Stock and the issuance of 4,000,000 warrants to Rosehill Operating exercisable for shares of its Class A Common Stock, all in connection with the Transaction, and resulting from the assumption of Tema liabilities in connection with the Transaction, (ii) the tax basis increases in the assets of Rosehill Operating resulting from a redemption by Rosehill Operating with respect to Tema and (iii) imputed interest deemed to be paid by the Company as a result of, and additional tax basis arising from, payments it makes under the Tax Receivable Agreement.

The estimation of liability under the Tax Receivable Agreement is by its nature imprecise and subject to significant assumptions regarding the amount and timing of future taxable income. The Company is not obligated to make any payments under the Tax Receivable Agreement until the tax benefits associated with the transaction that gave rise to the payment obligation are realized. Amounts payable under the Tax Receivable Agreement are contingent upon, among other things, (i) generation of future taxable income over the term of the Tax Receivable Agreement and (ii) future changes in tax laws. If the Company does not generate sufficient taxable income in the aggregate over the term of the Tax Receivable Agreement to utilize the tax benefits, then the Company would not be required to make the related Tax Receivable Agreement payment.

On December 26, 2019, Tema exercised its right to cause the Company to redeem all or a portion of its Rosehill Operating Common Units, by exchanging 4,100,000 out of its 29,807,692 Rosehill Operating Common Units then outstanding at the time.

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A liability under the Tax Receivable Agreement relating to such redemption was recorded in the amount of \$50.1 million as of the date of the redemption, increasing the Tax Receivable Agreement liability as of December 31, 2019 to \$53.8 million. Due to the uncertainty of the market, the significant decrease in oil prices that began during the first quarter of 2020 and the Company having substantial doubt about its ability to continue as a going concern, the Tax Receivable Agreement liability was revalued to \$0.2 million as of March 31, 2020 because it is not probable that the Company will have sufficient future taxable income to utilize all the tax benefits related to the Tax Receivable Agreement liability. The revaluation of the Tax Receivable Agreement liability resulted in income of \$53.6 million recognized in 'Other Income, net' on the Condensed Consolidated Statement of Operations.

**Note 16 – Stockholders' Equity**

*Class A Common Stock.* Holders of the Company's Class A Common Stock are entitled to one vote for each share held on all matters to be voted on by the stockholders. Holders of the Class A Common Stock and holders of the Class B Common Stock voting together as a single class have the exclusive right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders.

*Class B Common Stock.* Shares of Class B Common Stock may be issued only to Tema, their respective successors and assignees, as well as any permitted transferees of Tema. A holder of Class B Common Stock may transfer shares of Class B Common Stock to any transferee (other than the Company) only if such holder also simultaneously transfers an equal number of such holder's Rosehill Operating Common Units to such transferee in compliance with the LLC Agreement. Holders of the Company's Class B Common Stock will vote together as a single class with holders of the Company's Class A Common Stock on all matters properly submitted to a vote of the stockholders.

Holders of Class B Common Stock generally have the right to cause the Company to redeem all or a portion of their Rosehill Operating Common Units in exchange for shares of the Company's Class A Common Stock on a one-to-one basis or, at the Company's option, an equivalent amount of cash. The Company may, however, at its option, affect a direct exchange of cash or Class A Common Stock for such Rosehill Operating Common Units in lieu of such a redemption. Upon the future redemption or exchange of Rosehill Operating Common Units, a corresponding number of shares of Class B Common Stock will be canceled.

*8% Series A Cumulative Perpetual Convertible Preferred Stock.* Each share of Series A Preferred Stock has a liquidation preference of \$1,000 per share and is convertible, at the holder's option at any time, initially into 86.9565 shares of the Company's Class A Common Stock (which is equivalent to an initial conversion price of approximately \$11.50 per share of Class A Common Stock), subject to specified adjustments and limitations as set forth in the Certificate of Designation of Series A Preferred Stock (the "Certificate of Designation"). In the event of a Fundamental Change (as defined in the Certificate of Designation of the Series A Preferred Stock, which includes failure to maintain the listing of the Company's Class A Common Stock on a national securities exchange), the Company will increase the conversion rate. Please read Note 3 - *Liquidity* for details on the letter from The Nasdaq Stock Market LLC regarding the Company's stock price trading below the minimum bid price requirement for continued listing.

The Company reflected the following in equity for the Series A Preferred Stock for the following periods:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Series A Preferred Stock paid-in-kind	\$ 2,102	\$ —
Series A Preferred Stock paid or payable in cash	—	2,006
Series A Preferred Stock dividends	\$ 2,102	\$ 2,006

For the quarters ended March 31, 2020 and 2019, dividends per share on the Company's Series A Preferred Stock was \$19.89 and \$19.73, respectively.

The Company's Proposed Plan of Reorganization as discussed in Note 20 -*Subsequent Events*, anticipates that in exchange for all of the Series A Preferred Stock, holders of the Series A Preferred Stock will receive their pro rata share of 1.48% of the New Common Shares of the reorganized entity.

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*Warrants.* Each of the Company's warrants entitles the registered holder to purchase one share of the Company's Class A Common Stock at a price of \$11.50 per share, subject to adjustment pursuant to the terms of the warrant agreement. The warrants have a five-year term which commenced on April 27, 2017. As of March 31, 2020, there were 25,594,158 warrants exercisable for shares of Class A Common Stock outstanding at a price of \$11.50. The Company may call 17,185,320 warrants for redemption if the reported last sale price of the Class A Common Stock equals or exceeds \$21.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders. The remaining 8,408,838 warrants are not redeemable by the Company and are exercisable on a cashless basis so long as they are held by the initial holders or their permitted transferees. Otherwise, such warrants may be redeemed on terms and provisions that are identical to those described above.

*Noncontrolling Interest.* Noncontrolling interest represents the membership interest in Rosehill Operating held by Tema. The Company has consolidated the financial position and results of operations of Rosehill Operating and reflected the proportionate interest held by Tema as a noncontrolling interest. The noncontrolling interest will change if warrants are exercised for Class A Common Stock, when shares of Series A Preferred Stock are converted into shares of Class A Common Stock, when shares of Class A Common Stock are issued in connection with the Company's LTIP and if Tema elects to exchange the Class B Common Stock received in connection with the Transaction for shares of Class A Common Stock. At March 31, 2020, Tema held an approximate 35.3% noncontrolling interest in Rosehill Operating. On December 26, 2019, Tema redeemed 14,100,000 shares of its Rosehill Operating Common Units in exchange for an equivalent number of shares of Class A Common Stock, which significantly decreased Tema's noncontrolling interest in Rosehill Operating. After the exchange, Tema holds 15,707,692 shares of Class B Common Stock.

**Note 17 - Stock-Based Compensation**

***Long-Term Incentive Plan***

The LTIP permits the grant of a number of different types of equity, equity-based and cash awards to employees, directors and consultants, including grant options, SARs, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, substitute awards, performance awards or any combination of the foregoing, as determined by the Compensation Committee of the Board (the "Compensation Committee"), in its sole discretion. The purpose of the LTIP is to provide a means to attract and retain qualified employees, directors and consultants by affording such individuals a means to acquire and maintain stock ownership or awards, the value of which is tied to the performance of the Company. The LTIP also provides additional incentives and reward opportunities designed to strengthen such individuals' concern for the welfare of the Company and their desire to remain in its employ. At the plan's inception, 7,500,000 shares of Class A Common Stock were reserved for issuance under the LTIP.

The Company has granted restricted stock, restricted stock units and performance share units under the LTIP. Stock-based compensation expense for restricted stock and restricted stock units is recognized on a straight-line basis over the requisite service period for each separately vesting tranche of the award as if the award was, in substance, multiple awards. Stock-based compensation is included in general and administrative expense on the Company's Condensed Consolidated Statements of Operations and forfeitures are recognized as they occur. The stock-based compensation expense recognized was less than \$0.1 million and \$1.0 million for the three months ended March 31, 2020 and 2019, respectively. Stock-based compensation expense decreased significantly during the three months ended March 31, 2020 primarily due to forfeitures related to the termination of 52 full-time employees announced on March 26, 2020. As of March 31, 2020, 4,912,178 shares of Class A Common Stock remained available for issuance under the LTIP, subject to adjustment pursuant to the plan. The Company's Proposed Plan of Reorganization as discussed in Note 20 - *Subsequent Events*, anticipates that all unvested shares under the LTIP plan will be cancelled and receive no recovery.

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***Restricted Stock***

Restricted stock granted under the LTIP is issued on the grant date, but is restricted as to transferability until vesting. These restricted shares generally vest on the first anniversary of the date of grant. The following table sets forth the restricted stock transactions for the three months ended March 31, 2020:

	<b>Restricted Stock</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested - December 31, 2019	428,984	\$ 3.12
Granted	—	—
Vested	(403,816)	3.13
Forfeited	—	—
Nonvested - March 31, 2020	<u>25,168</u>	<u>\$ 2.98</u>

As of March 31, 2020, there was less than \$0.1 million of unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 0.2 years.

***Stock-Settled Time-Based Restricted Stock Units***

Stock-settled time-based restricted stock units entitle the holder to receive one share of Class A Common Stock for each restricted stock unit when such restricted stock unit vests. These stock-settled time-based restricted stock units generally vest in three substantially equal installments on the first three anniversaries of the date of grant. The following table sets forth stock-settled time-based restricted stock unit transactions for the three months ended March 31, 2020:

	<b>Restricted Stock Units</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested - December 31, 2019	1,360,070	\$ 4.28
Granted	—	—
Vested	(339,001)	3.96
Forfeited	(374,367)	4.35
Nonvested - March 31, 2020	<u>646,702</u>	<u>\$ 4.40</u>

As of March 31, 2020, there was \$1.8 million of unrecognized compensation cost related to nonvested stock-settled time-based restricted stock units which is expected to be recognized over a weighted-average period of 1.7 years.

***Market Based Performance Share Units***

The Company granted a target number of market based performance share units to certain employees. The market based performance share units will be settled in stock, provided that certain performance criteria are met. The performance criteria applicable to such awards is relative total shareholder return, which measures the Company's total shareholder return as compared to the total shareholder return of the peer group identified by the Compensation Committee. The Company recognizes compensation expense for the performance share units subject to market conditions regardless of whether it becomes probable that these conditions will be achieved or not and compensation expense is not reversed if vesting does not actually occur. The following table sets forth market based performance share unit transactions for the three months ended March 31, 2020:

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	<b>Performance Restricted Stock Units</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested - December 31, 2019	961,055	\$ 5.18
Granted	—	—
Vested	—	—
Forfeited	(338,259)	5.40
Nonvested - March 31, 2020	<u>622,796</u>	<u>\$ 5.06</u>

The grant-date fair value was estimated using a Monte Carlo valuation model. The Monte Carlo valuation model is based on random projections of stock price paths and must be repeated numerous times to achieve a probabilistic assessment. Expected volatility was calculated based on the historical volatility of the Class A Common Stock, and the risk-free interest rate is based on U.S. Treasury yield curve rates with maturities consistent with the three-year vesting period. The following weighted-average assumptions were used to value the market based performance awards:

	<b>Three Months Ended March 31, 2019</b>
Expected volatility	68.1 %
Risk-free interest rate	2.2 %
Dividend yield	— %
Expected life (years)	2.77

As of March 31, 2020, there was \$1.4 million of unrecognized compensation cost related to shares of market based performance units which is expected to be recognized over a weighted average period of 1.3 years.

**Cash-Settled Time-Based Restricted Stock Units**

The Company grants cash-settled time-based restricted stock units to certain employees. Cash-settled time-based restricted stock units entitle the holder to receive the cash equivalent of one share of Class A Common Stock for each restricted stock unit when such restricted stock unit vests. These cash-settled time-based restricted stock units generally vest in three substantially equal installments on the first three anniversaries of the date of grant. Cash-settled time-based restricted stock units are classified as liabilities and are remeasured at each reporting date until settled. The stock-based compensation expense for cash-settled time-based restricted stock units is recognized on a straight-line basis over the requisite service period for each separately vesting tranche of the award as if the award was, in substance, multiple awards. The following table sets forth cash-settled restricted stock unit transactions for the three months ended March 31, 2020:

	<b>Cash-Settled Restricted Stock Units</b>	<b>Weighted-Average Grant Date Fair Value</b>
Nonvested - December 31, 2019	412,921	\$ 3.47
Granted	—	—
Vested	(136,730)	3.59
Forfeited	(182,249)	3.40
Nonvested - March 31, 2020	<u>93,942</u>	<u>\$ 3.46</u>

As of March 31, 2020, the Company had a liability for cash-settled time-based restricted stock units of \$0.1 million based on a closing price of \$0.41 on March 31, 2020. As of March 31, 2020, there was less than \$0.1 million of unrecognized compensation cost related to shares of cash-settled time-based restricted stock units which is expected to be recognized over a weighted average period of 1.9 years.

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***Retirement Benefits***

The Company has not maintained, and does not currently maintain, a defined benefit pension plan or nonqualified deferred compensation plan. The Company currently maintains a retirement plan pursuant to which employees are permitted to contribute portions of their base compensation to a tax-qualified retirement account. The Company provided matching contributions equal to 100% of elective deferrals up to 6% of eligible compensation. Matching contributions are immediately fully vested. The Company's matching contributions under the plan totaled \$0.1 million and \$0.2 million for the three months ended March 31, 2020 and 2019, respectively.

**Note 18 – Transactions with Related Parties**

The Company is not entitled to compensation for its services as managing member of Rosehill Operating. The Company is entitled to reimbursement by Rosehill Operating for any costs, fees or expenses incurred on behalf of Rosehill Operating (including costs of securities offerings not borne directly by members, board of directors' compensation and meeting costs, cost of periodic reports to its stockholders, litigation costs and damages arising from litigation, accounting and legal costs); provided that the Company will not be reimbursed for any of its income tax obligations.

*Gateway Gathering and Marketing - Crude oil gathering and transportation.* Rosehill Operating has a Crude Oil Gathering Agreement with Gateway Gathering and Marketing ("Gateway"), a subsidiary of Rosemore Holdings, Inc., for a portion of its oil production. There were no costs incurred under the Crude Oil Gathering Agreement for the three months ended March 31, 2020 because Gateway bills the purchasers of the Company's oil production directly for the transportation services. For the three months ended March 31, 2019, the Company incurred approximately \$0.6 million of transportation costs under the Crude Oil Gathering Agreement.

*Gateway Gathering and Marketing - Natural gas gathering and transportation.* Rosehill Operating has a Gas Gathering Agreement with Gateway for a portion of its liquids-rich natural gas production (the "Gas Gathering Agreement"). Costs incurred under the Gas Gathering Agreement for the three months ended March 31, 2020 and 2019, were approximately \$2.0 million and \$1.3 million, respectively. As of March 31, 2020 and December 31, 2019, there was no amount in Accounts payable due to Gateway related to the Gas Gathering Agreement. As of March 31, 2020 and December 31, 2019, there was approximately \$0.7 million and \$0.6 million, respectively, in Accrued liabilities and other related to the Gas Gathering Agreement.

*KLR Sponsor.* In October 2018, Rosehill Operating entered into a Water Purchase Agreement with Seawolf Water Resources, LP ("Seawolf"), an affiliate of KLR Sponsor, to purchase water from Seawolf's water wells for use in well completion operations. For the three months ended March 31, 2020 and 2019, Rosehill Operating incurred costs of \$1.1 million and \$0.2 million, respectively, related to this agreement. As of March 31, 2020 and December 31, 2019, there was \$0.5 million and \$0.2 million, respectively, in Accounts payable due to Seawolf and as of March 31, 2020 and December 31, 2019 there was \$0.2 million included in accrued capital expenditures due to Seawolf.

*Distributions.* The LLC Agreement requires Rosehill Operating to make a corresponding cash distribution to the Company at any time a dividend is to be paid by the Company to the holders of its Series A Preferred Stock and Series B Preferred Stock. The LLC Agreement allows for distributions to be made by Rosehill Operating to its members on a pro rata basis in accordance with the number of Rosehill Operating Common Units owned by each member out of funds legally available therefor. The Company expects Rosehill Operating may make distributions out of distributable cash periodically to the extent permitted by the Amended and Restated Credit Agreement as necessary to enable the Company to cover its operating expenses and other obligations, as well as to make dividend payments, if any, to the holders of its Class A Common Stock. In addition, the LLC Agreement generally requires Rosehill Operating to make (i) pro rata distributions (in accordance with the number of Rosehill Operating Common Units owned by each member) to its members, including the Company, in an amount at least sufficient to allow the Company to pay its taxes and satisfy its obligations under the Tax Receivable Agreement and (ii) tax advances, which will be repaid upon a redemption, in an amount sufficient to allow each of the members of Rosehill Operating to pay its respective taxes on such holder's allocable share of Rosehill Operating's taxable income after taking into account certain other distributions or payments received by the unitholder from Rosehill Operating or the Company.

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**Note 19 – Commitments and Contingencies**

**Commitments**

*Rosehill Operating Common Unit Redemption Right.* The LLC Agreement provides Tema with a redemption right, which entitles Tema to cause Rosehill Operating to redeem, from time to time, all or a portion of its Rosehill Operating Common Units (and a corresponding number of shares of Class B Common Stock) for, at Rosehill Operating's option, newly issued shares of Class A Common Stock on a one-for-one basis or a cash payment equal to the average of the volume-weighted closing price of one share of Class A Common Stock for the twenty trading days prior to the date Tema delivers a notice of redemption for each Rosehill Operating Common Unit redeemed (subject to customary adjustments, including for stock splits, stock dividends and reclassifications). In the event of a reclassification event (as defined in the LLC Agreement), the Company as managing member is required to ensure that each Rosehill Operating Common Unit (and a corresponding share of Class B Common Stock) is redeemable for the same amount and type of property, securities or cash that a share of Class A Common Stock becomes exchangeable for or converted into as a result of such reclassification event. Upon the exercise of the redemption right, Tema will surrender its Rosehill Operating Common Units (and a corresponding number of shares of Class B Common Stock) to Rosehill Operating and (i) Rosehill Operating shall cancel such Rosehill Operating Common Units and issue to the Company a number of Rosehill Operating Common Units equal to the number of surrendered Rosehill Operating Common Units and (ii) the Company shall cancel the surrendered shares of Class B Common Stock. The LLC Agreement requires that the Company contribute cash or shares of Class A Common Stock to Rosehill Operating in exchange for the issuance to the Company described in clause (i). Rosehill Operating will then distribute such cash or shares of Class A Common Stock to Tema to complete the redemption. Upon the exercise of the redemption right, the Company may, at its option, affect a direct exchange of cash or its Class A Common Stock for such Rosehill Operating Common Units in lieu of such a redemption.

*Maintenance of One-to-One Ratios.* The LLC Agreement includes provisions intended to ensure that the Company at all times maintains a one-to-one ratio between (a) (i) the number of outstanding shares of Class A Common Stock and (ii) the number of Rosehill Operating Common Units owned by the Company (subject to certain exceptions for certain rights to purchase equity securities of the Company under a "poison pill" or similar shareholder rights plan, if any, certain convertible or exchangeable securities issued under the Company's equity compensation plans and certain equity securities issued pursuant to the Company's equity compensation plans (other than a stock option plan) that are restricted or have not vested thereunder) and (b) (i) the number of other outstanding equity securities of the Company (including the Series A Preferred Stock and the warrants exercisable for shares of Class A Common Stock) and (ii) the number of corresponding outstanding equity securities of Rosehill Operating. These provisions are intended to result in Tema having a voting interest in the Company that is identical to Tema's economic interest in Rosehill Operating.

*Pecos County, Texas Farm-in Agreement.* On February 27, 2019, Rosehill gained the right to earn approximately 2,200 net acres contiguous to its core areas in the Southern Delaware Basin subject to its obligations to drill and complete up to seven wells through 2020 and to carry 25% of the drilling and completion costs for each of the seven wells and the costs of facilities and equipment and subject to the Company's ability to obtain certain lease modifications. The Company drilled and completed two wells under the farm-in agreement, which earned the Company 935 net acres. On March 23, 2020, the Company re-conveyed the net acres associated with those remaining wells back to the partner.

**Contingencies**

*Legal.* In the ordinary course of business, the Company is party to various legal actions, which arise primarily from its activities as operator of oil and natural gas wells. In management's opinion, the outcome of any such currently pending legal actions will not have a material adverse effect on the Company's financial position or results of operations. There is no material litigation, arbitration or governmental proceeding currently pending against the Company or any members of its management team in their capacity as such requiring a contingent liability to be recognized as of the date of the condensed consolidated financial statements.

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**Note 20 – Subsequent Events**

Please read Note 3 - *Liquidity* for information regarding certain events subsequent to March 31, 2020 that relate to the events described in this Note 20.

*Restructuring Support Agreement*

On June 30, 2020, the Company and Rosehill Operating (together with the Company, the “Company Parties”) entered into the RSA, which includes the term sheet attached thereto as Exhibit A (the “Term Sheet”), with (i) Tema, as (a) the holder of approximately 66.8% of the voting equity interests of the Company and 35.2% of the equity interests in Rosehill Operating and (b) party to the Tax Receivable Agreement, (ii) certain beneficial holders of, or investment advisors, sub-advisors, or managers of discretionary accounts that are beneficial holders of claims under the Amended and Restated Credit Agreement among the Company Parties, JPMorgan and the lenders from time to time party thereto (the “Consenting Lenders”), and (iii) certain beneficial holders of, or the investment advisors, sub-advisors, or managers on behalf of discretionary funds, accounts or entities that are beneficial holders of claims under the Note Purchase Agreement, and 100% of the Company’s issued Series B Preferred Stock (the “Consenting Noteholders,” and together with Tema and the Consenting Lenders, the “Consenting Creditors”).

The RSA contemplates that the Company Parties will (i) file voluntary cases (the “Chapter 11 Filings”) under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of Texas (the “Bankruptcy Court”) to effect a restructuring through a prepackaged chapter 11 plan of reorganization (the “Plan”) to be filed with the Bankruptcy Court on or before July 15, 2020 at 11:59 p.m. (prevailing Central Time) and (ii) enter into a proposed junior convertible debtor in possession delayed draw term loan facility (the “DIP Facility”), as evidenced by the DIP Credit Agreement (as defined in the RSA).

The RSA contains certain covenants on the part of each of the Company Parties and the Consenting Creditors including that the Consenting Creditors use commercially reasonable efforts to support the Restructuring Transactions (as defined in the RSA), to vote in favor of the Plan and to otherwise use good faith when negotiating the forms of the Definitive Documents (as defined in the RSA) with the Company Parties. The RSA also provides for certain conditions to the obligations of the parties and for termination upon the occurrence of certain events, including without limitation, the failure to achieve certain milestones and certain breaches or other actions by the parties under the RSA.

*Proposed Plan of Reorganization*

The Plan as contemplated by the RSA will provide for the following, among other things:

- after the time on which all conditions to the effectiveness of the Plan have been satisfied or waived in accordance with the terms thereof and the Plan becomes effective (the “Effective Date”), either a reorganized Rosehill Operating or a newly created legal entity that would be the successor to the Company Parties (either entity constituting “New Rosehill”) will be established;
- the entry by New Rosehill into an exit RBL credit agreement to refinance indebtedness under the Amended and Restated Credit Agreement (the “Revolving Credit Facility”), with a term of 4 years and a maximum initial borrowing base of \$235.0 million;
- the principal of the DIP Facility will be converted to 24.15% of the shares of the equity of New Rosehill (the “New Common Shares”), and the backstop fee earned in connection with the DIP Facility will be converted to 1.69% of the New Common Shares, in each case, subject to dilution from the post-emergence management incentive plan that will be adopted by the board of directors of New Rosehill (the “MIP”);
- each Consenting Noteholder will receive its pro rata share of 68.60% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the Secured Note Claims (as defined in the Term Sheet);
- Tema, as the holder of claims under that Tax Receivable Agreement, will receive its pro rata share of 4.08% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the TRA Claims (as defined in the Term Sheet);
- subject to specific conditions, including acceptance of the Plan by and lack of any objection to confirmation of the Plan by the holders of Series A Preferred Stock and Series B Preferred Stock (each as defined in the Term Sheet) (collectively, the “Preferred Holders”), the Preferred Holders will receive their pro rata share of 1.48% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the Series A Preferred Stock and Series B Preferred Stock;

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- the Existing Common Stock (which includes the Company's Class A Common Stock) and Other Existing Interests (each as defined in the Term Sheet) will be cancelled and receive no recovery;
- the RSA requires that Tema and the Consenting Noteholders work in good faith to finalize substantially final forms of governance documents or term sheets in respect thereof before the date the Chapter 11 Cases are filed (the "Petition Date");
- certain claims relating to borrowings outstanding under the Amended and Restated Credit Agreement are to be paid with net cash proceeds from the orderly unwind of all of the Company's existing commodity hedging and derivative instruments, which is anticipated to occur between the execution of the RSA and the Petition Date; and
- the Gas Gathering Agreement will be amended after the execution of the RSA and before the Petition Date.

The terms of the Plan are subject to approval by, among other parties, the Consenting Creditors (pursuant to the terms set forth in the RSA) and the Company, as well as the Bankruptcy Court, among other conditions to the effectiveness of the Plan. The Company Parties intend to solicit votes from the Consenting Creditors with respect to the Plan prior to the Petition Date, and to commence solicitation of votes from the Preferred Holders prior to the Petition Date but to receive such votes after the Petition Date. Accordingly, no assurance can be given that the transactions described herein will be consummated. If a termination of the Plan occurs prior to the Chapter 11 Filings, then the Company's lenders and noteholders could exercise remedies for Events of Default (as defined in the respective agreements) (including accelerating debt, sweeping cash and foreclosing on its assets). During the Chapter 11 proceedings, a termination of the RSA may result in the loss of support for the Plan, which would adversely affect the Company's ability to confirm and consummate the Plan. If the Plan is not consummated, there can be no assurance that the Company could achieve a restructuring alternative and its Chapter 11 proceedings could become protracted or terminate, which would have a material adverse effect on the Company's liquidity and ability to continue as a going concern.

Following the Chapter 11 Filings, the Company and Rosehill Operating (together, the "Debtors") expect to operate the business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain exceptions under the Bankruptcy Code, the Chapter 11 Filings will automatically enjoin or stay the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the Bankruptcy Petitions. Under the Plan, the Company intends to ask the Bankruptcy Court to grant certain relief requested by the Debtors enabling the Company to conduct its business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorization to pay employee wages and benefits, to pay certain taxes and governmental fees and charges, to continue to operate our cash management system in the ordinary course, to secure debtor-in-possession financing, to remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and to pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law.

*Debtor-in-Possession Financing*

The RSA contemplates that the Company Parties will file a motion with the Bankruptcy Court (the "DIP Motion") seeking, among other things, interim and final approval of debtor-in-possession financing on the terms and conditions set forth in the DIP Credit Agreement. If approved by the Bankruptcy Court, the RSA provides that the DIP Credit Agreement will provide for the following, among other things:

- the DIP Facility, in the aggregate amount of \$17.5 million, shall be junior to the Adequate Protection Liens (as defined in the Term Sheet), superpriority liens securing postpetition hedges, the Revolving Credit Facility and the Note Purchase Agreement but senior to all other Claims (as defined in the Term Sheet) and Interests (as defined in the Term Sheet);
- \$15.0 million of the DIP Facility will be backstopped by the Consenting Noteholders, and \$2.5 million shall be backstopped by Tema;
- Tema will have the right to subscribe to provide up to \$7.5 million of the DIP Facility;
- the Company Parties will draw half of the DIP Facility within three business days after the entry of the Interim Order, and the remaining half of the DIP Facility within three business days after the entry of the Final Order;
- the DIP Facility will mature at the earliest of (i) six months after the Petition Date, (ii) the Effective Date; (iii) the closing of a sale of substantially all of the equity interests or assets of the Company Parties (unless done pursuant to the Plan); (iv) the date of prepayment in cash in full by the Company of all claims under the DIP Facility and termination of all commitments in respect of the DIP Facility in accordance with the terms of the DIP Credit Agreement; and (v) the date of termination of

**ROSEHILL RESOURCES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

the commitments in respect of the DIP Facility and/or acceleration of any outstanding extensions of credit following the occurrence and during the continuance of an event of default under the DIP Facility;

- borrowings under the DIP Facility will bear interest at 8% per annum, paid, in kind monthly, with an additional 2% per annum default rate paid in kind, provided that such interest may only be paid in cash upon the Effective Date subject to certain conditions;
- the Company Parties will pay an upfront fee of 100 bps, paid-in-kind, provided that such upfront fee may only be paid in cash upon the Effective Date subject to certain conditions;
- the DIP Credit Agreement will provide for certain customary covenants applicable to the Company;
- the DIP Credit Agreement will require that the Company Parties (a) enter into commodity hedge transactions pursuant to standards agreed in advance by the Company, the Majority DIP Lenders (as defined in the Term Sheet), and JPMorgan in their reasonable discretion such that, as soon as practical after the Petition Date (and in any case no later than ten (10) Business Days after the Petition Date), the notional volumes of such commodity hedge transactions represent at least 70% of reasonably anticipated projected production from oil and gas properties constituting proved developed producing reserves of Rosehill Operating for each of the following 24 months (August 2020 to July 2022 based on the most recent reserve report) for each of crude oil and natural gas, calculated separately, (b) receive prior written consent from Majority DIP Lenders and JPMorgan (acting at the direction of the Required Revolving Credit Agreement Lenders (as defined in the Term Sheet)) for any asset sales or dispositions outside the ordinary course of business in excess of \$200,000 in the aggregate or investments in excess of \$200,000 in the aggregate, and (c) provide certain periodic reporting packages and budgets to the Majority DIP Lenders and JPMorgan; and
- the DIP Credit Agreement will provide for certain customary conditions for debtor-in-possession facilities of this type and certain other conditions as required by the Majority DIP Lenders.

The terms of the DIP Credit Agreement are subject to approval by the DIP Lenders, the Company, and the Bankruptcy Court, among other conditions. Accordingly, the terms of the DIP Credit Agreement are subject to change and there can be no assurance that the DIP Credit Agreement will be consummated. The Company anticipates closing the DIP Credit Agreement promptly following approval by the Bankruptcy Court of the DIP Motion.

Despite the liquidity that may be provided by the DIP Credit Agreement, the Company's ability to maintain normal credit terms with our suppliers and vendors may become impaired. The Company may be required to pay cash in advance to certain vendors and may experience restrictions on the availability of trade credit, which would further reduce its liquidity. If liquidity problems persist, suppliers could refuse to provide key products and services in the future. In addition to the cash requirements to fund ongoing operations, the Company has incurred significant professional fees and other costs in connection with the RSA and expect that it will continue to incur significant fees and costs throughout the Chapter 11 proceedings.

Even if the Company obtains financing under the DIP Credit Agreement, it is uncertain the Company's liquidity will be sufficient to allow it to satisfy its obligations related to the Chapter 11 proceedings or that it will be able to confirm a Plan with the Bankruptcy Court that allows it to emerge from bankruptcy. In addition, the Company will be required to comply with the covenants and conditions of our DIP Credit Agreement in order to continue to access borrowings thereunder.

In connection with the Chapter 11 Filings, as contemplated by the Term Sheet, the Company intends to delist its Class A Common Stock, Class A Common Stock Public Units and Class A Common Stock Public Warrants from Nasdaq. The Company also expects to terminate and suspend its reporting obligations under the Exchange Act when it is eligible to do so.

If the Chapter 11 Filing is not completed or the Plan is not consummated within the timeframe expected, the Company does not expect to have sufficient liquidity to fund capital expenditures. The Chapter 11 Filings will constitute an Event of Default under the credit agreement and Second Lien Notes and the delisting of the Class A Common Stock will constitute an Event of Default under the Second Lien Notes. The creditors under these debt agreements are subject to a forbearance under the RSA and, after the Chapter 11 Filings, will be stayed from taking any action against the Company as a result of an event of default.

## 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 the condensed consolidated financial statements and notes thereto appearing elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements that reflect our future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside of our control. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for oil, natural gas and NGLs, production volumes, estimates of proved reserves, capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties, as well as those factors discussed below and in our Annual Report on Form 10-K, particularly in "Item 1A. Risk Factors" and below in "Cautionary Statement Concerning Forward-Looking Statements," all of which are difficult to predict. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.*

### CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act. All statements, other than statements of historical fact included in this report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2019 (our "Annual Report on Form 10-K"), and the risk factors and other cautionary statements contained in our other filings with the SEC. These forward-looking statements are based on management's current beliefs as of the date of this Quarterly Report on Form 10-Q, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about:

- the timing and results of the RSA, the Chapter 11 Filings, including our ability to obtain confirmation of the Plan or an alternative restructuring transaction;
- our ability to consummate the transactions contemplated by the RSA, including the Plan and the DIP Credit Agreement, on the terms described or at all;
- our ability to obtain the approval of the Bankruptcy Court with respect to motions or other requests made to the Bankruptcy Court in the Chapter 11 Filings, including maintaining strategic control as debtor-in-possession;
- the effects of the RSA and the Chapter 11 Filings on our operations and financial condition and on the interests of the various constituents, including holders of our common stock and indebtedness;
- the length of time that we will operate under Chapter 11 protection and the continued availability of capital during the pendency of the proceedings;
- the adequacy and availability of capital resources, credit and liquidity, including, but not limited to, debt refinancing or extensions, exchanges or repurchases of debt, issuances of debt or equity securities, access to additional borrowing capacity and our ability to generate sufficient cash flow from operations to fund our capital expenditures and meeting working capital needs;
- delisting our common stock and terminating our SEC reporting obligations;
- our future financial performance;
- our ability to continue as a going concern;
- the impact of the COVID-19 pandemic;
- our ability to successfully complete strategic initiatives, including potential refinancings, restructuring or deleveraging;
- potential actions of our stakeholders and lenders, including before and after the Chapter 11 Filings;
- our ability to cure defaults under our debt agreements;
- our business strategy;
- our reserves;
- our liquidity and capital resources;
- our ability to comply with covenants and obligations under our financing agreements;
- the future of our operations;
- our drilling prospects, inventories, projects and programs;
- our ability to replace the reserves we produce through drilling and property acquisitions;

- our ability to realize the anticipated benefits of the White Wolf Acquisition;
- our financial strategy, liquidity and capital required for our development program;
- benefits from changes in our capital program and development strategy;
- our realized oil, natural gas and natural gas liquids (“NGL”) prices;
- the timing and amount of our future production of oil, natural gas and NGLs;
- our hedging strategy and results;
- our future drilling plans;
- our expansion plans and future opportunities;
- our competition and government regulations;
- our ability to obtain permits and governmental approvals;
- our pending legal or environmental matters;
- our marketing of oil, natural gas and NGLs;
- our leasehold or business acquisitions;
- our costs of developing our properties;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- our plans, objectives, expectations and intentions contained in this Quarterly Report on Form 10-Q that are not historical.

You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to actions taken by our stakeholders (including those not party to the RSA), our creditors, our debt holders and our customers and litigation and disputes (both before and after the Chapter 11 Filings), our ability to have sufficient liquidity to consummate the Plan (particularly if the Plan is not consummated within our expected timeframe), our ability to continue as a going concern and the impact of the COVID-19 pandemic and the actions by governments, businesses and individuals in response to the pandemic, as well as the risks described under “Risk Factors” in our Annual Report on Form 10-K, many of which may be aggravated by the effects of the COVID-19 pandemic. Moreover, we operate in a very competitive and rapidly changing environment, particularly in light of the COVID-19 pandemic and the recent significant decline in commodity prices. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make.

Reserve engineering is a process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions would change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of oil and natural gas that are ultimately recovered.

Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this Quarterly Report on Form 10-Q are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved or occur, and actual results could differ materially and adversely from those anticipated or implied by the forward-looking statements.

All forward-looking statements, expressed or implied, included in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

## Overview

We are an independent oil and natural gas company focused on the acquisition, exploration, development and production of unconventional oil and associated liquids-rich natural gas reserves in the Permian Basin. Our assets are concentrated in the Delaware Basin, a sub-basin of the Permian Basin. We have drilling locations in ten distinct formations in the Delaware Basin: the Brushy Canyon, Upper Avalon, Lower Avalon, 2<sup>nd</sup> Bone Spring Shale, 2<sup>nd</sup> Bone Spring Sand, 3<sup>rd</sup> Bone Spring Sand, 3<sup>rd</sup> Bone Spring Shale, Wolfcamp A (X/Y), Lower Wolfcamp A and Wolfcamp B, and our goal is to build a premier development and acquisition company focused on horizontal drilling in the Delaware Basin.

We have no direct operations and no significant assets other than our ownership interest in Rosehill Operating, an entity of which we act as the sole managing member and of whose common units we currently own approximately 64.7% (or 70.8% assuming the conversion of Rosehill Operating Series A Preferred Units into Rosehill Operating Common Units).

### ***Restructuring Support Agreement and Related Recent Developments***

#### *Restructuring Support Agreement*

On June 30, 2020, the Company Parties entered into the RSA, which includes the Term Sheet with the Consenting Creditors.

The RSA contemplates that the Company Parties will (i) file the Chapter 11 Filings with the Bankruptcy Court to effect the Plan, which will be filed with the Bankruptcy Court on or before July 15, 2020 at 11:59 p.m. (prevailing Central Time) and (ii) enter into the DIP Facility as evidenced by the DIP Credit Agreement (as defined in the RSA).

The RSA contains certain covenants on the part of each of the Company Parties and the Consenting Creditors including that the Consenting Creditors use commercially reasonable efforts to support the Restructuring Transactions (as defined in the RSA), to vote in favor of the plan of reorganization contemplated by the RSA (the "Plan") and to otherwise use good faith when negotiating the forms of the Definitive Documents (as defined in the RSA) with the Company Parties. The RSA also provides for certain conditions to the obligations of the parties and for termination upon the occurrence of certain events, including without limitation, the failure to achieve certain milestones and certain breaches or other actions by the parties under the RSA.

#### *Proposed Plan of Reorganization*

The Plan as contemplated by the RSA will provide for the following, among other things:

- after the Effective Date, New Rosehill will be established;
- the entry by New Rosehill into an exit RBL credit agreement to refinance the Revolving Credit Facility, with a term of 4 years and a maximum initial borrowing base of \$235.0 million;
- the principal of the DIP Facility will be converted to 24.15% of the New Common Shares, and the backstop fee earned in connection with the DIP Facility will be converted to 1.69% of the New Common Shares, in each case subject to dilution from the MIP;
- each Consenting Noteholder will receive its pro rata share of 68.60% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the Secured Note Claims (as defined in the Term Sheet);
- Tema, as the holder of claims under the Tax Receivable Agreement, will receive its pro rata share of 4.08% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the TRA Claims (as defined in the Term Sheet);
- subject to specific conditions, including acceptance of the Plan and lack of any objection to the confirmation of the Plan by the Preferred Holders, the Preferred Holders will receive their pro rata share of 1.48% of the New Common Shares, subject to dilution from the MIP, in exchange for all of the Series A Preferred Stock and Series B Preferred Stock;
- the Existing Common Stock (which includes the Company's Class A Common Stock) and Other Existing Interests (each as defined in the Term Sheet) will be cancelled and receive no recovery;
- the RSA requires that Tema and the Consenting Noteholders work in good faith to finalize substantially final forms of governance documents or term sheets in respect thereof before the Petition Date;
- certain claims relating to borrowings outstanding under the Amended and Restated Credit Agreement are to be paid with net cash proceeds from the orderly unwind of all of the Company's existing commodity hedging and derivative instruments, which is anticipated to occur between the execution of the RSA and the Petition Date; and
- the Gas Gathering Agreement will be amended after the execution of the RSA and before the Petition Date.

The terms of the Plan are subject to approval by, among other parties, the Consenting Creditors (pursuant to the terms set forth in the RSA) and the Company, as well as the Bankruptcy Court, among other conditions to the effectiveness of the Plan. The Company Parties intend to solicit votes from the Consenting Creditors with respect to the Plan prior to the Petition Date, and to commence solicitation of votes from the Preferred Holders prior to the Petition Date but to receive such votes after the Petition Date. Accordingly, no assurance can be given that the transactions described herein will be consummated. During the Chapter 11 proceedings, a termination of the RSA may result in the loss of support for the Plan, which would adversely affect our ability to confirm and consummate the Plan. If the Plan is not consummated, there can be no assurance that we could achieve a restructuring alternative and our Chapter 11 proceedings could become protracted or terminate, which would have a material adverse effect on our liquidity and ability to continue as a going concern.

The foregoing summary of the terms of the Plan does not purport to be complete and is qualified in its entirety by the full text of the RSA (including the Term Sheet), which is attached as an exhibit hereto and incorporated herein by reference.

#### *Debtor-in-Possession Financing*

The RSA contemplates that the Company Parties will file the DIP Motion seeking, among other things, interim and final approval of debtor-in-possession financing on the terms and conditions set forth in the DIP Credit Agreement. If approved by the Bankruptcy Court, the RSA provides that the DIP Credit Agreement will provide for the following, among other things:

- the DIP Facility, in the aggregate amount of \$17.5 million, shall be junior to the Adequate Protection Liens (as defined in the Term Sheet), superpriority liens securing postpetition hedges, the Revolving Credit Facility and the Note Purchase Agreement but senior to all other Claims (as defined in the Term Sheet) and Interests (as defined in the Term Sheet);
- \$15.0 million of the DIP Facility will be backstopped by the Consenting Noteholders, and \$2.5 million shall be backstopped by Tema;
- Tema will have the right to subscribe to provide up to \$7.5 million of the DIP Facility;
- the Company Parties will draw half of the DIP Facility within three business days after the entry of the Interim Order, and the remaining half of the DIP Facility within three business days after the entry of the Final Order;
- the DIP Facility will mature at the earliest of (i) six months after the Petition Date, (ii) the Effective Date; (iii) the closing of a sale of substantially all of the equity interests or assets of the Company Parties (unless done pursuant to the Plan); (iv) the date of prepayment in cash in full by the Company of all claims under the DIP Facility and termination of all commitments in respect of the DIP Facility in accordance with the terms of the DIP Credit Agreement; and (v) the date of termination of the commitments in respect of the DIP Facility and/or acceleration of any outstanding extensions of credit following the occurrence and during the continuance of an event of default under the DIP Facility;
- borrowings under the DIP Facility will bear interest at 8% per annum, paid-in-kind monthly, with an additional 2% per annum default rate paid-in-kind, provided that such interest may only be paid in cash upon the Effective Date subject to certain conditions;
- the Company Parties will pay an upfront fee of 100 bps, paid-in-kind, provided that such upfront fee may only be paid in cash upon the Effective Date subject to certain conditions;
- the DIP Credit Agreement will provide for certain customary covenants applicable to the Company;
- the DIP Credit Agreement will require that the Company Parties (a) enter into commodity hedge transactions pursuant to standards agreed in advance by the Company, the Majority DIP Lenders (as defined in the Term Sheet), and JPMorgan in their reasonable discretion such that, as soon as practical after the Petition Date (and in any case no later than ten (10) Business Days after the Petition Date), the notional volumes of such commodity hedge transactions represent at least 70% of reasonably anticipated projected production from oil and gas properties constituting proved developed producing reserves of Rosehill Operating for each of the following 24 months (August 2020 to July 2022 based on the most recent reserve report) for each of crude oil and natural gas, calculated separately, (b) receive prior written consent from Majority DIP Lenders and JPMorgan (acting at the direction of the Required Revolving Credit Agreement Lenders (as defined in the Term Sheet)) for any asset sales or dispositions outside the ordinary course of business in excess of \$200,000 in the aggregate or investments in excess of \$200,000 in the aggregate, and (c) provide certain periodic reporting packages and budgets to the Majority DIP Lenders and JPMorgan; and

- the DIP Credit Agreement will provide for certain customary conditions for debtor-in-possession facilities of this type and certain other conditions as required by the Majority DIP Lenders.

The terms of the DIP Credit Agreement are subject to approval by the DIP Lenders, the Company, and the Bankruptcy Court, among other conditions. Accordingly, the terms of the DIP Credit Agreement are subject to change and there can be no assurance that the DIP Credit Agreement will be consummated. The Company anticipates closing the DIP Credit Agreement promptly following approval by the Bankruptcy Court of the DIP Motion. If a termination occurs prior to the Chapter 11 Filings, then our lenders and noteholders could exercise remedies for Events of Default (as defined in the respective agreements) (including accelerating debt, sweeping cash and foreclosing on our assets).

The foregoing summary of the terms of the proposed DIP Facility does not purport to be complete and is qualified in its entirety by the full text of the RSA (including the Term Sheet) which is attached as an exhibit and incorporated herein by reference.

For information regarding certain events leading up to the execution of the RSA, please read Note 3 *Liquidity and Chronology of Events and Going Concern Assessment* within this MD&A.

#### ***Risks Associated with Chapter 11 Filings***

There can be no assurance that we will make the Chapter 11 Filings in accordance with the RSA, that the RSA will not be terminated or that we will consummate the Plan as contemplated. In any event, the preparation of the RSA and the Chapter 11 Filings have and will continue to result in material expenses for the Company and the attention of management. For the duration of our Chapter 11 Cases, our operations and our ability to develop and execute our business plan are subject to the risks and uncertainties associated with the reorganization process under the Bankruptcy Code as described in Part II, Item 1A. “Risk Factors” in this quarterly report on Form 10-Q. Due to these risks and uncertainties, the description of our operations, properties and capital plans included in this quarterly report on Form 10-Q may not accurately reflect our operations, properties and capital plans following the conclusion of the Chapter 11 proceedings.

#### ***Delisting of Class A Securities***

In connection with the Chapter 11 Filings, as contemplated by the Term Sheet, the Company intends to delist its Class A Common Stock, Class A Common Stock Public Units and Class A Common Stock Public Warrants from Nasdaq June 30, 2020. The Company also expects to suspend its reporting obligations under the Exchange Act when it is eligible to do so.

#### ***Market Conditions***

Irrespective of our balance sheet constraints, sustained periods of low prices for oil or natural gas have and could materially and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spread globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The adverse economic effects of the COVID-19 outbreak have materially decreased demand for oil based on the restrictions implemented by governments trying to slow the spread of the outbreak and changes in consumer behavior and this decrease in demand has generated a surplus of oil supply that has created a saturation of storage. The surplus in supply in turn has led to a significant decrease in oil prices. In addition, in March 2020, members of OPEC+ failed to agree on oil production levels and Saudi Arabia responded by increasing its production, which resulted in an increased supply of oil and further contributed to the substantial decline in oil prices and an increasingly volatile market. The members of OPEC+ reached a tentative agreement to cut oil production in April 2020; however, the announcement of the tentative agreement did not result in increased commodity prices, and these production cuts, if effected, may not offset near-term demand loss attributable to the COVID-19 pandemic and related economic slowdown.

We have certain commodity derivative instruments in place to mitigate the effects of such price declines as detailed in Note 8 *Derivative Instruments*; however, the derivatives will not entirely mitigate the effects of lower oil prices. The depressed pricing environment has led us to halt our drilling and completion activities for the remainder of 2020 and has led to (i) a reduction in reserves, including the removal of proved undeveloped reserves, (ii) an impairment of proved and unproved oil and gas properties, (iii) curtailment of production during the second quarter of 2020, (iv) recognition of a full valuation allowance on our net deferred

tax assets and (v) a reduction of our Tax Receivable Agreement liability. Production has continued to be adversely impacted during the second quarter of fiscal 2020 and we expect this to continue into the third quarter of fiscal 2020 and possibly beyond.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report and will depend on various factors, including the duration and spread of the outbreak, its severity, the actions by governments, businesses and individuals in response to the situation, how the pandemic and measures taken in response to its impact demand for oil, the availability of personnel, equipment and services critical to our ability to operate our properties, and how quickly and to what extent normal economic and operating conditions can resume, each of which is highly uncertain and cannot be predicted. Moreover, if workers at one of our offices become ill or are quarantined and in either or both events are therefore unable to work, our operations could be subject to disruption. Further, if our vendors become unable to obtain necessary raw materials or components, we may incur higher supply costs or our vendors may be required to reduce service or production levels, either of which may negatively affect our financial condition or results of operations. As such, it is uncertain as to the full magnitude of the impact that the pandemic will have on our financial condition, liquidity, and future results of operations. Management continues to actively monitor the impact of the global situation on our financial condition, liquidity, operations, suppliers, industry, and workforce.

#### **Realized Prices**

Our revenue, profitability and future growth are highly dependent on the prices we receive for our oil and natural gas production, as well as NGLs that are extracted from our natural gas during processing. The following table presents our average realized commodity prices before the effects of commodity derivative settlements:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
Crude oil (per Bbl)	\$ 44.84	\$ 48.92
Natural gas (per Mcf)	\$ 0.05	\$ 0.85
NGLs (per Bbl)	\$ 7.59	\$ 15.26

The oil and natural gas industry is cyclical and commodity prices are highly volatile. As discussed above, the impact of the COVID-19 outbreak and the failure of OPEC+ to agree on oil production levels caused oil prices to decline significantly in the second half of March 2020. The impact of the lower oil prices led us to production curtailment and suspension of our drilling and completion activity and was the primary driver for the Company recording an impairment to proved property of \$333.8 million as of March 31, 2020. If oil prices remain depressed for the remainder of 2020, it may further materially and adversely affect our business, financial condition, results of operations, operating cash flows, liquidity or ability to finance planned capital expenditures. Lower oil, natural gas and NGL prices may also reduce the borrowing base under our Amended and Restated Credit Agreement, which may be redetermined at the discretion of the lenders and is based on the collateral value of our proved reserves that have been mortgaged to the lenders. We entered into a forbearance agreement with the lenders under our Amended and Restated Credit Agreement on May 4, 2020, which postponed the scheduled redetermination of the borrowing base that was scheduled to occur on or about April 1, 2020. We expected such borrowing base redetermination to result in a borrowing base deficiency. Alternatively, higher oil, natural gas and NGL prices may result in significant losses being incurred on our commodity derivatives, which could cause us to experience net losses when oil and natural gas prices rise. We received low prices for our natural gas due to lower NYMEX gas prices and wider gas price differentials but because we receive revenue from NGLs, we have and may continue to produce and sell our natural gas at a low, or negative, realized sales price.

A 10% change in our realized oil, natural gas and NGL prices would have changed revenue by the following amounts for the periods indicated:

	<b>Three Months Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Oil sales	\$ 5,775	\$ 6,585
Natural gas sales	10	147
NGL sales	234	453
Total revenues	<u>\$ 6,019</u>	<u>\$ 7,185</u>

The prices we receive for our products are based on benchmark prices and are adjusted for quality, energy content, transportation fees and regional price differentials. See “Results of Operations” below for an analysis of the impact changes in realized prices had on our revenues.

#### *Sources of Our Revenues*

Our revenues are derived from the sale of our oil and natural gas production, as well as the sale of NGLs that are extracted from our natural gas during processing. The following table shows the percentage each component contributed to total revenue:

	Three Months Ended March 31,	
	2020	2019
<b>Commodity Revenues (1):</b>		
Oil sales	96%	92%
Natural gas sales	—	2
NGL sales	4	6
	<u>100%</u>	<u>100%</u>

(1) The percentages exclude the effects of commodity derivatives.

#### **Operational and Financial Highlights for the Three Months Ended March 31, 2020 and 2019**

##### *Production Results*

The following table presents production volumes for our properties for the periods indicated:

	Three Months Ended March 31,	
	2020	2019
Oil (MBbls)	1,288	1,346
Natural gas (MMcf)	1,921	1,739
NGLs (MBbls)	308	297
Total (MBoe)	1,916	1,933
Average daily net production (Boe/d)	<u>21,055</u>	<u>21,478</u>

##### *Derivative Activity*

To achieve a more predictable cash flow and reduce exposure to adverse fluctuations in commodity prices, we have historically used commodity derivative instruments, such as swaps, two-way costless collars and three-way costless collars, to hedge price risk associated with a portion of our anticipated oil, natural gas and NGL production. By removing a significant portion of the price volatility associated with our production, we will mitigate, but not eliminate, the potential negative effects of declines in benchmark oil, natural gas and NGL prices on our cash flow from operations for those periods. However, for a portion of our current positions, hedging activity may also reduce our ability to benefit from increases in oil, natural gas and NGL prices. We will sustain losses to the extent our commodity derivative contract prices are lower than market prices and, conversely, we will sustain gains to the extent our commodity derivative contract prices are higher than market prices. In certain circumstances, where we have unrealized gains in our commodity derivatives portfolio, we may choose to restructure existing commodity derivative contracts or enter into new transactions to modify the terms of current contracts in order to realize the current value of our existing positions.

We had a net current asset of \$79.9 million and a net non-current asset of \$60.8 million related to the following open commodity derivative instrument positions as of March 31, 2020:

	2020	2021	2022
<b>Commodity derivative swaps</b>			
<b>Oil:</b>			
Notional volume (Bbls) (1)(2)	760,000	—	—
Weighted average fixed price (\$/Bbl)	\$ 67.46	\$ —	\$ —
<b>Natural gas:</b>			
Notional volume (MMBtu)	1,595,368	1,615,792	1,276,142
Weighted average fixed price (\$/MMBtu)	\$ 2.73	\$ 2.79	\$ 2.85
<b>Commodity derivative three-way collars</b>			
<b>Oil:</b>			
Notional volume (Bbls)	2,475,000	4,200,000	2,000,000
Weighted average ceiling price (\$/Bbl)	\$ 70.29	\$ 60.40	\$ 61.45
Weighted average floor price (\$/Bbl)	\$ 57.50	\$ 54.49	\$ 55.00
Weighted average sold put option price (\$/Bbl)	\$ 47.50	\$ 45.51	\$ 45.00
<b>Crude oil basis swaps</b>			
<b>Midland / Cushing:</b>			
Notional volume (Bbls)	3,905,000	4,200,000	2,100,000
Weighted average fixed price (\$/Bbl)	\$ (0.85)	\$ 0.49	\$ 0.54
<b>Argus WTI roll:</b>			
Notional volume (Bbls)	370,650	—	—
Weighted average fixed price (\$/Bbl)	\$ 0.40	\$ —	\$ —
<b>NYMEX WTI roll:</b>			
Notional volume (Bbls)	2,102,752	—	—
Weighted average fixed price (\$/Bbl)	\$ 0.42	\$ —	\$ —
<b>Natural gas basis swaps</b>			
<b>EP Permian:</b>			
Notional volume (MMBtu)	1,617,388	—	—
Weighted average fixed price (\$/MMBtu)	\$ (1.03)	\$ —	\$ —

(1) During the second quarter of 2019, the Company entered into commodity derivative swaps where it bought 2,160,000 barrels of crude oil at a weighted average fixed price of \$50.48 per barrel to offset commodity derivative swaps for the year ended December 31, 2021, it previously sold of 2,160,000 barrels of crude oil at a weighted average fixed price of \$61.21 per barrel, effectively locking in a gain of approximately \$23.2 million that the Company expects to recognize in 2021 when the swaps settle.

(2) During the second quarter of 2019, the Company entered into commodity derivative swaps where it bought 1,100,000 barrels of crude oil at a weighted average fixed price of \$50.55 per barrel to offset commodity derivative swaps for the year ended December 31, 2022, it previously sold of 1,100,000 barrels of crude oil at a weighted average fixed price of \$58.42 per barrel, effectively locking in a gain of approximately \$8.7 million that the Company expects to recognize in 2022 when the swaps settle.

If there were no changes in the forward curve market prices as of March 31, 2020, we would recognize a realized gain of \$63.9 million in 2020, a realized gain of \$54.8 million in 2021 and a realized gain of \$22.0 million in 2022 related to our commodity derivatives. Our commodity derivative portfolio had a mark-to-market net asset value of approximately \$125.8 million as of April 30, 2020. See *Note 8 - Derivative Instruments* in the condensed consolidated financial statements under Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about our derivatives.

We utilize interest rate swaps to reduce our exposure to adverse fluctuations in LIBO rates on a portion of our revolving credit facility outstanding borrowings. The gains and losses on our interest rate swaps are recognized in interest expense. Entering into interest rate swaps allows us to mitigate, but not eliminate, the negative effects of increases in the LIBO rate, but reduces our ability to benefit from any decreases in the LIBO rate. We have interest rate swaps that extend through August 2022 on a notional amount of \$150.0 million of our outstanding borrowings under our revolving credit facility at an average fixed rate of 1.721%. We had a net current liability of \$2.1 million and a net non-current liability of \$3.0 million related to our interest rate swaps as of March 31, 2020.

### ***Income Taxes***

Rosehill Operating is a limited liability company that is treated as a partnership for U.S. federal income tax purposes and is not subject to U.S. federal income tax. Rosehill Resources is a C corporation and is subject to U.S. federal, state and local income taxes. Any taxable income or loss generated by Rosehill Operating is passed through to and included in Rosehill Resources and the noncontrolling interest taxable income or loss. On a consolidated basis, our effective tax rate will differ from the enacted statutory rate of 21% and will fluctuate from period to period primarily due to the allocation of profits and losses to Rosehill Resources and the noncontrolling interest holder in accordance with the LLC Agreement and the impact of state income taxes.

We periodically assesses whether it is more likely than not that we will generate sufficient taxable income to realize our deferred tax assets, including NOL carry forwards or carry backs. A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax assets will not be realized. As of March 31, 2020, we had a full valuation allowance to offset our net deferred tax assets in excess of deferred tax liabilities because we believe it is more likely than not that our deferred tax will not be realized prior to their expiration due to uncertainty of the market, the significant decline in oil prices that began during the first quarter of 2020 and the Company having substantial doubt about its ability to continue as a going concern.

### ***How We Evaluate Our Operations***

We use a variety of financial and operational metrics to assess the performance of our oil and natural gas operations, including:

- production volumes;
- Adjusted EBITDAX as defined under “Non-GAAP Financial Measure”;  
and
- operating expenses on a per barrel of oil equivalent (“Boe”), as discussed in “Results of Operations.”

## Non-GAAP Financial Measure

Adjusted EBITDAX is a supplemental non-GAAP financial measure that is used by our management and external users of our financial statements, such as industry analysts, investors, lenders and rating agencies. We define Adjusted EBITDAX as net income (loss) before interest expense, net, income tax expense (benefit), DD&A, accretion, impairment of oil and natural gas properties, exploration costs, stock-settled stock-based compensation, (gains) losses on commodity derivatives excluding net cash receipts (payments) on settled commodity derivatives, (gains) losses from the disposition of property and equipment, (gains) losses on asset retirement obligation settlements and other non-cash operating items. Adjusted EBITDAX is not a measure of net income (loss) as determined by U.S. GAAP.

Management believes Adjusted EBITDAX is useful because it allows them to more effectively evaluate operating performance and compare our results of operations from period to period against our peers without regard to financing methods or capital structure. We exclude the items listed above from net income (loss) in arriving at Adjusted EBITDAX because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, and the method by which the assets were acquired. Adjusted EBITDAX should not be considered as an alternative to, or more meaningful than, net income (loss) as determined in accordance with U.S. GAAP or as an indicator of our operating performance or liquidity. Certain items excluded from Adjusted EBITDAX are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure as well as the historic costs of depreciable assets, none of which are components of Adjusted EBITDAX. Our presentation of Adjusted EBITDAX should not be construed as an inference that its results will be unaffected by unusual or non-recurring items. Our computations of Adjusted EBITDAX may not be comparable to other similarly titled measures of other companies.

We have provided below a reconciliation of Adjusted EBITDAX to net income (loss), the most directly comparable U.S. GAAP financial measure.

	<b>Three Months</b>	
	<b>Ended March 31,</b>	
	<b>2020</b>	<b>2019</b>
	(In thousands)	
Net loss	\$ (230,328)	\$ (104,072)
Interest expense, net	10,814	5,600
Income tax expense (benefit)	37,027	3,306
Depreciation, depletion, amortization and accretion	31,486	35,964
Impairment of oil and natural gas properties	333,840	—
Unrealized (gain) loss on commodity derivatives, net	(101,613)	103,548
Stock settled stock-based compensation	118	974
Exploration costs	13,720	1,255
(Gain) loss on disposition of property and equipment	18	9
Other non-cash (income) expense, net (1)	(54,060)	(81)
<b>Adjusted EBITDAX</b>	<b>\$ 41,022</b>	<b>\$ 46,503</b>

(1) Includes a \$53.6 million non-cash adjustment to our Tax Receivable Agreement liability.

## Results of Operations

### Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

*Oil, Natural Gas and NGL Sales Revenues.* The following table provides the components of our revenues for the periods indicated, as well as each period's respective average sales prices and volumes:

	Three Months Ended March 31,		Change	Change %
	2020	2019		
(Dollars in thousands, except price data)				
<b>Revenues:</b>				
Oil sales	\$ 57,752	\$ 65,853	\$ (8,101)	(12)%
Natural gas sales	104	1,474	(1,370)	(93)
NGL sales	2,338	4,533	(2,195)	(48)
Total revenues	<u>\$ 60,194</u>	<u>\$ 71,860</u>	<u>\$ (11,666)</u>	<u>(16)%</u>
<b>Average sales price (1):</b>				
Oil (per Bbl)	\$ 44.84	\$ 48.92	\$ (4.08)	(8)%
Natural gas (per Mcf)	0.05	0.85	(0.80)	(94)
NGLs (per Bbl)	7.59	15.26	(7.67)	(50)
Total (per Boe)	<u>\$ 31.42</u>	<u>\$ 37.18</u>	<u>\$ (5.76)</u>	<u>(15)%</u>
Total, including effects of gain (loss) on settled commodity derivatives, net (per Boe)	<u>\$ 35.86</u>	<u>\$ 36.65</u>	<u>\$ (0.79)</u>	<u>(2)%</u>
<b>Net production:</b>				
Oil (MBbls)	1,288	1,346	(58)	(4)%
Natural gas (MMcf)	1,921	1,739	182	10
NGLs (MBbls)	308	297	11	4
Total (MBoe)	<u>1,916</u>	<u>1,933</u>	<u>(17)</u>	<u>(1)%</u>
<b>Average daily net production volume:</b>				
Oil (Bbls/d)	14,154	14,956	(802)	(5)%
Natural gas (Mcf/d)	21,110	19,322	1,788	9
NGLs (Bbls/d)	3,385	3,300	85	3
Total (Boe/d)	<u>21,055</u>	<u>21,478</u>	<u>(423)</u>	<u>(2)%</u>

(1) Excluding the effects of settled and unsettled commodity derivative transactions unless noted otherwise.

The decrease in total revenues was due to a decrease in average sales price and sales volume. The decrease in average sales price contributed to approximately \$9.2 million of the decrease in total revenues and the decrease in sales volume contributed to approximately \$2.5 million of the decrease to total revenues. The decrease in average sales price is primarily driven by lower benchmark commodity prices for oil, gas, and NGL. Our production remained relatively consistent period over period as we were able to bring on new production to offset declines in more mature wells. We have halted all drilling and completion activities so we expect to see production decline throughout 2020.

Operating expenses. The following table summarizes our operating expenses for the periods indicated:

	Three Months Ended March 31,		Change	Change %
	2020	2019		
(In thousands, except per Boe data)				
<b>Operating expenses:</b>				
Lease operating expenses	\$ 12,095	\$ 9,635	\$ 2,460	26 %
Production taxes and ad valorem taxes	3,759	4,238	(479)	(11)
Gathering and transportation	1,371	2,361	(990)	(42)
Depreciation, depletion, amortization and accretion	31,486	35,964	(4,478)	(12)
Impairment of oil and natural gas properties	333,840	—	333,840	100
Exploration costs	13,720	1,255	12,465	993
General and administrative, excluding stock-based compensation	10,602	8,044	2,558	32
Stock-based compensation	18	1,011	(993)	(98)
Loss on disposition of property and equipment	18	9	9	100
Total operating expenses	<u>\$ 406,909</u>	<u>\$ 62,517</u>	<u>\$ 344,392</u>	<u>551 %</u>
<b>Operating expenses per Boe:</b>				
Lease operating expenses	\$ 6.31	\$ 4.98	\$ 1.33	27 %
Production taxes and ad valorem taxes	1.96	2.19	(0.23)	(11)
Gathering and transportation	0.72	1.22	(0.50)	(41)
Depreciation, depletion, amortization and accretion	16.43	18.61	(2.18)	(12)
Impairment of oil and natural gas properties	174.24	—	174.24	100
Exploration costs	7.16	0.65	6.51	1,002
General and administrative, excluding stock-based compensation	5.53	4.16	1.37	33
Stock-based compensation	0.01	0.52	(0.51)	(98)
Loss on disposition of property and equipment	0.01	—	0.01	100
Total operating expenses per Boe	<u>\$ 212.37</u>	<u>\$ 32.33</u>	<u>\$ 180.04</u>	<u>557 %</u>

*Lease operating expenses ("LOE").* LOE for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. The increase in LOE per Boe rate contributed to approximately \$2.5 million of the increase in LOE partially offset by a decrease of less than \$0.1 million related to a decrease in sales volume. Our LOE per Boe rate increased due to higher workovers, repair and maintenance activity, and equipment rentals utilized for gas lift for the three months ended March 31, 2020 compared to the three months ended March 31, 2019.

*Production and ad valorem taxes.* Production taxes for the three months ended March 31, 2020 decreased by \$0.7 million, or 21%, compared to the three months ended March 31, 2019. Production taxes are primarily based on the market value of our wellhead production. The decrease was primarily due to a decrease in total revenues. Our total revenues decreased by 16% and production taxes decreased by 21%. Production taxes as a percentage of total revenues were 4.6% and 4.9% for the three months ended March 31, 2020 and 2019, respectively. Ad valorem taxes for the three months ended March 31, 2020 increased by \$0.2 million compared to the three months ended March 31, 2019 due to an increase in producing wells.

*Gathering and transportation ("G&T").* G&T for the three months ended March 31, 2020 decreased compared to the three months ended March 31, 2019. Approximately \$0.7 million of the decrease in G&T is primarily related to oil transportation costs in Loving County. During the three months ended March 31, 2020, control of our oil production in Loving County transferred to the customer at the lease and oil transportation costs were netted against revenue in accordance with ASC 606. During the three months ended March 31, 2019, control of our oil production in Loving County transferred to the customer at a delivery point downstream from the lease and the transportation costs to transport the oil production from the lease to the delivery point were recorded to G&T. The remaining decrease to G&T primarily relates to a lower realized G&T per Boe rate.

Depreciation, depletion, amortization and accretion expense (“DD&A”). See the following table for a breakdown of DD&A:

	Three Months Ended March 31,			
	2020	2019	Change	Change %
(In thousands, except per Boe data)				
<b>Components of DD&amp;A and Accretion</b>				
Depreciation, depletion and amortization of oil and gas properties	\$ 30,933	\$ 35,567	\$ (4,634)	(13)%
Depreciation of other property and equipment	336	207	129	62
Accretion expense	217	190	27	14
	<u>\$ 31,486</u>	<u>\$ 35,964</u>	<u>\$ (4,478)</u>	<u>(12)%</u>
<b>DD&amp;A and Accretion per Boe</b>				
Depreciation, depletion and amortization of oil and gas properties	\$ 16.14	\$ 18.40	\$ (2.26)	(12)%
Depreciation of other property and equipment	0.18	0.11	0.07	64
Accretion expense	0.11	0.10	0.01	10
Total DD&A and Accretion per Boe	<u>\$ 16.43</u>	<u>\$ 18.61</u>	<u>\$ (2.18)</u>	<u>(12)%</u>

The decrease in DD&A for our oil and gas properties was due to a decrease in DD&A per Boe (“DD&A Rate”) and sales volume. The decrease in the DD&A Rate contributed to approximately \$4.3 million of the decrease in DD&A for our oil and natural gas properties and the decrease in sales volume contributed to approximately \$0.3 million of the decrease to DD&A for our oil and gas properties. The DD&A Rate was lower for the three months ended March 31, 2020 compared to the three months ended March 31, 2019 primarily due to adding only drilling and completion costs related to the proved reserves added at March 31, 2020, whereas during the three months ended March 31, 2019 a higher level of infrastructure costs were being added to the depletion group without associated proved reserves being added.

*Impairment of oil and natural gas properties.* Impairment of oil and natural gas properties for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. As a result of the decrease in commodity price forecasts at the end of the first quarter of 2020, specifically decreases in oil and NGL prices, and the removal of proved undeveloped reserves due to having substantial doubt about our ability to continue as a going concern, we recorded impairment expense of \$333.8 million to its proved oil and gas properties for the three months ended March 31, 2020. We did not have any impairments to proved property during the three months ended March 31, 2019.

*Exploration costs.* Exploration costs for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. During March 2020, we announced that we halted our drilling and completion activity and as a result we expect to lose a portion of our undeveloped acreage through lease expirations, which led to us recording an impairment to unproved property of approximately \$12.8 million. We did not have any impairments to unproved property during the three months ended March 31, 2019.

*General and administrative, excluding stock-based compensation (“G&A”).* G&A for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. As a result of the reduction of 52 full-time employees as announced on March 26, 2020, we recorded an accrual for severance payments of approximately \$3.3 million. This increase was partially offset by a decrease in our short-term incentive bonus accrual of approximately \$1.3 million. We implemented a new bonus incentive program in April 2020 and therefore no expense was recorded during the first quarter of 2020.

*Stock-based compensation.* Stock-based compensation for the three months ended March 31, 2020 decreased compared to the three months ended March 31, 2019 primarily due to forfeitures. Because we account for forfeitures as they occur by reversing compensation cost previously recognized and associated with unvested awards when the award is forfeited, we expect volatility in our stock-based compensation. Stock-based compensation expense decreased significantly during the three months ended March 31, 2020 due to forfeitures related to the reduction of 52 full-time employees announced on March 26, 2020 and other employee departures in the quarter.

*Other income and expenses.* The following table summarizes our other income and expense for the periods indicated:

	<b>Three Months Ended March 31,</b>		<b>Change</b>	<b>Change %</b>
	<b>2020</b>	<b>2019</b>		
	(In thousands)			
<b>Other income (expense):</b>				
Interest expense, net	\$ (10,814)	\$ (5,600)	\$ (5,214)	93 %
Gain (loss) on commodity derivative instruments, net	110,120	(104,571)	214,691	(205)
Other income, net	54,108	62	54,046	87,171
<b>Total other income (expense), net</b>	<b>\$ 153,414</b>	<b>\$ (110,109)</b>	<b>\$ 263,523</b>	<b>(239)%</b>

*Interest expense, net.* Interest expense, net for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. In July 2019, we entered into interest rate swaps that extend through August 2022 on a portion of our outstanding borrowing under our revolving credit facility. The increase in interest expense for the three months ended March 31, 2020 primarily relates to an unrealized mark-to-market loss of approximately \$4.5 million on our interest rate swaps. In addition, the interest expense related to our revolving credit facility increased by \$0.5 million during the three months ended March 31, 2020 compared to the same period in 2019 as a result of an increase in borrowings outstanding.

*Gain (loss) on commodity derivative instruments, net.* Net gains and losses on our commodity derivatives are a function of fluctuations in the underlying commodity prices versus fixed hedge prices, time decay associated with options and the monthly settlement of the instruments. The total net gain for the three months ended March 31, 2020 is comprised of net gains of \$8.5 million on cash settlements and net gains of \$101.6 million on mark-to-market adjustments on unsettled positions. The total net loss for the three months ended March 31, 2019 is comprised of net losses of \$1.0 million on cash settlements and net losses of \$103.5 million on mark-to-market adjustments on unsettled positions.

*Other income, net.* Other income, net for the three months ended March 31, 2020 increased compared to the three months ended March 31, 2019. The increase is primarily related to our revaluation of the Tax Receivable Agreement liability, which resulted in an adjustment of \$53.6 million. We account for amounts payable under the Tax Receivable Agreement in accordance with ASC Topic 450, Contingencies. Due to the uncertainty of the market, the significant decrease in oil prices that began during the first quarter of 2020 and having substantial doubt about our ability to continue as a going concern, it is not probable that we will have sufficient future taxable income to utilize all the tax benefits generated from the Tax Receivable Agreement.

## Capital Requirements and Sources of Liquidity

### Outlook

Considering the expected Chapter 11 Filings and the current environment for the oil and natural gas industry, our goals in 2020 are to (1) expeditiously emerge from the Chapter 11 Filings and (2) minimize production declines and operating costs through efficient operations.

### Chronology of Events and Going Concern Assessment

On January 30, 2020, the WHO announced a global health emergency because the COVID-19 outbreak and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In addition, in March 2020, members of OPEC failed to agree on oil production levels, which is expected to result in an increased supply of oil and has led to a substantial decline in oil prices and an increasingly volatile market. The Company has certain commodity derivative instruments in place to mitigate the effects of such price declines as detailed in Note 8 - Derivative Instruments; however, the derivatives will not entirely mitigate lower oil prices. The depressed pricing environment led the Company to halt its drilling and completion activities.

On March 19, 2020, we announced that we had fully drawn the available capacity under our revolving credit facility, pursuant to the Amended and Restated Credit Agreement. The draw was a precautionary measure in order to increase our cash position and preserve financial flexibility in light of uncertainty in the global markets and commodity prices. The draw brought our total outstanding principal under the Amended and Restated Credit Agreement to \$340 million as of March 31, 2020.

On March 23, 2020, we received a letter from Nasdaq indicating that for the 30 consecutive business days ending March 20, 2020, the bid price of our Class A Common Stock had closed below the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2). Under Nasdaq Listing Rule 5810(c)(3)(A), we have 180 calendar days to regain compliance by meeting the continued listing standard, which was extended by Nasdaq in light of market conditions resulting from the COVID-19 pandemic to December 3, 2020.

In March 2020, in response to the substantial decrease in crude oil prices resulting from COVID-19 and the adverse effects on our financial condition as a result thereof, we halted all drilling and completion activity, which has resulted in a reduction in anticipated production and cash flows. Our future cash flows from operations are subject to a number of variables, including uncertainty in forecasted commodity pricing and production, redetermined borrowing base capacity after the forbearance expires, which may be significantly reduced, and our ability to reduce costs. We may generate additional funds through (i) monetization of our commodity derivatives, subject to any required approval from lenders (ii) the sale of non-core assets and (iii) other sources of capital. We may not accomplish any of these alternatives on acceptable terms or at all.

On April 1, 2020, we received a default notice from the agent under the Note Purchase Agreement, advising that the Identified Default had occurred.

On April 2, 2020, we received a default notice from JPMorgan Chase Bank, N.A., as agent under the Amended and Restated Credit Agreement, advising us that Rosehill Operating had failed to deliver or file certain of its or our audited financial statements without a "going concern" or like qualification or exception by March 30, 2020, as required pursuant to Section 8.01(a) of the Amended and Restated Credit Agreement, as well as the accompanying certificates and reports contemplated by Sections 8.01(c), (d), (e) and (m) of the Amended and Restated Credit Agreement. The default notice served as notice that the lenders deemed such failure to be a Default (as defined in the Amended and Restated Credit Agreement) under Section 10.01(e) of the Amended and Restated Credit Agreement.

On April 15, 2020, we did not declare or pay the Series B Preferred Stock Dividend that was due on that day. In order to make a dividend payment, our Amended and Restated Credit Agreement requires that our borrowings outstanding be 20% less than the committed borrowing capacity in place at the time of a dividend payment. We were prohibited from declaring the Series B Preferred Stock Dividend due to insufficient borrowing capacity under the Amended and Restated Credit Agreement. As a result, the dividend rate of the Series B Preferred Stock Dividend increased to 12% per annum until such a time as dividends are fully paid and current, at which time the dividend rate will revert back to 10% per annum. If we fail to pay the Series B Preferred Stock Dividend for nine consecutive months, the holders of the Series B Preferred Stock may elect to seek redemption of all or a portion of the Series B Preferred Stock, which redemption amount was approximately \$195.2 million had the full redemption occurred as of March 31, 2020. We do not expect to be able to pay dividends on the Series B Preferred Stock within the nine

consecutive months following April 15, 2020; as such, we expect the Series B Preferred Stock would be redeemable at the holders' option after that time. If the full redemption had occurred as of March 31, 2020, the redemption amount would have been approximately \$195.2 million.

On April 29, 2020, we received a default notice from the agent under the Note Purchase Agreement, advising that, in addition to the Identified Default, the Identified Event of Default had occurred.

On April 29, 2020, the New Rosehill Entities were dissolved pursuant to their organizational documents and the Delaware Limited Liability Company Act.

On May 4, 2020, we entered into the Forbearance Agreement with the lenders under the Amended and Restated Credit Agreement. As a condition to the forbearance, Rosehill Operating made a \$20 million payment on the amounts outstanding under the Amended and Restated Credit Agreement. Under the Forbearance Agreement, the periodic redetermination of the borrowing base that was scheduled to occur on or about April 1, 2020, which we expected to result in a borrowing base deficiency, was postponed throughout the forbearance period, and the lenders agreed not to accelerate the amounts owed under the Amended and Restated Credit Agreement as a result of certain existing and anticipated Events of Default during the forbearance period. During the forbearance period, the lenders have no obligation to make any further loans under the Amended and Restated Credit Agreement. In addition, the Forbearance Agreement requires us to comply with certain other provisions, including that within 25 days of entering into the Forbearance Agreement, we and certain stakeholders agree in principle to the Restructuring Term Sheet and within 40 days of entering into the Forbearance Agreement, we and those certain stakeholders enter into an RSA, which shall provide for a restructuring under Chapter 11 of the U.S. Bankruptcy Code. The Forbearance Agreement will terminate on July 3, 2020 unless terminated earlier under these provisions. The dates by which the Company and certain stakeholders were required to agree in principle to the Restructuring Term Sheet and enter into the RSA were subsequently extended pursuant to certain letter agreements between us, Rosehill Operating and the lenders under the Amended and Restated Credit Agreement. As a condition to such letter agreements, we and Rosehill Operating agreed that all settlement payments and other net cash proceeds received in respect of any swap agreement be applied to the prepayment of the Borrowings then outstanding under the Amended and Restated Credit Agreement.

On May 8 and 19, 2020, we received separate notices from the agent under the Note Purchase Agreement, advising us of the Identified Events of Default and that the holders reserved all of their rights, powers, privileges and remedies under the Note Purchase Agreement, and asserted a right to an additional 2% interest on the amounts outstanding under the Note Purchase Agreement.

We did not provide the lenders under the Amended and Restated Credit Agreement and the Note Purchase Agreement with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constituted a default under the Amended and Restated Credit Agreement and the Note Purchase Agreement. The Amended and Restated Credit Agreement and the Note Purchase Agreement each give us a 30-day cure period before it becomes an event of default under the respective agreement. However, we were unable to satisfy these requirements within the cure period. As such, this represents an event of default under the Amended and Restated Credit Agreement and Note Purchase Agreement.

Due to the matters noted above, debt outstanding under the Amended and Restated Credit Agreement and the Second Lien Notes have been reflected as current in the accompanying condensed consolidated balance sheet as of March 31, 2020.

On June 30, 2020, we entered into the RSA with the stakeholders named therein, pursuant to which we expect to file for protection under Chapter 11 of the Bankruptcy Code to effect consummation of the Plan. Please read Note 20 - *Subsequent Events* for more details.

These matters raise substantial doubt about our ability to continue as a going concern for a period of one year after the date that these condensed consolidated financial statements are issued. The condensed consolidated financial statements included in this report have been prepared on a going concern basis of accounting, which contemplates continuity of operations, realization of assets and satisfaction of liabilities and commitments in the normal course of business. The condensed consolidated financial statements do not include adjustments that might result from the outcome of these uncertainties.

#### ***Sources of Capital***

Our activities require us to make significant operating, investing and financing expenditures. Historically, our primary sources of liquidity have been cash flows from operations, borrowings under our revolving credit agreement, financing entered into in connection with acquisitions (such as the issuance of the Series B Preferred Stock and Second Lien Notes), proceeds from the sale of assets, and proceeds from issuance of equity securities. Many of these sources are not currently available to us. As of

March 31, 2020, we had no availability under our revolving credit agreement. If we are unable to obtain funds when needed or on acceptable terms, we may not be able to finance the capital expenditures necessary to operate our producing properties, recommence or execute on our drilling and completion program or complete acquisitions that may be favorable to us.

In March 2020, we announced that we halted all drilling and completion activity. We review our capital expenditure forecast periodically to assess changes in current and projected cash flows, liquidity, debt requirements and other factors. The suspension of our drilling and completion activity has resulted and will continue to result in a reduction in anticipated production and cash flows. Moreover, the recent significant decline in oil prices has further adversely impacted cash flows and this is expected to continue until commodity prices recover, the timing and extent of which is uncertain. Because we have curtailed our drilling and completion program, we expect to lose a portion of our acreage through lease expirations, which led to us recording an impairment to unproved property of approximately \$12.8 million.

Because we are the operator of a high percentage of our acreage, the timing and level of our capital spending is largely discretionary and within our control. As evidenced by the suspension of our drilling and completion program commencing in late March 2020, we could choose to defer a portion of these planned capital expenditures depending on a variety of factors, including, but not limited to, the success of our drilling activities, prevailing and anticipated prices for oil, natural gas and NGLs, the availability of necessary equipment, infrastructure and capital, the receipt and timing of required regulatory permits and approvals, seasonal conditions, drilling and acquisition costs and the level of participation by other working interest owners. A deferral of planned capital expenditures, particularly with respect to drilling and completing new wells, will result in a reduction in anticipated production and cash flows.

Following the Chapter 11 Filings, we and Rosehill Operating (together, the “Debtors”) expect to operate the business as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain exceptions under the Bankruptcy Code, the Chapter 11 Filings will automatically enjoin or stay the continuation of any judicial or administrative proceedings or other actions against the Debtors or their property to recover, collect or secure a claim arising prior to the filing of the Bankruptcy Petitions. Under the Plan, we intend to ask the Bankruptcy Court to grant certain relief requested by the Debtors enabling the Company to conduct its business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorization to pay employee wages and benefits, to pay certain taxes and governmental fees and charges, to continue to operate our cash management system in the ordinary course, to secure debtor-in-possession financing, to remit funds we hold from time to time for the benefit of third parties (such as royalty owners), and to pay the prepetition claims of certain of our vendors that hold liens under applicable non-bankruptcy law. In connection with the Chapter 11 proceedings, under the terms of the RSA, we expect to enter into the DIP Credit Agreement, if approved by the Bankruptcy Court.

Despite the liquidity that may be provided by the DIP Credit Agreement, our ability to maintain normal credit terms with our suppliers and vendors may become impaired. We may be required to pay cash in advance to certain vendors and may experience restrictions on the availability of trade credit, which would further reduce our liquidity. If liquidity problems persist, our suppliers could refuse to provide key products and services in the future.

In addition to the cash requirements to fund ongoing operations, we have incurred significant professional fees and other costs in connection with the RSA and expect that we will continue to incur significant fees and costs throughout the Chapter 11 proceedings.

Even if we obtain financing under the DIP Credit Agreement, we cannot state with certainty that our liquidity will be sufficient to allow us to satisfy our obligations related to the Chapter 11 proceedings or that we will be able to confirm a Plan with the Bankruptcy Court that allows us to emerge from bankruptcy. In addition, we will be required to comply with the covenants and conditions of our DIP Credit Agreement in order to continue to access borrowings thereunder.

If the Chapter 11 Filings are not completed or the Plan is not consummated within the timeframe expected, we do not expect to have sufficient liquidity to fund capital expenditures. The Chapter 11 Filings will constitute an Event of Default under our credit agreement and Second Lien Notes and the delisting of our Class A Common Stock will constitute an Event of Default under our Second Lien Notes. After the Chapter 11 Filings, the creditors will be stayed from taking any action against the Company as a result of an event of default but these creditors or other stakeholders may engage in disputes or bring litigation that would increase the costs of the restructuring or Chapter 11 Filings.

### Working Capital

We define working capital as current assets less current liabilities. At March 31, 2020 and December 31, 2019, we had a working capital deficit of \$312.8 million and a deficit of \$19.1 million, respectively. The deficit was primarily due to the amounts outstanding under the Amended and Restated Credit Agreement and the Note Purchase Agreement being classified as a current liability.

### Cash Flows from Operating, Investing and Financing Activities

The following table summarizes our cash flows for the periods indicated:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Net cash provided by operating activities	\$ 44,583	\$ 51,373
Net cash used in investing activities	(45,314)	(74,780)
Net cash provided by financing activities	76,049	8,902
Net decrease in cash and cash equivalents	\$ 75,318	\$ (14,505)

### Analysis of Cash Flow Changes for the Three Months Ended March 31, 2020 and 2019

*Operating activities.* Net cash provided by operating activities is primarily driven by the changes in commodity prices, operating expenses, production volumes and associated changes in working capital. The decrease in net cash provided by operating activities of \$6.8 million was primarily due to a decrease in revenues of \$11.7 million, an increase in cash related expenses which decreased our operating cash flows of \$5.6 million and a decrease in our loss on hedge settlements which increased our operating cash flows of \$10.4 million.

*Investing activities.* Net cash used in investing activities for the three months ended March 31, 2020 included \$45.2 million attributable to the development of oil and natural gas properties and \$0.1 million for additions to other property and equipment. Net cash used in investing activities for the three months ended March 31, 2019 included \$75.8 million attributable to the development of oil and natural gas properties and \$0.1 million for additions to other property and equipment, all of which was partially offset by the deposit received for the sale of our oil and gas properties located in Lea County, New Mexico in the amount of \$1.1 million.

*Financing activities.* Net cash provided by financing activities for the three months ended March 31, 2020 primarily consisted of borrowings of \$96.0 million under our Amended and Restated Credit Agreement partially offset by \$16.0 million of repayments on our Amended and Restated Credit Agreement, and \$4.0 million of dividend payments. Net cash provided by financing activities for the three months ended March 31, 2019 primarily consisted of net borrowings of \$13.0 million under our Amended and Restated Credit Agreement partially offset by \$3.4 million of dividend payments and \$0.6 million of debt issuance costs.

### Debt Agreements and Redeemable Preferred Stock

*Amended and Restated Credit Agreement.* On March 28, 2018, Rosehill Operating and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, entered into the Amended and Restated Credit Agreement to refinance and replace Rosehill Operating's previous credit facility (the "Previous Credit Facility"). Pursuant to the terms and conditions of the Amended and Restated Credit Agreement, Rosehill Operating's line of credit and a letter of credit facility increased from up to \$250 million under the Previous Credit Facility to up to \$500 million under the Amended and Restated Credit Agreement, subject to a borrowing base that is determined semi-annually by the lenders based upon Rosehill Operating's financial statements and the estimated value of its oil and gas properties, in accordance with the lenders' customary practices for oil and gas loans. The redeterminations occur on April 1 and October 1 of each year. We both have the right to one interim unscheduled redetermination of the borrowing base between any two successive scheduled redeterminations. The borrowing base is scheduled to be automatically reduced upon the issuance or incurrence of debt under senior unsecured notes or upon Rosehill Operating's or any of its subsidiaries' disposition of properties or liquidation of hedges in excess of certain thresholds. We made a \$74 million draw on March 19, 2020 as a precautionary measure in order to increase our cash position and preserve financial flexibility in light of current uncertainty in the global markets and commodity prices. After giving effect to this draw, our total outstanding borrowings under the Amended and Restated Credit Agreement was \$340 million and we had no additional capacity.

Please read *Chronology of Events and Going Concern Assessment* within this MD&A section for details on the following items under the Amended and Restated Credit Agreement: (i) the RSA and the Forbearance Agreement, (ii) event of default related to the delivery of audited financial statements (without a going concern qualification), (iii) the letter from Nasdaq regarding the Company's stock price trading below the minimum bid price requirement for continued listing and (iv) restrictions on cash distributions on its Series A Preferred Stock and Series B Preferred Stock.

The Amended and Restated Credit Agreement requires Rosehill Operating to deliver unaudited financial statements to the lenders within 45 days after the end of each fiscal quarter. We can satisfy this requirement by filing our unaudited financial statements with the SEC within 45 days after the end of each fiscal quarter. We failed to provide the lenders with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constitutes a default under the Amended and Restated Credit Agreement. The Amended and Restated Credit Agreement gives us a 30-day cure period before it becomes an event of default that will allow the lenders to require us to pay a portion or all amounts outstanding. However, we were unable to satisfy these requirements within the cure period. As such, this represented an event of default under the Amended and Restated Credit Agreement.

The amounts outstanding under the Amended and Restated Credit Agreement are secured by first priority liens on substantially all of Rosehill Operating's oil and natural gas properties and associated assets and all of the stock of Rosehill Operating's material operating subsidiaries that are guarantors of the Amended and Restated Credit Agreement. There are currently no guarantors under the Amended and Restated Credit Agreement. If an event of default occurs under the Amended and Restated Credit Agreement, JPMorgan Chase Bank, N.A. will have the right to proceed against the pledged capital stock and take control of substantially all of Rosehill Operating and Rosehill Operating's material operating subsidiaries that are guarantors' assets. An event of default can occur under a number of circumstances, including failure to maintain listing of our Class A Common Stock on a national securities exchange.

Borrowings under the Amended and Restated Credit Agreement will bear interest at a base rate plus an applicable margin ranging from 1.00% to 2.00% or at LIBO rate plus an applicable margin ranging from 2.00% to 3.00%. The Amended and Restated Credit Agreement will mature on August 31, 2022, with an automatic extension to March 28, 2023 upon the payment in full of the Second Lien Notes if there is no event of default under the senior secured credit facility during the time of such extension.

The Amended and Restated Credit Agreement contains various affirmative and negative covenants. These negative covenants may limit Rosehill Operating's ability to, among other things: incur additional indebtedness; make loans to others; make investments; enter into mergers; make or declare dividends or distributions; enter into commodity hedges exceeding a specified percentage of Rosehill Operating's expected production; enter into interest rate hedges exceeding a specified percentage of Rosehill Operating's outstanding indebtedness; incur liens; sell assets; and engage in certain other transactions without the prior consent of JPMorgan Chase Bank, N.A. or lenders.

The Amended and Restated Credit Agreement also requires Rosehill Operating to maintain compliance with the following financial ratios:

- a current ratio, which is the ratio of consolidated current assets (including unused commitments under the Amended and Restated Credit Agreement, but excluding certain non-cash assets) to consolidated current liabilities (excluding certain non-cash obligations, current maturities under the Amended and Restated Credit Agreement and the Note Purchase Agreement (as defined below)), of not less than 1.0 to 1.0,
- a leverage ratio, which is the ratio of the sum of Total Debt to Annualized EBITDAX (as such terms are defined in the Amended and Restated Credit Agreement) for the four fiscal quarters then ended, of not greater than 4.0 to 1.0 (the calculation of which will be modified once the Second Lien Notes and the Series B Redeemable Preferred Stock are no longer outstanding) and
- a coverage ratio, which is the ratio of EBITDAX to the sum of Interest Expense plus the aggregate amount of certain Restricted Payments (as such terms are defined in the Amended and Restated Credit Agreement) made during the preceding four fiscal quarters, of not less than 2.5 to 1.0 (such ratio expiring once the Series B Redeemable Preferred Stock are no longer outstanding).

We were in compliance with all financial ratios in the Amended and Restated Credit Agreement for the measurement period ended March 31, 2020. If we are not able to generate additional funds or if oil prices do not improve significantly, we will not be able to comply with our current ratio and leverage ratio covenant under the Amended and Restated Credit Agreement in future periods.

The Chapter 11 Filings will constitute an Event of Default under our Amended and Restated Credit Agreement. The lenders are subject to a forbearance under the RSA and, after the Chapter 11 Filings, will be stayed from taking any action against the Company as a result of an event of default under the Amended and Restated Credit Agreement.

For additional information regarding our Amended and Restated Credit Agreement, see Note 13 -*Long-term Debt, net* in the condensed consolidated financial statements under Part I, Item 1 of this Quarterly Report on Form 10-Q.

*Second Lien Notes.* On December 8, 2017, Rosehill Operating issued and sold \$100,000,000 in aggregate principal amount of 10.00% Senior Secured Second Lien Notes due January 31, 2023 to EIG under and pursuant to the terms of the Note Purchase Agreement (as amended by the Limited Consent and First Amendment to Note Purchase Agreement, dated as of March 28, 2018, the “Note Purchase Agreement”), among Rosehill Operating and us, the Holders and U.S. Bank National Association, as agent and collateral agent on behalf of the Holders. The Second Lien Notes were issued and sold to the Holders in a private placement exempt from the registration requirements under the Securities Act.

Under the Note Purchase Agreement, Rosehill Operating may, at its option, redeem the Second Lien Notes in whole or in part, together with accrued and unpaid interest thereon, (i) at any time after December 8, 2019 but on or prior to December 8, 2020, at a redemption price equal to 103% of the principal amount of the Second Lien Notes being redeemed, (ii) at any time after December 8, 2020 but on or prior to December 8, 2021, at a redemption price equal to 101.5% of the principal amount of the Second Lien Notes being redeemed and (iii) at any time after December 8, 2021, at a redemption price equal to the principal amount of the Second Lien Notes being redeemed.

The Second Lien Notes may become subject to redemption under certain other circumstances, including upon the incurrence of non-permitted debt or, subject to various exceptions, reinvestments rights and prepayment or redemption rights with respect to other debt or equity of Rosehill Operating, upon an asset sale, hedge termination or casualty event. Rosehill Operating will be further required to make an offer to redeem the Second Lien Notes upon a Change in Control (as defined in the Note Purchase Agreement) at a redemption price equal to 101% of the principal amount being redeemed. Other than in connection with a Change in Control or casualty event, the redemption prices described in the foregoing paragraph shall also apply, at such times and to the extent set forth therein, to any mandatory redemption of the Second Lien Notes or any acceleration of the Second Lien Notes prior to the stated maturity thereof upon the occurrence of an event of default.

The Note Purchase Agreement requires Rosehill Operating to maintain a leverage ratio, which is the ratio of the sum of all of Rosehill Operating’s Total Debt to Annualized EBITDAX (as such terms are defined in the Note Purchase Agreement) for the four fiscal quarters then ended, of not greater than 4.00 to 1.00. We were in compliance with the leverage ratio for the measurement period ended March 31, 2020. If we are not able to generate additional funds or if oil prices do not improve significantly, we will not be able to comply with our leverage ratio covenant under the Note Purchase Agreement in future periods. Please read *Chronology of Events and Going Concern Assessment* within this MD&A section for details on the event of default related to the delivery of audited financial statements (without a going concern qualification).

The Note Purchase Agreement requires us to deliver unaudited financial statements to the lenders within 45 days after the end of each fiscal quarter. We can satisfy this requirement by filing unaudited financial statements of Rosehill Resources with the SEC within 45 days after the end of each fiscal quarter. We failed to provide the lenders with unaudited financial statements and other required certificates and operating reports within 45 days after March 31, 2020, which constituted a default under the Note Purchase Agreement. The Note Purchase Agreement gives us a 30-day cure period before it becomes an event of default that will allow the lenders to require us to redeem a portion or all of the notes outstanding. However, we were unable to able to satisfy these requirements within this cure period. As such, this represented an event of default under the Note Purchase Agreement.

The Note Purchase Agreement contains various affirmative and negative covenants, events of default and other terms and provisions that are based largely on the Amended and Restated Credit Agreement, with a number of important modifications reflecting the second lien nature of the Second Lien Notes and certain other terms that were agreed to with the Holders. The negative covenants may limit Rosehill Operating’s ability to, among other things, incur additional indebtedness (including pursuant to senior unsecured notes), make investments, make or declare dividends or distributions, redeem its preferred equity, acquire or dispose of oil and gas properties and other assets or engage in certain other transactions without the prior consent of the Holders, subject to various exceptions, qualifications and value thresholds. Rosehill Operating is also required to meet minimum commodity hedging levels based on its expected production on an ongoing basis. Any event or condition that causes any debt under the Amended and Restated Credit Agreement becoming due prior to its scheduled maturity, with certain exceptions, including borrowing base deficiencies, is an event of default under the Note Purchase Agreement.

We are subject to certain restrictions under the Note Purchase Agreement, including (without limitation) a negative pledge with respect to our equity interests in Rosehill Operating and a contingent obligation to guarantee the Second Lien Notes upon request by the Holders in the event that we incur debt obligations. The obligations of Rosehill Operating under the Note Purchase Agreement are secured on a second-lien basis by the same collateral that secures its first-lien obligations. In connection with the Note Purchase Agreement, Rosehill Operating granted second-lien security interests over additional collateral to meet the minimum mortgage requirements under the Note Purchase Agreement.

The Chapter 11 Filings and the delisting of our Class A Common Stock will constitute Events of Default under our Second Lien Notes. The holders of the Second Lien Notes are subject to a forbearance under the RSA and, after the Chapter 11 Filings, will be stayed from taking any action against the Company as a result of an event of default under the Second Lien Notes.

*Series B Preferred Stock.* On December 8, 2017, in connection with the White Wolf Acquisition, we entered into the Series B Preferred Stock Agreement to issue 150,000 shares of our Series B Preferred Stock, for an aggregate purchase price of \$150.0 million, less transaction costs, advisory and up-front fees of approximately \$10.0 million to certain private funds and accounts managed by EIG.

Holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by our Board or a designated committee of the Board, cumulative dividends in cash, at a rate of 10.00% per annum on the \$1,000 liquidation preference per share of Series B Preferred Stock, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on January 15, 2018. Our Amended and Restated Credit Agreement restricts our cash distributions to an amount not to exceed \$25.0 million on our Series B Preferred Stock in any fiscal year. Such distributions on our Series B Preferred Stock can only be made so long as both before and immediately following such distributions, (i) we are not in any default under our Amended and Restated Credit Agreement, (ii) our unused borrowing capacity is equal to or greater than 20% of the committed borrowing capacity and (iii) our ratio of Total Debt to EBITDAX is not greater than 3.5 to 1.0. Based on the default and lack of unused borrowing capacity under our Amended and Restated Credit Agreement, we were restricted from paying dividends on our Series B Preferred Stock and therefore did not declare and pay cash dividends on our Series B Preferred Stock that were due April 15, 2020. Failure to pay dividends on the Series B Preferred Stock results in the following:

- Upon the occurrence of not paying a dividend, the dividend rate will increase to 12% per annum and will remain at 12% per annum until all applicable quarterly dividends have been fully paid and are current, at which time a dividend rate of 10% per annum will once again apply.
- Upon the occurrence of not paying a dividend with respect to three out of any four consecutive quarters or failing to pay a dividend six times (whether or not consecutive) at anytime the Series B Preferred Stock is outstanding will entitle the holders of the Series B Preferred Stock to a seat on the Board of Directors and the right to approve (a) all indebtedness by us if such indebtedness would cause our Leverage Ratio (as defined in the Series B Certificate of Designation) to exceed 3.25 to 1.00, (b) any budget or budget amendments and (c) any capital expenditures in excess of \$0.5 million.
- Upon the occurrence of not paying a dividend for a period of nine months consecutive months, the holders of the Series B Preferred Stock may elect to cause us to redeem all or a portion of the Series B Preferred Stock.

Holders of the Series B Preferred Stock have no voting rights, but have certain consent rights with respect to the taking of certain corporate actions by us. Upon our voluntary or involuntary liquidation, winding-up or dissolution, each holder of Series B Preferred Stock will be entitled to receive the Base Return Amount (as defined in the Series B Preferred Stock Agreement) plus accrued and unpaid dividends.

In addition to the 10.00% per annum cumulative dividend holders of the Series B Preferred Stock are entitled to receive, upon redemption of the Series B Preferred Stock, a guaranteed base return on the initial 150,000 shares purchased in an amount equal to (x)\$1,500 per share of Series B Preferred Stock and (y) an amount necessary to achieve the Base Return Amount with respect to such shares of Series B Preferred Stock, minus all dividends paid on shares of Series B Preferred Stock, including dividends paid-in-kind, and minus up-front fees incurred at issuance of the Series B Preferred Stock. The shares of Series B Preferred Stock are redeemable at the election of the holders on or after December 8, 2023 and upon certain conditions and at any time at our option. As the holders of Series B Preferred Stock have an option to redeem the Series B Preferred Stock at a future date, the Series B Preferred Stock is included in temporary, or “mezzanine” equity, between total liabilities and stockholders’ equity on the Condensed Consolidated Balance Sheets. The Series B Preferred Stock, while not currently redeemable at the option of the holders, is remeasured each reporting period by accreting the initial value to the estimated redemption value that will achieve a 16% IRR on December 8, 2023 when the Series B Preferred Stock is redeemable in whole or in part at the election of the holders of Series B Preferred Stock. The accretion is considered a deemed dividend, which increases the carrying value of the Series B Preferred Stock on the Condensed Consolidated Balance Sheets and is included within preferred dividends on the Condensed Consolidated Statements of Operations. If the Series B Preferred Stock would have been redeemed on March 31, 2020, the Base Return Amount was approximately \$195.2 million, which was higher than the redemption amount accrued, and will be reduced by subsequent dividend payments. Any redemption must be made out of funds legally available therefor.

In the event of a Change of Control (which includes failure to maintain the listing of our Class A Common Stock on a national securities exchange), we shall redeem in cash all of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount and all Series B PIK Shares at the purchase price of \$1,000 per share. We assessed the Change of Control feature and determined that the redemption of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount was an embedded derivative that required bifurcation and was accounted for at fair value. Because we recorded the Series B Preferred Stock at its current redemption value as of March 31, 2020, there was no value attributed to the bifurcated embedded derivative. On March 23, 2020, we received a letter from Nasdaq indicating that for the 30 consecutive business days ending March 20, 2020, the bid price for our common stock had closed below the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Capital Market under Nasdaq Listing Rule 5550(a)(2). Under Nasdaq Listing Rule 5810(c)(3)(A), we have 180 calendar days to regain compliance by meeting the continued listing standard. To regain compliance, the closing bid price of our common stock must meet or exceed \$1.00 per share for a minimum of ten consecutive business days during the 180 calendar day period. In April 2020, we were notified by Nasdaq that it had tolled the compliance period from April 16, 2020 through June 30, 2020, in light of market conditions resulting from the COVID-19 pandemic. Since we had 156 calendar days remaining in our compliance period as of April 16, 2020, we will still have 156 calendar days from July 1, 2020, or until December 3, 2020, to regain compliance. We cannot guarantee that we will be able to maintain listing of our Class A Common Stock, Class A Common Stock Public Units, or Public Warrants on The Nasdaq Capital Market.

The delisting of our Class A Common Stock will constitute Events of Default under our Series B Preferred Stock, but, after the Chapter 11 Filings, the holders will be stayed from taking any action against the Company as a result of an event of default under the Series B Preferred Stock.

#### **Off-Balance Sheet Arrangements**

As of March 31, 2020, we had no off-balance sheet arrangements or other such unrecorded obligations and we have not guaranteed any debt of any unrelated party.

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

Our Annual Report on Form 10-K contains a discussion, which is incorporated herein by reference, of the accounting estimates that we believe are critical to the reporting of our financial position and operating results and that require management’s judgment. Our more significant policies and estimates include:

- Successful efforts method of accounting for oil and natural gas activities
- Impairment of oil and natural gas properties
- Depreciation, depletion and amortization for oil and gas properties
- Oil and natural gas reserve quantities
- Commodity derivative instruments

- Asset retirement obligations
- Income Taxes
- Tax Receivable Agreement

This Quarterly Report on Form 10-Q should be read together with the discussion contained in our Annual Report on Form 10-K regarding these critical accounting policies. There have been no material changes to our critical accounting policies from those described in our Annual Report on Form 10-K.

***Recently Issued Accounting Pronouncements***

Please refer to Note 2 - *Summary of Significant Accounting Policies and Recently Issued Accounting Standards* in the condensed consolidated financial statements under Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of recent accounting pronouncements and their anticipated effect on us.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

**Item 4. Internal Controls and Procedures.***Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, 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 Quarterly Report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2020 at the reasonable assurance level.

*Changes in Internal Control over Financial Reporting*

There have been no changes in our internal control over financial reporting during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, we are subject to various legal proceedings arising in the ordinary course of business, including proceedings for which we have insurance coverage. We do not believe the results of any legal proceedings, individually or in the aggregate, will have a material adverse effect on our business, financial condition, results of operations or liquidity.

### Item 1A. Risk Factors.

You should carefully consider the risk factors discussed below, in our Annual Report on Form 10-K for the year ended December 31, 2019 under the heading “Item 1A. Risk Factors,” and in our Current Report on Form 8-K on May 15, 2020, which risks could materially affect our business, financial condition or future results. Such risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may have a material adverse effect on our business, financial condition and future results or enhance the adverse impact of the risks known to us.

***The RSA is subject to significant conditions and milestones that may be difficult for us to satisfy. Termination of the RSA may have a material adverse effect.***

There are certain material conditions we must satisfy under the RSA, including the timely satisfaction of milestones in the Chapter 11 proceedings, such as completing the Chapter 11 Filings by July 15, 2020 and confirmation of the Plan and effectiveness of the Plan. Our ability to timely complete such milestones is subject to risks and uncertainties many of which are beyond our control. The RSA contains a number of termination events, the occurrence of which would give certain parties to the RSA the right to terminate the agreement. Should a termination event occur, all obligations of the parties to the RSA will terminate. If a termination occurs prior to the Chapter 11 Filings, then our lenders and noteholders could exercise remedies for Events of Default (as defined in the respective agreements), including accelerating debt, sweeping cash and foreclosing on our assets, and we may be forced to file for protection under Chapter 11 without a plan, which would have a material adverse effect on our liquidity and may result in the first lien lenders’ causing a sale or liquidation of the Company. During the Chapter 11 proceedings, a termination of the RSA may result in the loss of support for the Plan, which would adversely affect our ability to confirm and consummate the Plan. If the Plan is not consummated, there can be no assurance that we could achieve a restructuring alternative and our Chapter 11 proceedings could become protracted or terminate, which would have a material adverse effect on our liquidity and ability to continue as a going concern.

***If we make the Chapter 11 Filings, then we will be subject to the risks and uncertainties associated with Chapter 11 proceedings.***

Under the terms of the RSA, we plan to file voluntary petitions for relief under Chapter 11 of the Bankruptcy Code on or before July 15, 2020. For the duration of the Chapter 11 proceedings,

- our business and operations will be subject to various risks, including but not limited to the following;
- our ability to develop, file and complete the Plan;
- our ability to obtain Bankruptcy Court, creditor and regulatory approval of the Plan in a timely manner;
- our ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 cases and the outcomes of Bankruptcy Court rulings and of the Chapter 11 cases in general;
- risks associated with third party motions in the Chapter 11 cases, which may interfere with our business operations or our ability to propose and/or complete the Plan;
- increased costs related to the Chapter 11 cases and related litigation;
- our limited liquidity and ability to consummate and access financing under the DIP Credit Agreement;
- a loss of, or a disruption in the goods or services received from, suppliers, contractors or service providers with whom we have commercial relationships;
- potential increased difficulty in retaining and motivating our key employees and senior management through the process of reorganization, and potential increased difficulty in attracting new employees; and
- significant time and effort required to be spent by our management in dealing with the bankruptcy and restructuring activities rather than focusing exclusively on business operations.

We are also subject to risks and uncertainties with respect to the actions and decisions of creditors and other third parties who have interests in the Chapter 11 proceedings that may be inconsistent with our plans, including litigation challenging the Plan or termination of the RSA. These risks and uncertainties could affect our business and operations in various ways and may significantly increase the duration of the Chapter 11 Cases. The longer the duration of the Chapter 11 proceedings, the greater the risk that we will not have sufficient liquidity to continue as a going concern until the Plan is consummated. In addition, disputes and litigation

will increase the cost of the proceedings, which will further increase the risk the DIP Credit Agreement does not provide sufficient liquidity for the Company to continue without seeking alternatives inconsistent with the RSA and the Plan, including a sale (which we would not currently expect to be successful) or liquidation, which would have a material adverse effect on the Company.

Because of the risks and uncertainties associated with Chapter 11 cases, we cannot predict or quantify the ultimate impact that events occurring during the Chapter 11 cases may have on our business, cash flows, liquidity, financial condition and results of operations, nor can we predict the ultimate impact that events occurring during the Chapter 11 cases may have on our corporate or capital structure.

***If we make the Chapter 11 Filings, we may not be able to obtain confirmation of our Plan and our emergence from the Chapter 11 cases is not assured***

There can be no assurance that the Plan (or any other plan of reorganization) will be approved by the Bankruptcy Court, that we will receive the requisite votes to confirm the Plan, and we may have to defend against objections to confirmation of the Plan from the various parties in interest in the Chapter 11 cases. As such, we cannot predict the impact that any objection might have on the Bankruptcy Court's decision whether to confirm the Plan. Any objection may cause us to devote significant resources to respond to and defend against such objection, which could have an adverse effect on our business, financial condition and results of operations. In addition, the DIP Credit Agreement, if approved by the Bankruptcy Court, may not be sufficient to meet our liquidity requirements or may be restricted or ultimately terminated by the lenders under the DIP Credit Agreement in accordance with the terms of the definitive documents governing such financing.

If the Plan is not confirmed by the Bankruptcy Court, or if cash flows and borrowings under the DIP Credit Agreement are not sufficient to meet our liquidity requirements, it is uncertain whether we would be able to reorganize our business. The amount of distributions that will be available to our creditors and other holders of claims against and interests in us and our businesses, including holders of secured claims, in connection with our reorganization and consummating a plan of reorganization is uncertain. We likely would incur significant costs in connection with developing and seeking approval of an alternative plan of reorganization, or additional financing, which may not be supported by certain of our stakeholders. If we were unable to develop a feasible alternative plan of reorganization, or if we were unable to maintain access to the DIP Credit Agreement as currently contemplated and were unable to obtain any additional financing that may be necessary to operate our businesses during the Chapter 11 cases, it is possible that we would have to liquidate a portion or all of our assets, in which case it is likely that holders of claims would receive substantially less favorable distributions than they would receive if we were to emerge as a viable, reorganized business.

***Our historical financial information may not be indicative of our future financial performance.***

During the pendency of the Chapter 11 cases, we expect our financial results may be volatile as asset impairments and dispositions, and certain other restructuring activities may significantly impact our consolidated financial statements. As a result, our historical financial performance may not be indicative of our financial performance after the Petition Date. In addition, if we emerge from Chapter 11, the amounts reported in subsequent consolidated financial statements may materially change relative to historical consolidated financial statements, as a result of revisions to our operating plans pursuant to a plan of reorganization. Moreover, if we emerge from Chapter 11, we may be required to adopt fresh-start accounting. If fresh-start accounting is applicable, our assets and liabilities will be recorded at fair value as of the fresh-start reporting date. The fair value of our assets and liabilities may differ materially from the recorded values of assets and liabilities on our consolidated balance sheets. If fresh-start accounting is required, our financial results after the application of fresh-start accounting may be materially different from historical trends.

***Trading in our securities is highly speculative and poses substantial risks. We expect that the existing Class A Common Stock, Class A Common Warrants and Class A Common Units of the Company will be extinguished.***

The Plan, as outlined in the RSA, provides that loans under our Amended and Restated Credit Agreement, our outstanding Second Lien Notes, claims under our Tax Receivable Agreement, and the Series A Preferred Stock and Series B Preferred Stock will be converted into equity of the reorganized Company and that the existing common equity of the Company will be extinguished for no consideration upon the Company's emergence from Chapter 11. Even if the Plan is confirmed as currently outlined, the value of any securities that are currently issued and outstanding is highly speculative. The stock prices of our Class A Common Stock and other securities are expected to decline substantially in connection with the Chapter 11 proceedings and delisting the securities from Nasdaq and the Chapter 11 Filings. Investors may lose all or some of their investment.

***The pursuit of the RSA and the Chapter 11 cases has consumed and will continue to consume a substantial portion of the time and attention of our management, which may have an adverse effect on our business and results of operations, and we may face increased levels of employee attrition.***

While the RSA process and the Chapter 11 cases continue, our management will be required to spend a significant amount of time and effort focusing on the Chapter 11 cases. This diversion of attention may materially adversely affect the conduct of our business, and, as a result, on our financial condition and results of operations, particularly if the Chapter 11 cases are protracted.

During the pendency of the Chapter 11 cases, our employees will face considerable distraction and uncertainty and we may experience increased levels of employee attrition. A loss of key personnel or material erosion of employee morale could have a materially adverse effect on our ability execute the objectives of our business, thereby adversely affecting our business and results of operations. The failure to retain or attract members of our management team and other key personnel could impair our ability to execute our strategy and implement operational initiatives, thereby having a material adverse effect on our financial condition and results of operations.

*Even if we make the Chapter 11 Filings, in certain instances, a Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code.*

Upon a showing of cause, the Bankruptcy Court may convert our Chapter 11 case to a case under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate our assets for distribution in accordance with the priorities established by the Bankruptcy Code. We believe that liquidation under Chapter 7 would result in significantly smaller distributions being made to our creditors than those provided for in our Plan because of (i) the likelihood that the assets would have to be sold or otherwise disposed of in a distressed fashion over a short period of time rather than a controlled manner and as a going concern, (ii) additional administrative expenses involved in the appointment of a Chapter 7 trustee, and (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

*Even if we make the Chapter 11 Filings and consummate the Plan, we may be subject to claims that will not be discharged in our Chapter 11 proceedings, which could have a material adverse effect on our financial condition and results of operations.*

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to confirmation of the plan of reorganization (i) would be subject to compromise and/or treatment under the plan of reorganization and (ii) would be discharged in accordance with the Bankruptcy Code and the terms of the plan of reorganization. Any claims not ultimately discharged through a Chapter 11 plan of reorganization could be asserted against the reorganized entities and may have an adverse effect on our financial condition and results of operations on a post-reorganization basis.

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

### Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2020 - January 31, 2020	—	\$ —	n/a	n/a
February 1, 2020 - February 29, 2020	—	—	n/a	n/a
March 1, 2020 - March 31, 2020	82,449	0.31	n/a	n/a
Total Q1 - 2020	82,449	\$ 0.31	n/a	n/a

(1) These shares were withheld upon the vesting of employee restricted stock grants in connection with payment of required withholding taxes.

**Item 6. Exhibits**

Exhibit No.	Description
3.1*	<a href="#">Third Amended and Restated Certificate of Incorporation of Rosehill Resources Inc.</a>
3.2	<a href="#">Certificate of Designation for the Series A Preferred Stock of Rosehill Resources Inc.</a> (1)
3.3	<a href="#">Amended and Restated Bylaws of Rosehill Resources Inc.</a> (1)
3.4	<a href="#">Certificate of Designations for the Series B Preferred Stock of Rosehill Resources Inc.</a> (2)
10.1	<a href="#">Forbearance Agreement, dated May 4, 2020, among the Company, Rosehill Operating, the financial institutions party thereto as lenders and constituting not less than the Required Lenders and JP-Morgan.</a> (3)
10.2	<a href="#">Letter Agreement, dated May 29, 2020, among the Company, Rosehill Operating, the financial institutions party thereto as lenders and constituting not less than the Required Lenders and JPMorgan.</a> (4)
10.3	<a href="#">Letter Agreement, dated June 5, 2020, among the Company, Rosehill Operating, the financial institutions party thereto as lenders and constituting not less than the Required Lenders and JPMorgan.</a> (5)
10.4	<a href="#">Letter Agreement, dated June 12, 2020, among the Company, Rosehill Operating, the financial institutions party thereto as lenders and constituting not less than the Required Lenders and JPMorgan.</a> (6)
10.5	<a href="#">Restructuring Support Agreement, dated June 30, 2020, among the Company Parties and the Consenting Creditors</a> (7)
10.6*	<a href="#">Form of Retention Letter</a> †
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
32.1**	<a href="#">Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
32.2**	<a href="#">Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.PRE*	XBRL Taxonomy Extension Label Linkbase.
101.LAB*	XBRL Taxonomy Extension Presentation Linkbase.

\* Filed herewith

\*\* Furnished herewith

† Indicates a management contract or compensatory plan or arrangement.

(1) Incorporated by reference to the Company's Form 8-K, filed with the SEC on May 3, 2017.

(2) Incorporated by reference to the Company's Form 8-K, filed with the SEC on December 14, 2017.

(3) Incorporated by reference to the Company's Form 8-K, filed with the SEC on May 5, 2020.

(4) Incorporated by reference to the Company's Form 8-K, filed with the SEC on June 1, 2020

(5) Incorporated by reference to the Company's Form 8-K, filed with the SEC on June 8, 2020

(6) Incorporated by reference to the Company's Form 8-K, filed with the SEC on June 15, 2020

(7) Incorporated by reference to the Company's Form 8-K, filed with the SEC on July 1, 2020.

**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROSEHILL RESOURCES INC.

By: /s/ David L. French

David L. French

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ R. Craig Owen

R. Craig Owen

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: July 2, 2020

**THIRD AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
ROSEHILL RESOURCES INC.**

May 20, 2020

Rosehill Resources Inc., a corporation organized and existing under the laws of the State of Delaware (the “*Corporation*”), DOES HEREBY CERTIFY AS FOLLOWS:

1. The present name of the Corporation is “Rosehill Resources Inc.” The original certificate of incorporation was filed with the Secretary of State of the State of Delaware on September 21, 2015 (the “*Original Certificate*”). The first amendment to the Original Certificate was filed with the Secretary of State of the State of Delaware on November 19, 2015. The Amended and Restated Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on March 10, 2016.

2. The Second Amended and Restated Certificate of Incorporation was filed with the Secretary of State of the State of Delaware on April 27, 2017 (as amended, the “*Second Amended and Restated Certificate*”). The first amendment to the Second Amended and Restated Certificate was filed with the Secretary of State of the State of Delaware on April 19, 2018.

3. This Third Amended and Restated Certificate of Incorporation (the “*Third Amended and Restated Certificate*”) was duly adopted by the Board of Directors of the Corporation (the “*Board*”) and the stockholders of the Corporation in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware (the “*DGCL*”).

4. This Third Amended and Restated Certificate amends and restates the provisions of the Second Amended and Restated Certificate. Certain capitalized terms used in this Third Amended and Restated Certificate are defined where appropriate herein.

5. This Third Amended and Restated Certificate shall become effective upon filing.

6. The text of the Second Amended and Restated Certificate is hereby amended and restated in its entirety to read as follows:

**ARTICLE I  
NAME**

The name of the corporation is Rosehill Resources Inc.

**ARTICLE II  
PURPOSE**

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

**ARTICLE III  
REGISTERED AGENT**

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, City of Wilmington, County of New Castle, Delaware, 19801, and the name of the Corporation's registered agent at such address is The Corporation Trust Company.

**ARTICLE IV  
CAPITALIZATION**

Section 4.1 Authorized Capital Stock. The total number of shares of all classes of capital stock which the Corporation is authorized to issue is 281,000,000 shares, consisting of 280,000,000 shares of common stock, par value \$0.0001 per share (the "**Common Stock**"), including 250,000,000 shares of Class A Common Stock (the "**Class A Common Stock**") and 30,000,000 shares of Class B Common Stock (the "**Class B Common Stock**") and 1,000,000 shares of preferred stock, par value \$0.0001 per share (the "**Preferred Stock**").

Section 4.2 Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board is hereby expressly authorized to provide for the issuance of shares of the Preferred Stock in one or more series and to establish from time to time the number of shares to be included in each such series and to fix the voting rights, if any, designations, powers, preferences and relative, participating, optional and other special rights, if any, of each such series and any qualifications, limitations and restrictions thereof, as shall be stated in the resolution or resolutions adopted by the Board providing for the issuance of such series and included in a certificate of designation (a "**Preferred Stock Designation**") filed pursuant to the DGCL, and the Board is hereby expressly vested with the authority to the full extent provided by law, now or hereafter, to adopt any such resolution or resolutions. Except as otherwise provided in this Third Amended and Restated Certificate, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the designation or issuance of any shares of any series of the Preferred Stock authorized by and complying with the conditions of this Third Amended and Restated Certificate, the right to have such vote being expressly waived by all present and future holders of the capital stock of the Corporation. Any shares of Preferred Stock that are redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law or this Third Amended and Restated Certificate. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly provided in the resolution or resolutions providing for the issue of such series adopted by the Board.

Section 4.3 No Class Vote on Changes in Authorized Number of Shares of Preferred Stock. Subject to the special rights of the holders of any series of Preferred Stock pursuant to the terms of this Third Amended and Restated Certificate, any Preferred Stock Designation or any resolution or resolutions providing for the issuance of such series of stock adopted by the Board, the number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, irrespective of the provisions of Section 242(b)(2) of the DGCL.

Section 4.4 Common Stock.

(a) Voting.

(i) Except as otherwise required by law or this Third Amended and Restated Certificate (including any Preferred Stock Designation), the holders of the Common Stock shall exclusively possess all voting power with respect to the Corporation.

(ii) Except as otherwise required by law or this Third Amended and Restated Certificate (including any Preferred Stock Designation), the holders of shares of Common Stock shall be entitled to one vote for each such share on each matter properly submitted to the stockholders on which the holders of the Common Stock are entitled to vote.

(iii) Except as otherwise required by law or this Third Amended and Restated Certificate (including any Preferred Stock Designation), at any annual or special meeting of the stockholders of the Corporation, holders of the Class A Common Stock and holders of the Class B Common Stock, voting together as a single class, shall have the exclusive right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders. Notwithstanding the foregoing, except as otherwise required by law or this Third Amended and Restated Certificate (including any Preferred Stock Designation), holders of shares of any series of Common Stock shall not be entitled to vote on any amendment to this Third Amended and Restated Certificate (including any amendment to any Preferred Stock Designation) that relates solely to the terms of one or more outstanding series of Preferred Stock or other series of Common Stock if the holders of such affected series of Preferred Stock or Common Stock, as applicable, are entitled, either separately or together with the holders of one or more other such series, to vote thereon pursuant to this Third Amended and Restated Certificate (including any Preferred Stock Designation) or the DGCL.

(b) [Reserved].

(c) Class B Common Stock.

(i) *Permitted Owners*. Shares of Class B Common Stock may be issued only to, and registered in the name of, the Existing Owners (as defined below), their respective successors and assigns as well as their respective transferees permitted in accordance with Section 4.4(c)(iv) (including all subsequent parent, successors, assigns and permitted transferees) (the Existing Owners together with such persons, collectively, "***Permitted Class B Owners***"). As used in this Third Amended and Restated Certificate, (A) "***Existing Owner***" means Tema Oil and Gas Company and (B) "***Common Unit***" means (x) a membership interest in Rosehill Operating Company, LLC, a Delaware limited liability company, authorized and issued under its Second Amended and Restated Limited Liability Company Agreement, dated as of December 8, 2017, as such agreement may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, or (y) an equity security of any direct or indirect parent or any successor entity to Rosehill Operating Company, LLC, authorized and issued under the limited liability co

mpany agreement or other similar governing document of such direct or indirect parent or successor entity (such limited liability company agreement of Rosehill Resources Operating, LLC or similar governing document of such direct or indirect parent or successor entity, as each may be further amended, restated, amended and restated, supplemented or otherwise modified from time to time, the “*A&R LLC Agreement*”).

(ii) *Voting*. Except as otherwise required by law or this Third Amended and Restated Certificate (including any Preferred Stock Designation), for so long as any shares of Class B Common Stock shall remain outstanding, the Corporation shall not, without the prior vote or written consent of the holders of a majority of the shares of Class B Common Stock then outstanding, voting separately as a single class, amend, alter or repeal any provision of this Third Amended and Restated Certificate, whether by merger, consolidation or otherwise, if such amendment, alteration or repeal would alter or change the powers, preferences or relative, participating, optional or other or special rights of the Class B Common Stock. Any action required or permitted to be taken at any meeting of the holders of Class B Common Stock may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of the outstanding Class B Common Stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of Class B Common Stock were present and voted and shall be delivered to the Corporation by delivery to its registered office in the State of Delaware, its principal place of business, or an officer or agent of the Corporation having custody of the book in which minutes of proceedings of stockholders are recorded. Delivery made to the Corporation’s registered office shall be by hand or by certified or registered mail, return receipt requested. Prompt written notice of the taking of corporate action without a meeting by less than unanimous written consent of the holders of Class B Common Stock shall, to the extent required by law, be given to those holders of Class B Common Stock who have not consented in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for notice of such meeting had been the date that written consents signed by a sufficient number of holders of Class B Common Stock to take the action were delivered to the Corporation.

(iii) *Dividends*. Notwithstanding anything to the contrary in this Third Amended and Restated Certificate, other than as set forth in Section 4.4(e), dividends shall not be declared or paid on the Class B Common Stock.

(iv) *Transfer of Class B Common Stock*.

(A) A holder of Class B Common Stock may surrender shares of Class B Common Stock to the Corporation for no consideration at any time. Following the surrender of any shares of Class B Common Stock to the Corporation, the Corporation will take all actions necessary to retire such shares and such shares shall not be re-issued by the Corporation.

(B) A holder of Class B Common Stock may transfer shares of Class B Common Stock to any transferee (other than the Corporation) only if, and only to

the extent permitted by the A&R LLC Agreement, such holder also simultaneously transfers an equal number of such holder's Common Units to such transferee in compliance with the A&R LLC Agreement. The transfer restrictions described in this Section 4.4(c)(iv)(B) are referred to as the "**Restrictions**."

(C) Any purported transfer of shares of Class B Common Stock in violation of the Restrictions shall be null and void. If, notwithstanding the Restrictions, a person shall, voluntarily or involuntarily, purportedly become or attempt to become, the purported owner ("**Purported Owner**") of shares of Class B Common Stock in violation of the Restrictions, then the Purported Owner shall not obtain any rights in and to such shares of Class B Common Stock (the "**Restricted Shares**"), and the purported transfer of the Restricted Shares to the Purported Owner shall not be recognized by the Corporation's transfer agent (the "**Transfer Agent**").

(D) Upon a determination by the Board that a person has attempted or may attempt to transfer or to acquire Restricted Shares in violation of the Restrictions, the Board may take such action as it deems advisable to refuse to give effect to such transfer or acquisition on the books and records of the Corporation, including without limitation to cause the Transfer Agent to record the Purported Owner's transferor as the record owner of the Restricted Shares, and to institute proceedings to enjoin or rescind any such transfer or acquisition.

(E) The Board may, to the extent permitted by law, from time to time establish, modify, amend or rescind, by bylaw or otherwise, regulations and procedures that are consistent with the provisions of this Section 4.4(c)(iv) for determining whether any transfer or acquisition of shares of Class B Common Stock would violate the Restrictions and for the orderly application, administration and implementation of the provisions of this Section 4.4(c)(iv). Any such procedures and regulations shall be kept on file with the Secretary of the Corporation and with its Transfer Agent and shall be made available for inspection by any prospective transferee and, upon written request, shall be mailed to holders of shares of Class B Common Stock.

(F) The Board shall have all powers necessary to implement the Restrictions, including without limitation the power to prohibit the transfer of any shares of Class B Common Stock in violation thereof.

(v) *Issuance of Class A Common Stock Upon Redemption; Cancellation of Class B Common Stock.*

(A) To the extent that any Permitted Class B Owner exercises its right pursuant to the A&R LLC Agreement to have its Common Units redeemed by the LLC in accordance with the A&R LLC Agreement (together with the transfer and surrender of an equal number of shares of Class B Common Stock), then simultaneous with the payment of the consideration due under the A&R LLC Agreement to such Permitted Class B Owner, the Corporation shall cancel such

number of surrendered shares of Class B Common Stock. The Corporation will at all times reserve and keep available out of its authorized but unissued shares of Class A Common Stock, solely for the purpose of issuance upon redemption of the Common Units (together with the transfer and surrender of an equal number of shares of Class B Common Stock) for Class A Common Stock pursuant to the A&R LLC Agreement, such number of shares of Class A Common Stock that shall be issuable upon any such redemption and surrender pursuant to the A&R LLC Agreement; *provided* that nothing contained herein shall be construed to preclude the Corporation from satisfying its obligations in respect of any such redemption of Common Units (together with the transfer and surrender of an equal number of shares of Class B Common Stock) pursuant to the A&R LLC Agreement by delivering to the holder of such Common Units (and corresponding shares of Class B Common Stock) upon such redemption and surrender cash in lieu of shares of Class A Common Stock in the amount permitted by and provided in the A&R LLC Agreement. All shares of Class A Common Stock that shall be issued upon any such redemption and surrender will, upon issuance in accordance with the A&R LLC Agreement, be validly issued, fully paid and nonassessable.

(B) Notwithstanding the Restrictions, (A) in the event that an outstanding share of Class B Common Stock shall cease to be held by a registered holder of Common Units, such share of Class B Common Stock shall automatically and without further action on the part of the Corporation or any holder of Class B Common Stock be cancelled for no consideration, and the Corporation will take all actions necessary to retire such share and such share shall not be re-issued by the Corporation, (B) in the event that one or more of the Common Units held by a registered holder of Class B Common Stock ceases to be held by such holder (other than as a result of a transfer of one or more Common Units together with an equal number of shares of Class B Common Stock as permitted by the A&R LLC Agreement), a corresponding number of shares of Class B Common Stock registered in the name of such holder shall automatically and without further action on the part of the Corporation or such holder be cancelled for no consideration, and the Corporation will take all actions necessary to retire such shares and such shares shall not be re-issued by the Corporation and (C) in the event that no Permitted Class B Owner owns any Common Units that are redeemable pursuant to the A&R LLC Agreement, then all shares of Class B Common Stock will be cancelled for no consideration, and the Corporation will take all actions necessary to retire such shares and such shares shall not be re-issued by the Corporation.

(vi) *Restrictive Legend.* All certificates or book entries representing shares of Class B Common Stock, as the case may be, shall bear a legend substantially in the following form (or in such other form as the Board may determine):

THE SECURITIES REPRESENTED BY THIS [CERTIFICATE][BOOK ENTRY] ARE SUBJECT TO THE RESTRICTIONS (INCLUDING RESTRICTIONS ON TRANSFER) SET FORTH IN THE THIRD AMENDED AND RESTATED CERTIFICATE OF INCORPORATION (A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE CORPORATION AND SHALL BE PROVIDED FREE OF CHARGE TO ANY STOCKHOLDER MAKING A REQUEST THEREFOR).

(vii) *Amendment.* At any time when there are no longer any shares of Class B Common Stock outstanding, this Third Amended and Restated Certificate automatically shall be deemed amended to delete this Section 4.4(c).

(viii) *Liquidation, Dissolution or Winding Up of the Corporation.* The holders of Class B Common Stock shall not be entitled to receive any assets of the Corporation in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation.

(d) Dividends. Subject to the rights, if any, of the holders of any outstanding series of the Preferred Stock, the holders of shares of Common Stock (other than holders of shares of Class B Common Stock) shall be entitled to receive such dividends and other distributions (payable in cash, property or capital stock of the Corporation) when, as and if declared thereon by the Board from time to time out of any assets or funds of the Corporation legally available therefor and shall share equally on a per share basis in such dividends and distributions.

(e) Class A Common Stock and Class B Common Stock. In no event shall the shares of either Class A Common Stock or Class B Common Stock be split, divided, or combined (including by way of stock dividend) unless the outstanding shares of the other class shall be proportionately split, divided or combined.

(f) Liquidation, Dissolution or Winding Up of the Corporation. Subject to the rights, if any, of the holders of any outstanding series of the Preferred Stock, in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, after payment or provision for payment of the debts and other liabilities of the Corporation, the holders of shares of Common Stock (other than holders of shares of Class B Common Stock) shall be entitled to receive all the remaining assets of the Corporation available for distribution to its stockholders, ratably in proportion to the number of shares of Common Stock (other than shares of Class B Common Stock) held by them.

Section 4.5 Rights and Options. The Corporation has the authority to create and issue rights, warrants and options entitling the holders thereof to acquire from the Corporation any shares of its capital stock of any class or classes, with such rights, warrants and options to be evidenced by or in instrument(s) approved by the Board. The Board is empowered to set the exercise price, duration, times for exercise and other terms and conditions of such rights, warrants or options; *provided, however*, that the consideration to be received for any shares of capital stock issuable upon exercise thereof may not be less than the par value thereof.

**ARTICLE V**  
**BOARD OF DIRECTORS**

Section 5.1 Board Powers. The business and affairs of the Corporation shall be managed by, or under the direction of, the Board. In addition to the powers and authority expressly conferred upon the Board by statute, this Third Amended and Restated Certificate or the Bylaws ("**Bylaws**") of the Corporation, the Board is hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the DGCL and this Third Amended and Restated Certificate.

Section 5.2 Number, Election and Term.

(a) The number of directors of the Corporation, other than those who may be elected by the holders of one or more series of the Preferred Stock voting separately by class or series, shall be fixed from time to time exclusively by the Board pursuant to a resolution adopted by a majority of the Board. All elections of directors shall be determined by a plurality of votes cast.

(b) Subject to Section 5.5 hereof, the Board shall be divided into three classes, as nearly equal in number as possible of one-third (1/3) of the total number of directors constituting the entire Board and the allocation of directors among the three classes shall be determined by the Board and designated as Class I, Class II and Class III. The Board is authorized to assign members of the Board already in office to Class I, Class II or Class III. The term of the initial Class I Directors expired at the first annual meeting of the stockholders of the Corporation following the effectiveness of the Second Amended and Restated Certificate; the term of the initial Class II Directors expired at the second annual meeting of the stockholders of the Corporation following the effectiveness of the Second Amended and Restated Certificate; and the term of the initial Class III Directors expired at the third annual meeting of the stockholders of the Corporation following the effectiveness of the Second Amended and Restated Certificate. At each succeeding annual meeting of the stockholders of the Corporation, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. Subject to Section 5.5 hereof, if the number of directors is changed, any increase or decrease shall be apportioned by the Board among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case shall a decrease in the number of directors shorten the term of any incumbent director.

(c) Subject to Section 5.5 hereof, a director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor has been elected and qualified, subject, however, to such director's earlier death, resignation, retirement, disqualification or removal.

(d) Unless and except to the extent that the Bylaws shall so require, the election of directors need not be by written ballot.

Section 5.3 Newly Created Directorships and Vacancies. Subject to Section 5.5 hereof, newly created directorships resulting from an increase in the number of directors and any vacancies on the Board resulting from death, resignation, retirement, disqualification, removal or other cause may be filled solely by a majority vote of the remaining directors then in office, even if less than a

quorum, or by a sole remaining director except that (a) subject to clause (b) below, any vacancy created by the removal of a director by the stockholders for cause shall only be filled, in addition to any other vote otherwise required by law, by vote of a majority of the outstanding shares of Common Stock, which such majority must include at least 80% of the shares then held by the Sponsor Holders, and (b) prior to the Trigger Date (as defined below), any vacancy created by the removal of a director designated or nominated by a Sponsor Holder (as defined below) shall be filled exclusively by such Sponsor Holder. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director. A director elected to fill a vacancy shall be elected for the unexpired term of his or her predecessor in office, and a director chosen to fill a position resulting from an increase in the number of directors shall hold office for the remainder of the full term of the class of directors to which the new directorship was added or in which the vacancy occurred and until his or her successor has been elected and qualified, subject, however, to such director's earlier death, resignation, retirement, disqualification or removal.

Section 5.4 Removal. Except as otherwise provided in the Shareholder' and Registration Rights Agreement, dated as of December 20, 2016, by and among Tema Oil and Gas Company and KLR Energy Sponsor, LLC, and subject to Section 5.5 hereof, any or all of the directors may be removed from office at any time, but only for cause or by the affirmative vote of holders of 75% of the voting power of all then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, at a meeting of the stockholders called for that purpose; *provided, however*, that prior to the first date (the "**Trigger Date**") on which Tema Oil and Gas Company and its successors and Affiliates (collectively, the "**Tema Entities**") and KLR Energy Sponsor, LLC and its successors and Affiliates (collectively, the "**KLR Entities**") and together with the Tema Entities, the "**Sponsor Holders**") cease collectively to beneficially own (directly or indirectly) more than 30% of the outstanding shares of Common Stock, the directors of the Corporation may be removed with or without cause by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, which such majority must include at least 80% of the shares then held by the Sponsor Holders. "**Affiliate**" means, with respect to any Person, any other Person that controls, is controlled by, or is under common control with such Person; the term "**control**," as used in this definition, means the power to direct or cause the direction of the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and "**controlled**" and "**controlling**" have meanings correlative to the foregoing. "**Person**" means an individual, any general partnership, limited partnership, limited liability company, corporation, trust, business trust, joint stock company, joint venture, unincorporated association, cooperative or association or any other legal entity or organization of whatever nature, and shall include any successor (by merger or otherwise) of such entity. For the purpose of this Third Amended and Restated Certificate, "**beneficial ownership**" shall be determined in accordance with Rule 13d-3 promulgated under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**").

Section 5.5 Preferred Stock – Directors. Notwithstanding any other provision of this Article V, and except as otherwise required by law, whenever the holders of one or more series of the Preferred Stock shall have the right, voting separately by class or series, to elect one or more directors, the term of office, the filling of vacancies, the removal from office and other features of

such directorships shall be governed by the terms of such series of the Preferred Stock as set forth in this Third Amended and Restated Certificate (including any Preferred Stock Designation) and such directors shall not be included in any of the classes created pursuant to this Article V unless expressly provided by such terms.

## **ARTICLE VI BYLAWS**

In furtherance and not in limitation of the powers conferred upon it by law, the Board is expressly authorized to adopt, amend, alter or repeal the Bylaws subject to the power of the stockholders of the Corporation entitled to vote with respect thereto to adopt, amend, alter or repeal the Bylaws; *provided* that with respect to the powers of stockholders entitled to vote with respect thereto to make, alter, amend or repeal the Bylaws, (i) prior to the Trigger Date, in addition to any other vote otherwise required by law, the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote with respect thereto, voting together as a single class, which such majority must include at least 80% of the shares then held by the Sponsor Holders, shall be required to make, alter, amend or repeal the Bylaws of the Corporation and (ii) from and after the Trigger Date, in addition to any other vote otherwise required by law, the affirmative vote of the holders of at least 75% of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote with respect thereto, voting together as a single class, shall be required to make, alter, amend or repeal the Bylaws of the Corporation.

## **ARTICLE VII MEETINGS OF STOCKHOLDERS; ACTION BY WRITTEN CONSENT**

Section 7.1 No Action by Written Consent. Any action required or permitted to be taken by the stockholders of the Corporation may be effected only at a duly called annual or special meeting of stockholders of the Corporation and may not be effected by any consent in writing by such stockholders.

Section 7.2 Meetings. Subject to the rights of the holders of any outstanding series of the Preferred Stock, and to the requirements of applicable law, special meetings of stockholders of the Corporation may be called only (a) by the Chairman of the Board or the Lead Director, (b) by the Board pursuant to a resolution adopted by a majority of the Board, or (c) prior to the Trigger Date, by the Secretary of the Corporation at the request of either Sponsor Holder, *provided* that such requesting Sponsor Holder then owns 15% or more of the outstanding shares of Common Stock. Any business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. After the Trigger Date, the ability of the stockholders to call a special meeting is hereby specifically denied.

Section 7.3 Advance Notice. Advance notice of stockholder nominations for the election of directors and of business to be brought by stockholders before any meeting of the stockholders of the Corporation shall be given in the manner provided in the Bylaws.

**ARTICLE VIII**  
**LIMITED LIABILITY; INDEMNIFICATION**

Section 8.1 Limitation of Director Liability. A director of the Corporation shall not be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the DGCL as the same exists or may hereafter be amended. Any amendment, modification or repeal of the foregoing sentence shall not adversely affect any right or protection of a director of the Corporation hereunder in respect of any act or omission occurring prior to the time of such amendment, modification or repeal.

Section 8.2 Indemnification and Advancement of Expenses.

(a) To the fullest extent permitted by applicable law, as the same exists or may hereafter be amended, the Corporation shall indemnify, advance expenses and hold harmless each person who is or was made a party or is threatened to be made a party to or is otherwise involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "*proceeding*") by reason of the fact that he or she, or a person for whom he or she is the legal representative, is or was or has agreed to serve as a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust, other enterprise or nonprofit entity, including service with respect to an employee benefit plan (an "*indemnitee*"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent, or in any other capacity while serving as a director, officer, employee or agent, against all liability and loss suffered and expenses (including, without limitation, attorneys' fees, judgments, fines, ERISA excise taxes and penalties and amounts paid in settlement) reasonably incurred by such indemnitee in connection with such proceeding. The Corporation shall to the fullest extent not prohibited by applicable law pay the expenses (including attorneys' fees) incurred by an indemnitee in defending or otherwise participating in any proceeding in advance of its final disposition; *provided, however*, that, to the extent required by applicable law, such payment of expenses in advance of the final disposition of the proceeding shall be made only upon receipt of an undertaking, by or on behalf of the indemnitee, to repay all amounts so advanced if it shall ultimately be determined that the indemnitee is not entitled to be indemnified under this Section 8.2 or otherwise. The rights to indemnification and advancement of expenses conferred by this Section 8.2 shall be contract rights and such rights shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators. Notwithstanding the foregoing provisions of this Section 8.2(a), except for proceedings to enforce rights to indemnification and advancement of expenses, the Corporation shall indemnify and advance expenses to an indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board.

(b) The rights to indemnification and advancement of expenses conferred on any indemnitee by this Section 8.2 shall not be exclusive of any other rights that any indemnitee may have or hereafter acquire under law, this Third Amended and Restated Certificate, the Bylaws, an agreement, vote of stockholders or disinterested directors or otherwise.

(c) Any repeal or amendment of this Section 8.2 by the stockholders of the Corporation or by changes in applicable law, or the adoption of any other provision of this Third Amended and Restated Certificate inconsistent with this Section 8.2, shall, unless otherwise required by law, be prospective only (except to the extent such amendment or change in applicable law permits the Corporation to provide broader indemnification rights to indemnitees on a retroactive basis than permitted prior thereto), and shall not in any way diminish or adversely affect any right or protection existing at the time of such repeal or amendment or adoption of such inconsistent provision in respect of any proceeding (regardless of when such proceeding is first threatened, commenced or completed) arising out of, or related to, any act or omission occurring prior to such repeal or amendment or adoption of such inconsistent provision. If the DGCL is amended after the effectiveness of this Third Amended and Restated Certificate to authorize corporate action further eliminating or limiting the personally liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

(d) This Section 8.2 shall not limit the right of the Corporation, to the extent and in the manner authorized or permitted by law, to indemnify and to advance expenses to persons other than indemnitees.

## ARTICLE IX CORPORATE OPPORTUNITY

Section 9.1 Scope. The provisions of this Article IX are set forth to define, to the extent permitted by applicable law, the duties of Exempted Persons (as defined below) to the Corporation with respect to certain classes or categories of business opportunities. “*Exempted Persons*” means each Sponsor Holder and their respective Affiliates (other than the Corporation and its subsidiaries) and all of their respective partners, principals, directors, officers, members, managers and/or employees, including any of the foregoing who serve as officers or directors of the Corporation.

Section 9.2 Competition and Allocation of Corporate Opportunities. The Exempted Persons shall not have any fiduciary duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as the Corporation or any of its subsidiaries. To the fullest extent permitted by applicable law, the Corporation, on behalf of itself and its subsidiaries, renounces any interest or expectancy of the Corporation and its subsidiaries in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to the Exempted Persons, even if the opportunity is one that the Corporation or its subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so, and each such Exempted Person shall have no duty to communicate or offer such business opportunity to the Corporation and, to the fullest extent permitted by applicable law, shall not be liable to the Corporation or any of its subsidiaries for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the fact that such Exempted Person pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to the Corporation or its subsidiaries.

Section 9.3 Certain Matters Deemed Not Corporate Opportunities. In addition to and notwithstanding the foregoing provisions of this Article IX, a corporate opportunity shall not be deemed to belong to the Corporation if it is a business opportunity that the Corporation is not financially able or contractually permitted or legally able to undertake, or that is, from its nature, not in the line of the Corporation's business or is of no practical advantage to it or that is one in which the Corporation has no interest or reasonable expectancy.

Section 9.4 Amendment of this Article. No amendment or repeal of this Article IX in accordance with the provisions of Section 8.2(c) shall apply to or have any effect on the liability or alleged liability of any Exempted Person for or with respect to any activities or opportunities of which such Exempted Person becomes aware prior to such amendment or repeal. This Article IX shall not limit any protections or defenses available to, or indemnification or advancement rights of, any director or officer of the Corporation under this Third Amended and Restated Certificate, the Corporation's Bylaws or applicable law.

**ARTICLE X  
AMENDMENT OF AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION**

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Third Amended and Restated Certificate (including any Preferred Stock Designation), in the manner now or hereafter prescribed by this Third Amended and Restated Certificate of Incorporation and the DGCL, and all rights conferred upon stockholders herein are granted subject to this reservation. Notwithstanding anything to the contrary contained in this Third Amended and Restated Certificate, and notwithstanding that a lesser percentage may be permitted from time to time by applicable law, (a) prior to the Trigger Date, no provision of this Third Amended and Restated Certificate may be altered, amended or repealed in any respect, nor may any provision or bylaw inconsistent therewith be adopted, unless, in addition to any other vote required by this Third Amended and Restated Certificate or otherwise required by law, such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, which such majority must include at least 80% of the shares then held by the Sponsor Holders, and (b) from and after the Trigger Date, no provision of Article III, Article V, Section 7.1, Section 7.2, Article IX and this Article X may be altered, amended or repealed in any respect, nor may any provision or bylaw inconsistent therewith be adopted, unless, in addition to any other vote required by this Third Amended and Restated Certificate or otherwise required by law, such alteration, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least 75% of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, at a meeting of the stockholders called for that purpose.

**ARTICLE XI  
FORUM SELECTION**

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall, to the fullest extent permitted by applicable law, be the

sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director or officer of the Corporation to the Corporation or the Corporation's stockholders, creditors or other constituents, (c) any action asserting a claim against the Corporation or any director or officer of the Corporation arising pursuant to any provision of the DGCL or the Corporation's Third Amended and Restated Certificate or Bylaws (as either may be amended and/or restated from time to time) or (d) any action asserting a claim against the Corporation governed by the internal affairs doctrine, in each such case subject to said court having personal jurisdiction over the indispensable parties named as defendants therein; *provided* that if and only if the Court of Chancery of the State of Delaware dismisses any such action for lack of subject matter jurisdiction, such action may be brought in another state court sitting in the State of Delaware. To the fullest extent permitted by law, any person purchasing or otherwise acquiring any interest in shares of the Common Stock of the Corporation shall be deemed to have notice of and consents to the provisions of this Article XI.

**ARTICLE XII**  
**SEVERABILITY**

If any provision or provisions of this Third Amended and Restated Certificate shall be held to be invalid, illegal or unenforceable as applied to any circumstance for any reason whatsoever: (a) the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Third Amended and Restated Certificate (including, without limitation, each portion of any paragraph of this Third Amended and Restated Certificate containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and (b) to the fullest extent possible, the provisions of this Third Amended and Restated Certificate (including, without limitation, each such portion of any paragraph of this Third Amended and Restated Certificate containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to permit the Corporation to protect its directors, officers, employees and agents from personal liability in respect of their good faith service to or for the benefit of the Corporation to the fullest extent permitted by law.

*(Signature Page Follows)*

IN WITNESS WHEREOF, the Corporation has caused this Third Amended and Restated Certificate to be duly executed in its name and on its behalf by an authorized officer as of the date first set forth above.

ROSEHILL RESOURCES INC.

By: /s/ David L. French

Name: David L. French

Title: President & Chief Executive Officer

SIGNATURE PAGE TO  
THIRD AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION

*[To be placed on company letterhead.]*

[Date]

[Name]

[Insert Address]

Re: Retention Bonus

Dear [First Name]:

Rosehill Operating Company, LLC (the "Company") values your contributions to our organization and looks forward to working with you as we consider various strategic alternatives in the coming months. Your continued leadership is critical during this time.

In recognition of your role, and the importance of your contributions to the Company in the months ahead, the Company has awarded you a one-time **[\$•] special cash award** (the "Retention Bonus"), which will be paid in two equal installments. The first **[\$•]** installment will be paid on the first regularly scheduled payroll date that follows [Insert Date] and the second **[\$•]** installment will be paid on the first regularly scheduled payroll date that follows [Insert Date], in each case subject to your continued employment with the Company through such date and less all applicable taxes and withholdings.

In the event of the termination of your employment by the Company without "Cause" prior to full payment of the Retention Bonus, you will receive accelerated payment of any unpaid installments, which will be made within 30 days following such termination date. As used herein, "Cause" means (i) your material breach of any written agreement between you and the Company; (ii) your commission of an act of gross negligence, willful misconduct, breach of fiduciary duty, fraud, theft or embezzlement; (iii) your commission of, or conviction or indictment for, or plea of nolo contendere to, any felony (or state law equivalent) or any crime involving moral turpitude; or (iv) your willful failure or refusal, other than due to disability, to perform your duties to the Company or to follow any lawful directive from your supervisor.

Your receipt of the Retention Bonus does not affect your employment status with the Company. You are and will continue to be an employee at-will of the Company.

Because this retention bonus opportunities such as this are reserved for a small number of people, we ask that you please keep the terms of this letter agreement confidential. Failure to keep this letter and its contents strictly confidential could result in forfeiture of any Retention Bonus and other actions against your employment with the Company. If you have any questions about this program, please contact [Insert contact and phone number].

We look forward to your continued contributions to the Company.

Sincerely,

[Name]

[Title]

**CERTIFICATION**  
**PURSUANT TO RULE 13a-14(a) AND 15d-14(a)**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, David L. French, certify that:

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

Date: July 2, 2020

/s/ David L. French  
\_\_\_\_\_  
Name: David L. French  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION**  
**PURSUANT TO RULE 13a-14(a) AND 15d-14(a)**  
**UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

I, R. Craig Owen, certify that:

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

Date: July 2, 2020

/s/ R. Craig Owen  
\_\_\_\_\_  
Name: R. Craig Owen  
Title: Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Rosehill Resources Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: July 2, 2020

/s/ David L. French  
\_\_\_\_\_  
Name: David L. French  
Title: President and Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2020 of Rosehill Resources Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: July 2, 2020

/s/ R. Craig Owen  
\_\_\_\_\_  
Name: R. Craig Owen  
Title: Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)