

Resolute Energy Corp
Form 10-K
March 15, 2011

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

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

Commission File No. 001-34464

RESOLUTE ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

**(State or other Jurisdiction of Incorporation or
Organization)**

27-0659371

(I.R.S. Employer Identification Number)

1675 Broadway, Suite 1950 Denver, CO

(Address of Principal Executive Offices)

80202

(Zip Code)

(303) 534-4600

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value \$0.0001 per share	New York Stock Exchange
Warrants, each exercisable for one share of Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 of the Exchange Act
Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ☐ No ☐

Indicate by check mark if delinquent filers pursuant to item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, indefinite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of registrant's common stock held by non-affiliates on June 30, 2010, computed by reference to the price at which the common stock was last sold as posted on the New York Stock Exchange, was \$405.2 million.

As of March 10, 2011, 56,345,041 shares of the Registrant's \$0.0001 par value Common Stock were outstanding.

The following documents are incorporated by reference herein: Portions of the definitive Proxy Statement of Resolute Energy Corporation to be filed pursuant to Regulation 14A of the general rules and regulations under the Securities Exchange Act of 1934, as amended, for the 2011 annual meeting of stockholders ("Proxy Statement") are incorporated by reference into Part III of this Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words anticipate, intend, believe, estimate, project, expect, plan, should or similar expressions are intended to identify such statements. Forward-looking statements included in this report relate to, among other things, expected future production, expenses and cash flows in 2011 and beyond, the nature, timing and results of capital expenditure projects, amounts of future capital expenditures, our plans with respect to future acquisitions, our future debt levels and liquidity, future derivative activities and future compliance with covenants under our revolving credit facility. Although we believe that the expectations reflected in such forward-looking statements are reasonable, those expectations may prove to be incorrect. Disclosure of important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are included under the heading Risk Factors in this report. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the Risk Factors section of this report and such things as:

volatility of oil and gas prices, including reductions in prices that would adversely affect our revenue, income, cash flow from operations, liquidity and reserves;

inaccuracy in reserve estimates and expected production rates;

discovery and development of, and our ability to replace oil and gas reserves;

our future cash flow, liquidity and financial position;

the success of our business and financial strategy, derivative strategies and plans;

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

Availability of capital and financing;

the effectiveness and results of our CO₂ flood program;

the success of the development plan and production from our oil and gas properties and particularly the Aneth Field Properties;

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

the completion and success of exploratory drilling in the Bakken trend of the Williston Basin;

availability of drilling, completion and production equipment;

our operating costs and other expenses;

the success in marketing oil and gas;

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competition in the oil and gas industry;

operational problems, or uninsured or underinsured losses affecting our operations;

the impact and costs related to compliance with or changes in laws or regulations governing our oil and gas operations;

our relationship with the Navajo Nation, the local Navajo community in the area where we operate and Navajo Nation Oil and Gas Company, as well as the timing of when certain purchase rights held by Navajo Nation Oil and Gas Company become exercisable;

the impact of weather and the occurrence of disasters, such as fires, floods and other events and natural disasters;

environmental liabilities;

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anticipated CO₂ supply which is currently sourced exclusively from Kinder Morgan CO₂ Company, L.P.
(Kinder Morgan);

risks related to our level of indebtedness;

developments in oil and gas-producing countries;

loss of senior management or technical personnel;

acquisitions and other business opportunities (or the lack thereof) that may be presented to and pursued by us;

risk factors discussed or referenced in this report; and

other factors, many of which are beyond our control.

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PART I

Item 1. and 2. BUSINESS AND PROPERTIES

RESOLUTE S BUSINESS

Resolute Energy Corporation (Resolute or the Company), a Delaware corporation incorporated on July 28, 2009, was formed to consummate a business combination with Hicks Acquisition Company I, Inc. (HACI), a Delaware corporation incorporated on February 26, 2007. HACI was a blank check company that was formed to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination, one or more businesses or assets. HACI s initial public offering (the Offering) was consummated on October 3, 2007. HACI had not engaged in any operations or generated any operating revenue prior to the business combination with Resolute.

On September 25, 2009 (the Acquisition Date), HACI consummated a business combination under the terms of a Purchase and IPO Reorganization Agreement (Acquisition Agreement) with Resolute and Resolute Holdings Sub, LLC (Sub), whereby, through a series of transactions, HACI s stockholders collectively acquired a majority of the outstanding shares of Resolute common stock (the Resolute Transaction). As a result of the Resolute Transaction, Resolute owned, directly or indirectly, 100% of the equity interests of Resolute Natural Resources Company, LLC (Resources), WYNR, LLC (WYNR), BWNR, LLC (BWNR), RNRC Holdings, Inc. (RNRC), and Resolute Wyoming Inc. (RWI) (formerly known as Primary Natural Resources, Inc. (PNR)), and owned a 99.996% equity interest in Resolute Aneth, LLC (Aneth), (collectively Predecessor Resolute). The entities comprising Predecessor Resolute prior to the Resolute Transaction were wholly owned by Sub (except for Aneth, which was 99.996% owned by Sub), which in turn is a wholly-owned subsidiary of Resolute Holdings, LLC (Holdings). Under accounting principles generally accepted in the United States (GAAP), HACI was the accounting acquirer. Effective December 31, 2010, Aneth became a wholly-owned subsidiary of the Company.

Resolute is an independent oil and gas company engaged in the exploration, exploitation and development of its oil and gas properties located in Utah, Wyoming, North Dakota and, to a lesser extent, properties in Alabama and Oklahoma. Approximately 88% of Resolute s revenue is generated from the sale of oil production. Resolute s main focus is on increasing reserves and production from its properties located in Utah (its Aneth Field Properties), North Dakota (its Bakken Properties) and Wyoming and Oklahoma (its Wyoming Properties), while improving efficiency and controlling operational costs.

Resolute has completed a number of exploitation projects that have increased its proved developed reserve base, and it has plans for additional expansion and enhancement projects. Resolute plans to further expand its reserve base through a focused acquisition strategy by looking to acquire properties that have upside potential through development drilling and exploitation projects and through the acquisition, exploration and exploitation of acreage that appears to contain relatively low risk and repeatable drilling opportunities. Also, Resolute seeks to reduce the effect of short-term commodity price fluctuations on its cash flow through the use of various derivative instruments.

Resolute s largest asset, constituting 92% of its proved reserves, is its ownership of working interests in Greater Aneth Field (Aneth Field), a mature, long-lived oil producing field located in the Paradox Basin on the Navajo Reservation in southeast Utah. Resolute owns a majority of the working interests in, and is the operator of, three federal production units covering approximately 43,000 gross acres. These are the Aneth Unit, in which Resolute owns a 62% working interest, the McElmo Creek Unit, in which Resolute owns a 75% working interest, and the Ratherford Unit, in which Resolute owns a 59% working interest. Resolute believes that significantly more oil can be recovered from its Aneth Field Properties through industry standard secondary and tertiary recovery techniques. As of December 31, 2010, Resolute had interests in, and operated 397 gross (260 net) active producing wells and 334 gross (218 net) active

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water and CO₂ injection wells in its Aneth Field Properties. The crude oil produced from the Aneth Field Properties is generally characterized as light, sweet crude oil that is highly desired as a refinery blending feedstock.

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Resolute's Wyoming Properties are largely located in the Powder River Basin of Wyoming and constitute approximately 7% of Resolute's net proved reserves. Hilight Field, anchoring the Wyoming production and reserves, produces oil and gas from the Muddy formation as well as shallow coalbed methane (CBM). Resolute also owns properties in eastern Wyoming and Oklahoma that produce oil and gas. As of December 31, 2010, the Wyoming Properties consisted of 465 gross (418 net) active producing wells and 8 gross (6 net) active water injection wells and Resolute operates all but 6 gross (1 net) wells. In addition, Resolute holds exploration leasehold rights in Wyoming's Big Horn Basin.

As of December 31, 2010, Resolute had acquired interests in approximately 83,452 gross (24,965 net leasehold) acres in Williams and McKenzie Counties, North Dakota. These leaseholds are located within the Bakken shale trend of the Williston Basin. Although the Middle Bakken formation is the primary objective of the Company's exploration activities, secondary objectives include the Three Forks, Madison and Red River formations. During 2010, the Company acquired an interest in one completed well and participated in drilling and completing one horizontal well. Additionally, Resolute is party to a contract with Marathon Oil Corporation (Marathon), under which it has earned an additional 3,870 net acres as of January 16, 2011. As of December 31, 2010, Resolute had interests in, but was not the operator of 2 gross (0.5 net) active wells. The Company participated in drilling activities on five additional wells during 2010 which are expected to be completed during 2011, and anticipates participating in drilling and completing between fourteen to sixteen new wells in 2011.

As of December 31, 2010, Resolute's estimated net proved reserves were approximately 64.7 million equivalent barrels of oil (MMBoe), of which approximately 39% were proved developed producing reserves and approximately 78% were oil. The pre-tax PV-10 of Resolute's net proved reserves at December 31, 2010, was \$848 million and the standardized measure of its estimated net proved reserves as of December 31, 2010, was \$587.0 million. For additional information about the calculation of Resolute's PV-10 and its standardized measure, please read *Business and Properties - Estimated Net Proved Reserves*.

The following table sets forth summary information attributable to Resolute's estimated net proved reserves that is derived from its December 31, 2010, reserve report which was developed by Resolute and audited by Netherland, Sewell & Associates, Inc. (NSAI), independent petroleum engineers.

	Estimated Net Proved Reserves as of December 31, 2010						Average Net Daily Production (Boe per day) (1)
	Proved Developed Producing	Proved Non-Producing	Proved Undeveloped CO ₂	Proved Drilling	Total	Total Proved	
Aneth Field Properties (MMBoe)	22.1	8.3	29.0	0.4	29.4	59.8	5,682
Wyoming Properties (MMBoe)	2.8	1.0		1.0	1.0	4.8	1,787
Bakken Properties (MMBoe)	0.1					0.1	9
Total (MMBoe)	25.0	9.3	29.0	1.4	30.4	64.7	7,478
Future operating costs (\$/Boe)(2)	\$ 28.71	\$ 11.75	\$ 8.34	\$ 8.52	\$ 8.35	\$ 16.72	
	\$ 10.13	\$ 9.09	\$ 8.48	\$ 6.37	\$ 8.38	\$ 9.16	

Future production taxes (\$/Boe)(3)			
Future PUD development costs (millions)(4)	\$ 375.6	\$ 22.9	\$ 398.6
Future PUD development costs (\$/Boe)(5)	\$ 12.96	\$ 16.69	\$ 13.13

- 1) For the year ended December 31, 2010.
- 2) Determined by dividing Resolute's estimated future operating costs as of December 31, 2010, by total estimated net proved reserves as of December 31, 2010, for each reserve category.
- 3) Determined by dividing Resolute's estimated future production taxes as of December 31, 2010, by total estimated net proved reserves as of December 31, 2010, for each reserve category.
- 4) Future development costs include costs incurred in connection with the initiation, extension and expansion of CO₂ flood projects, including CO₂ purchases, drilling of development wells, upgrades to field infrastructure, workovers of producing wells and recompletion of existing wells into new producing zones.
- 5) Determined by dividing Resolute's estimated total future development costs related to reserves classified as proved undeveloped by total estimated net proved undeveloped reserves as of December 31, 2010.

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Resolute's Business Strategies

Bring Proved Developed Non-Producing and Proved Undeveloped Reserves into Production. At December 31, 2010, Resolute had estimated net proved reserves of approximately 39.7 MMBoe that were classified as proved developed non-producing and proved undeveloped. An estimated 37.4 MMBoe, or 94% of those reserves, are attributable to recoveries associated with expansions, extensions and processing of the tertiary recovery CO₂ floods that are currently in operation on Resolute's Aneth Field Properties. Resolute incurred approximately \$37.3 million of capital expenditures related to the Aneth Field Properties during 2010, and Resolute expects to incur an additional \$446.7 million of capital expenditures over the next 29 years (including purchases of CO₂), in connection with bringing those incremental reserves attributable to Resolute's CO₂ flood projects into production. Resolute's current plan anticipates approximately \$198.4 million of these future capital expenditures will be incurred from 2011 through 2013.

Increase Production and Improve Efficiency of Operations on Resolute's Existing Properties. Resolute's management team has experience in managing operationally intensive oil and gas properties. As the operator of the Aneth Field Properties, Resolute has the ability to directly manage its costs, control the timing of its exploitation activities and effectively implement programs to increase production and improve the efficiency of its operations. For example, Predecessor Resolute initiated a program to actively work with vendors to reduce labor and material costs. Predecessor Resolute also conducted a proprietary 3-D seismic survey of the Aneth Unit in 2007, which is the first 3-D seismic survey covering Aneth Field. Resolute expects that the data obtained from this seismic survey will provide information to enable it to more efficiently develop and improve the recovery from its Aneth Field Properties. In addition, soon after Predecessor Resolute acquired properties from Chevron and ExxonMobil and became the operator of the Aneth, McElmo Creek and Ratherford Units, Predecessor Resolute undertook a program of repair and maintenance of those producing assets. As a result of these efforts, Resolute has seen a reduction in well workover costs. Also, because Resolute is the operator of three federal units in Aneth Field, it has been able to assemble a critical mass of employees and projects and allocate its resources across a broader area in a more efficient manner than was previously the case when each unit had a different operator.

Pursue Acquisitions of Properties with Development Potential. From inception, Predecessor Resolute's goal was to grow its reserve base through a focused acquisition strategy. It completed three significant acquisitions, two in Utah and one in Wyoming. Substantially all of its Aneth Field Properties were acquired through significant purchases in November 2004 and April 2006. Predecessor Resolute then acquired its Wyoming Properties in July 2008. Resolute will continue to look to acquire similar producing properties in the continental United States that have upside potential through relatively low-risk development drilling and exploitation projects. It believes its knowledge of various operating areas, strong management and staff and solid industry relationships will allow it to find, capitalize on and integrate strategic acquisition opportunities in various areas.

Acquire and Explore Properties in Oil Prone Areas. Resolute has acquired leasehold interests in the Williston Basin that are prospective for oil production in the Middle Bakken formation as well as other formations. Resolute intends to explore these properties and to acquire, explore and develop other properties in areas of the United States that are prospective for production of oil or natural gas liquids (NGL).

Reduce Commodity Price Risk through Derivatives. Resolute seeks to reduce the effect of short-term commodity price fluctuations and achieve less volatile and more predictable cash flows through the use of various derivative instruments such as swaps, puts, calls and collars. Resolute expects to continue to use these financial arrangements to reduce its commodity price risk. As of December 31, 2010, Resolute had in place oil swaps covering approximately 60% of its anticipated 2011 oil production at a weighted average price of \$68.26 per Bbl, oil collars covering approximately 5% of its anticipated 2011 oil production with a floor of \$80.00 per Bbl and a ceiling of \$90.00 per

Bbl, gas swaps covering approximately 47% of its anticipated 2011 gas production at a weighted average price of \$9.32 per MMBtu, and gas basis derivatives at a weighted average price of \$1.40 per MMBtu covering approximately 57% of its anticipated 2011 gas production. Additional instruments are also in place for future years. See *Item 7A Quantitative and Qualitative Disclosures about Market Risk* for additional information.

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Competitive Strengths

A High Quality Base of Long-Lived Oil Producing Properties. The Aneth Field Properties have several characteristics that Resolute believes will provide a stable production platform with which to fund its development and growth activities:

The properties are expected to have a long productive life. As of December 31, 2010, the proved developed producing reserves had a reserves-to-production ratio of approximately 11 years and the total proved reserves had a reserves-to-production ratio of 29 years.

The light, sweet crude oil produced from its Aneth Field Properties is more attractive to refineries than the heavy or sour crude oil found in many areas, including the Permian Basin.

Properties with Significant Low-Risk and Low-Cost Development Opportunities. As of December 31, 2010, approximately 39.7 MMBoe, or 61% of Resolute's estimated net proved reserves, were classified as proved developed non-producing or proved undeveloped. An estimated 37.4 MMBoe, or 94% of those reserves, are attributable to recoveries associated with expansions, extensions and processing of the tertiary recovery CO₂ floods that are currently in operation on Resolute's Aneth Field Properties. Resolute's current development plan for its Aneth Field Properties indicates that in five years the daily production rate, on a Boe basis, should be 84% higher than the average production rate achieved during the twelve months ended December 31, 2010. After that, Resolute expects the production rate to remain relatively stable for approximately five years and then begin a natural decline. Resolute believes these development projects, particularly its planned CO₂ flood projects, are relatively low risk compared to other conventional drilling-focused exploration and production activities, in large part because of the successful results of the McElmo Creek Unit CO₂ flood program that has been in operation since 1985 and because of the observed response from the CO₂ flood expansion Resolute has undertaken in the Aneth Unit. Following the initiation of the CO₂ flood project in the McElmo Creek Unit in 1985, oil production from the unit increased by approximately 30% over a thirteen year period (approximately 22% as a result of the CO₂ flood project and approximately 8% as a result of 24 newly drilled wells). Production then returned to a state of natural decline in 1998. Because of similar geological characteristics across Resolute's Aneth Field Properties, Resolute expects to achieve analogous incremental reserves in Aneth Unit as were seen in McElmo Creek Unit, but at accelerated production rates, due to the higher rate of CO₂ injection in Resolute's Aneth Unit project.

Operating Control Over the Resolute Properties. Resolute is the operator of the Aneth, McElmo Creek and Rutherford Units. As a result of having a critical mass of employees, projects, and operating control across the three federal units encompassing approximately 43,000 acres, it has the ability to utilize its employees on a prioritized basis. Because Resolute is the operator of all of its Aneth Field Properties, it believes it can attract contract services, materials and equipment from a broader market and negotiate more favorable terms than would otherwise be available. Resolute also has the ability to control the timing, scope and costs of development projects undertaken in its Aneth Field Properties. Resolute also operates Hilight Field and most of its other Wyoming Properties.

Experienced Management Team with Operational, Transactional and Financial Experience in the Energy Industry. With an average industry work experience of more than 25 years, the senior management team of Resolute has considerable experience in acquiring, exploring, exploiting, developing and operating oil and gas properties, particularly in operationally intensive oil and gas fields. Three members of its senior management who formed Holdings in 2004 previously worked together as part of the senior management team of HS Resources, Inc., an independent oil and gas company that was listed on the New York Stock Exchange and primarily operated in the Denver-Julesburg Basin in northeast Colorado. HS Resources conducted resource development programs, managed and enhanced a gas gathering and processing system and built a hydrocarbon physical marketing and transportation business. Its development activities included drilling new wells, deepening wells and recompleting and refracturing

existing wells to add reserves and enhance production. HS Resources also had an active program of acquiring producing properties and properties with development potential. HS Resources was acquired by Kerr-McGee Corporation in 2001.

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Aneth Field

Aneth Field, located in San Juan County, Utah, was discovered by Texaco in 1956 and was subsequently developed by several large integrated oil companies. It is the largest oil field in the Paradox Basin. Resolute's Aneth Field Properties cover approximately 43,000 acres and during the twelve months ended December 31, 2010, gross production from the Aneth Field Properties averaged 9,690 barrels of oil per day.

The primary producing horizon in Aneth Field is the Pennsylvanian-age Desert Creek formation, which is a carbonate algal-mound formation with an average depth of approximately 5,525 feet. While there is some reservoir heterogeneity in Aneth Field, development of the reserves generally has been accomplished with well-tested methodologies, including drilling and infilling vertical wells, horizontal drilling, waterflood activities and CO₂ flooding. For administrative, organizational and operational reasons, in 1961 Aneth Field was divided into four separate federal production units to facilitate efficient development of the field and recovery of reserves. The three units that Resolute operates, the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit, which constitute Resolute's Aneth Field Properties, possess substantially similar geologic and operating characteristics.

Predecessor Resolute acquired its Aneth Field Properties primarily through two significant acquisitions. In November 2004, it acquired a 53% operating working interest in the Aneth Unit, a 15% non-operating working interest in the McElmo Creek Unit and a 3% non-operating working interest in the Ratherford Unit (Chevron Properties). In the April 2006 acquisition, it acquired an additional 7.5% non-operating working interest in the Aneth Unit, a 60% operating working interest in the McElmo Creek Unit and a 56% operating working interest in the Ratherford Unit (ExxonMobil Properties).

Predecessor Resolute acquired its Aneth Field Properties in connection with its strategic alliance with Navajo Nation Oil and Gas Company, Inc. (NNOG), an oil and gas company owned by the Navajo Nation. NNOG maintains a minority interest in each of the Chevron Properties and the ExxonMobil Properties and possesses options to purchase additional minority interests in those properties from Resolute under certain circumstances. Please read *Resolute's Business Relationship with the Navajo Nation*.

Aneth Unit. During the twelve months ended December 31, 2010, Aneth Unit production averaged approximately 3,613 barrels of oil per day (gross) from 161 gross (99 net) active producing wells. Additionally, Resolute operates 150 gross (93 net) active injection wells in the Aneth Unit. Since the discovery of oil at the site in 1956, the Aneth Unit has produced a total of approximately 154 MMBbl of oil. Aneth Unit was originally developed with vertical wells drilled on 80-acre spacing and was infill drilled to 40-acre spacing in the 1970s. Since unitization in 1961, the unit has been under waterflood. Between 1994 and 1998, an affiliate of Texaco operated the Aneth Unit and drilled 43 multi-lateral horizontal wells (23 producers and 20 injectors). Most of these horizontal wells were utilized to create a horizontal waterflood pattern on the eastern side of the unit. In 1998, the injectors in two square miles of the Aneth Unit were converted to a water-alternating-gas CO₂ pilot project to assess the possibility of a field-wide CO₂ injection flood program. The multi-lateral horizontal wells and the pilot CO₂ program were successful in increasing production rate and adding reserves, however, the pilot CO₂ program was never expanded into a unit-wide program. Predecessor Resolute became operator of the Aneth Unit on December 1, 2004, and has been successful in reducing the decline rate such that the average daily gross oil production from the Aneth Unit as a whole has remained relatively constant since the time of acquisition.

McElmo Creek Unit. During the twelve months ended December 31, 2010, McElmo Creek Unit production averaged approximately 3,925 barrels of oil per day (gross) from 139 gross (104 net) active producing wells. Resolute operates 107 gross (80 net) active injection wells on the McElmo Creek Unit. Since its discovery, the McElmo Creek Unit has produced a total of approximately 164 MMBbl of oil. The McElmo Creek Unit has been under waterflood since the early 1960s and prior operators commenced infill drilling to 40-acre spacing during the 1970s. A stabilized oil

production decline trend was established for the waterflood over approximately seven years prior to the initiation of a CO₂ flood program in 1985. Following the initiation of the CO₂ flood project in the McElmo Creek Unit in 1985, oil production from the unit increased by approximately 30% over a 13 year period (approximately 22% as a result of the CO₂ flood project and approximately 8% as a result of 24 newly drilled wells). Production then returned to a state of natural decline in 1998. Prior to Predecessor Resolute's acquisition of the ExxonMobil Properties, the McElmo Creek Unit was operated by ExxonMobil. Predecessor Resolute became operator of the McElmo Creek Unit on June 1, 2006, and was successful in increasing the average daily

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gross production rate. This was due to a number of factors, including its efforts to return wells to operation, improve artificial lift capacity at producing wells, improve compressor run times, increase production from new horizontal drilling, reduce freeze problems in the winter months and increase CO₂ injection.

Ratherford Unit. During the twelve months ended December 31, 2010, Ratherford Unit production averaged approximately 2,152 barrels of oil per day (gross) from 97 gross (57 net) active producing wells. Resolute operates 77 gross (45 net) active injection wells on the Ratherford Unit. Since discovery, the Ratherford Unit has produced a total of approximately 103 MMBbl of oil. The core of the Ratherford Unit has been developed with horizontal wells, while the edges of the unit have been developed with vertical wells. Predecessor Resolute became operator of the Ratherford Unit on June 1, 2006, and was successful in increasing the average daily gross production rate. This increase in production resulted from a number of factors, including its efforts to improve artificial lift capacity at producing wells, increase production from new horizontal drillings, return wells to operation and increase water injection resulting from injection well cleanouts.

Wyoming Properties

Resolute's Wyoming Properties consist of three units in Hilight Field, minor non-unitized Muddy formation production in the Hilight area, non-unitized CBM production in the Hilight area and twelve other small fields in Wyoming. Resolute also owns interests in two small fields in Oklahoma. All but one of the Wyoming Properties are operated by Resolute.

Hilight Field consists of the Jayson Unit, the Grady Unit, the Central Hilight Unit and the South Hilight Unit. Resolute has an 82.7% working interest in the Jayson Unit, an 82.5% working interest in the Grady Unit and a 98.5% working interest in Central Hilight Unit. The Jayson, Grady and Central Hilight Units cover an area of almost 50,000 acres, and are operated by Resolute. Hilight Field was discovered by Inexco Oil Company in 1969, was developed on 160-acre spacing, unitized in 1971-1972 and underwent waterflood between 1972 and the mid-1990s. As of December 31, 2010, there were 145 gross (137 net) active producing wells, and cumulative production through December 31, 2010 from Resolute's three operated units was 68 MMBbl of oil and 150 Bcf of gas. Average daily gross production for the twelve months ending December 31, 2010 was 217 Bbl of oil and 9,651 Mcf of gas per day. Net proved reserves assigned to these properties as of December 31, 2010 were 4.8 MMBoe. Muddy formation sandstones form the main reservoir in the field. Average depth to the Muddy formation is approximately 9,100 ft. Minor production also comes from the Upper Cretaceous Niobrara, Upper Cretaceous Turner and Pennsylvanian Minnelusa reservoirs. Recent activity includes 21 infill wells, including three horizontal laterals drilled by the prior operator in 2006 and 2007, and seven Muddy re-stimulation, or refrac projects performed in 2010. The Company anticipates performing 19 to 21 Muddy refracs between 2011 and 2013. Future activity may include the continuation of the infill and refrac programs, new drilling to extend the field boundaries, and exploration for unconventional oil from the overlying Niobrara Carbonate and Mowry shales. The Company recompleted two Mowry wells in 2010 and anticipates recompleting an additional six Mowry wells in 2011.

Resolute's CBM production in the Hilight area comes from 262 gross (241 net) producing wells, of which 175 gross (162 net) were shut-in as of December 31, 2010. Average daily gross production for the twelve months ending December 31, 2010, was 1,923 Mcf per day. Although it varies from well to well, Resolute has an average of approximately 91% working interest in its Hilight area CBM properties. No net proved reserves were attributable to these wells as of December 31, 2010. The Wyodak-Anderson coals of the Paleocene Fort Union formation are the reservoir for this shallow gas reserve. Average depth of the reservoir is less than 500 feet. Recent activity by the prior operator includes seventeen wells that were drilled to extend the central portion of the field to the east. Since Predecessor Resolute took over operations, the CBM field has undergone downsizing and reconfiguration in an attempt to find the most economic balance between lease operating expenses and production.

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Resolute also has working interests in twelve small fields in Wyoming and two in Oklahoma. Currently, Resolute operates wells in Campbell, Carbon, Natrona and Crook counties, Wyoming, and Dewey and Woodward counties, Oklahoma. During the twelve months ending December 31, 2010, these properties produced an average of approximately 256 barrels of oil per day from 58 gross (40 net) active producing wells. In addition,

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there are 5 gross (3 net) active water injection wells. Net proved reserves assigned to these properties as of December 31, 2010 were 1.7 MBoe.

Williston Basin Properties

As of December 31, 2010, Resolute has acquired interests in approximately 83,452 gross (29,465 net leasehold) acres in Williams and McKenzie Counties, North Dakota, the majority of which is undeveloped. This acreage is located within the Bakken shale trend of the Williston Basin. Although the Middle Bakken formation is the primary objective of the Company's exploration activities, secondary objectives include the Three Forks, Madison and Red River formations. Additionally, Resolute is party to a contract with Marathon Oil Corporation (Marathon) under which it has earned an additional 3,870 net acres as of January 16, 2011. For 2011, Resolute has allocated approximately \$42 million for acreage acquisition, drilling and completion activities in this area, and expects to participate in drilling and completing between fourteen to sixteen horizontal wells during 2011.

Exploration Properties

Big Horn Basin Properties. Predecessor Resolute developed a grassroots exploration concept in early 2005 to target an unconventional oil resource in the Mowry shale of the Big Horn Basin in northwest Wyoming. Since that time, the Mowry shale has become an emerging oil play over a larger area in northern Wyoming and southern Montana. Predecessor Resolute entered into an area of mutual interest agreement effective November 1, 2006, with Fidelity Exploration and Production Company (Fidelity) covering acreage in the southeast part of the basin where 22,644 gross acres were jointly acquired on a 50-50 basis. That agreement has expired, but the acreage remains subject to a joint operating agreement for its remaining term. In addition, both Resolute and Fidelity independently control additional leaseholds in the adjacent areas. The emerging Mowry shale oil resource play is the primary reservoir target; and the Frontier and Phosphoria formations are secondary reservoir targets. A well to test the Mowry is tentatively planned for 2011. Resolute has not yet commenced development of this asset. As of December 31, 2010, Resolute holds 80,353 gross (69,731 net) acres in the play with all of its leased properties having at least five years remaining on the lease term.

Black Warrior Basin Properties. In mid-2005, Predecessor Resolute initiated an exploration program in the Black Warrior Basin of northwest Alabama that targeted unconventional gas resources in the Devonian Chattanooga shale, the Mississippian Floyd shale, and the Pennsylvanian Pottsville coals. Approximately 32,754 net acres are currently leased. Predecessor Resolute drilled a vertical well in April 2007 that penetrated all three objectives and was cased without a completion attempt. It later entered into a participation agreement with Huber Energy LLC (Huber), effective June 26, 2008, under which Huber can earn an interest in the acreage by incurring all costs on specific development activities. Huber re-entered Resolute's vertical well and completed the Chattanooga shale and recovered gas, but at uneconomic rates. The well is currently shut-in. Huber acquired proprietary 2-D seismic data in July 2009 for risk reduction on potential future operational activities targeting the Chattanooga and Floyd shales. Huber has re-entered four CBM wells and drilled one new well to date; but has not yet completed these wells. The Pottsville formation has been producing CBM from adjacent areas since the early 1980s.

Oil Recovery Overview

When an oil field is first produced, the oil typically is recovered as a result of natural pressure within the producing formation. The only natural force present to move the crude oil through the reservoir rock to the wellbore is the pressure differential between the higher pressure in the rock formation and the lower pressure in the wellbore. Various types of pumps are often used to reduce pressure in the wellbore, increasing the pressure differential. At the same time, there are many factors that act to impede the flow of crude oil, depending on the nature of the formation and fluid properties, such as pressure, porosity, permeability, viscosity and water saturation. This stage of production,

referred to as primary recovery, recovers only a small fraction of the crude oil originally in place in a producing formation.

Many, but not all, oil fields are amenable to assistance from a waterflood, a form of secondary recovery, which is used to maintain reservoir pressure and to help sweep oil to the wellbore. In a waterflood, some of the wells are used to inject water into the reservoir while other wells are used to produce the fluid. As the waterflood

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matures, the fluid produced contains increasing amounts of water and decreasing amounts of oil. Surface equipment is used to separate the oil from the water, with the oil going to pipelines or holding tanks for sale and the water being recycled to the injection facilities. Primary recovery followed by secondary recovery usually produces between 15% and 40% of the crude oil originally in place in a producing formation.

A third stage of oil recovery is called tertiary recovery or enhanced oil recovery (EOR). In addition to maintaining reservoir pressure, this type of recovery seeks to alter the properties of the oil in ways that facilitate production. The three major types of tertiary recovery are chemical flooding, thermal recovery (such as a steamflood) and miscible displacement involving CO₂ or hydrocarbon injection.

In a CO₂ flood, CO₂ is liquefied under high pressure and injected into the reservoir. The CO₂ then mixes with the oil in a way that increases the mobilization of bypassed oil while also reducing the oil's viscosity. The lighter components of the oil vaporize into the CO₂ while the CO₂ also condenses into the oil. In this manner, the two fluids become miscible, mixing to form a homogeneous fluid that is mobile and has lower viscosity and lower interfacial tension, thus facilitating the migration of oil and gas to the producer wells.

Miscible CO₂ flooding was first commercially successful with Chevron's 1972 miscible CO₂ flood in the SACROC field in Scurry County, Texas. According to the Oil & Gas Journal's 2010 Worldwide EOR Survey, there were 109 miscible CO₂ projects in the United States that produced an estimated 272,000 barrels of oil per day during 2010. In addition to Resolute's projects in its Aneth Field Properties, CO₂ projects are located in Texas, Oklahoma, New Mexico, Colorado, Wyoming, Michigan, Louisiana and Mississippi. Six companies, Occidental Petroleum, Kinder Morgan, Amerada Hess, Chevron, Anadarko Petroleum and Denbury Resources are responsible for the majority of the estimated daily production from these CO₂ projects.

Planned Operating and Development Activities

Resolute has prepared a development program for its Aneth Field Properties that includes CO₂ flooding, field infrastructure enhancements, recompletions, workovers of producing and injection wells, infill drilling and waterflood enhancement. The application of each of these activities and technologies has been successfully established in various locations within the Aneth Field Properties, and the development plans have been designed to enhance or extend projects that were tested or initiated by the previous operators but were never fully completed due to such factors as lack of fieldwide operatorship and lower commodity prices. Resolute believes that its close working relationship with NNOG and the Navajo Nation will enhance its ability to advance development of its Aneth Field Properties.

CO₂ Floods. A major component of planned activity over the next several years involves extensions and expansions of the CO₂ floods initiated by the major oil companies, first in the McElmo Creek Unit in 1985 and then in the Aneth Unit in 1998. The McElmo Creek Unit CO₂ flood is virtually unit-wide, whereas the Aneth Unit CO₂ flood was limited to a pilot project covering approximately two square miles in the northeast corner of that unit.

Aneth Field Gas Processing. Currently there are two types of gas production in Aneth Field, saleable gas and contaminated gas. The saleable gas stream has low levels of CO₂ while the contaminated gas stream