

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarter ended September 30, 1996

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

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 0-9592

LOMAK PETROLEUM, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

34-1312571  
(I.R.S. Employer  
Identification No.)

500 THROCKMORTON STREET, FT. WORTH, TEXAS  
(Address of principal executive offices)

76102  
(Zip Code)

Registrant's telephone number, including area code: (817) 870-2601

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 X No

14,762,886 Common Shares were outstanding on November 4, 1996.

## PART I. FINANCIAL INFORMATION

The financial statements included herein have been prepared in conformity with generally accepted accounting principles and should be read in conjunction with the December 31, 1995 Form 10-K filing. The statements are unaudited but reflect all adjustments which, in the opinion of management, are necessary to fairly present the Company's financial position and results of operations.

LOMAK PETROLEUM, INC.  
 CONSOLIDATED BALANCE SHEETS  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31, 1995	September 30, 1996
	-----	----- (unaudited)
<b>ASSETS</b>		
Current assets		
Cash and equivalents.....	\$ 3,047	\$ 4,880
Accounts receivable.....	14,109	14,861
Marketable securities.....	829	13,176
Inventory and other.....	1,114	1,696
	-----	-----
	19,099	34,613
	-----	-----
Oil and gas properties, successful efforts method.....	210,073	280,089
Accumulated depletion, depreciation and amortization.....	(33,371)	(48,025)
	-----	-----
	176,702	232,064
	-----	-----
Gas transportation and field service assets.....	23,167	22,597
Accumulated depreciation.....	(4,304)	(5,122)
	-----	-----
	18,863	17,475
	-----	-----
	\$ 214,664	\$ 284,152
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable.....	\$ 9,084	\$ 16,752
Accrued liabilities.....	5,523	8,817
Current portion of debt (Note 4).....	53	-
	-----	-----
	14,660	25,569
	-----	-----
Long-term debt (Note 4).....	83,035	121,905
Deferred taxes (Note 10).....	17,726	23,812
Commitments and contingencies (Note 6).....		
Stockholders' equity (Notes 7 and 8)		
Preferred stock, \$1 par, 4,000,000 shares authorized, 7-1/2% convertible preferred, 200,000 issued.....	200	-
\$2.03 convertible preferred, 1,150,000 issued (liquidation preference \$28,750,000).....	1,150	1,150
Common stock, \$.01 par, 35,000,000 shares authorized, 13,322,738 and 14,705,293 issued.....	133	147
Capital in excess of par value.....	101,773	109,915
Retained earnings (deficit).....	(4,013)	1,654
	-----	-----
	99,243	112,866
	=====	=====
	\$ 214,664	\$ 284,152
	=====	=====

SEE ACCOMPANYING NOTES.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine months Ended September 30,	
	1995	1996	1995	1996
	(unaudited)		(unaudited)	
<b>Revenues</b>				
Oil and gas sales.....	\$ 8,802	\$ 16,623	\$ 24,135	\$ 49,878
Field services.....	2,216	3,638	7,109	10,483
Gas transportation and marketing.....	817	1,660	2,332	4,137
Interest and other.....	301	391	1,052	1,102
	<u>12,136</u>	<u>22,312</u>	<u>34,628</u>	<u>65,600</u>
<b>Expenses</b>				
Direct operating.....	3,496	6,103	9,935	18,268
Field services.....	1,315	2,671	4,192	7,813
Gas transportation and marketing.....	206	493	595	1,206
Exploration.....	197	345	473	836
General and administrative.....	669	960	2,187	2,862
Interest.....	1,423	2,053	3,822	5,563
Depletion, depreciation and amortization.....	3,704	5,508	9,808	16,589
	<u>11,010</u>	<u>18,133</u>	<u>31,012</u>	<u>53,137</u>
Income before taxes.....	1,126	4,179	3,616	12,463
<b>Income taxes</b>				
Current.....	19	120	66	299
Deferred.....	210	1,340	832	4,061
	<u>229</u>	<u>1,460</u>	<u>898</u>	<u>4,360</u>
Net income.....	<u>\$ 897</u>	<u>\$ 2,719</u>	<u>\$ 2,718</u>	<u>\$ 8,103</u>
Earnings per common share.....	<u>\$ .07</u>	<u>\$ .14</u>	<u>\$ .21</u>	<u>\$ .43</u>
Weighted average shares outstanding.....	<u>12,130</u>	<u>15,158</u>	<u>11,588</u>	<u>14,615</u>

SEE ACCOMPANYING NOTES.

LOMAK PETROLEUM, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	Nine months Ended September 30,	
	1995	1996
	(unaudited)	
Cash flows from operations:		
Net income .....	\$ 2,718	\$ 8,103
Adjustments to reconcile net income to net cash provided by operations:		
Depletion, depreciation and amortization .....	9,808	16,589
Deferred income taxes .....	832	4,061
Changes in working capital net of effects of purchases of businesses:		
Accounts receivable .....	(768)	(264)
Marketable Securities .....	(295)	(12,342)
Inventory and other .....	121	(659)
Accounts payable .....	(1,223)	7,703
Accrued liabilities and payroll and benefit costs .....	(698)	1,868
Gain on sale of assets and other .....	(740)	(724)
Net cash provided by operations .....	9,755	24,335
Cash flows from investing:		
Acquisition of businesses, net of cash .....	--	(13,950)
Oil and gas properties .....	(56,913)	(55,491)
Additions to gas transportation and field service assets .....	(7,733)	(723)
Proceeds on sale of assets .....	1,770	3,399
Net cash used in investing .....	(62,876)	(66,765)
Cash flows from financing:		
Proceeds from indebtedness, net of repayments .....	50,671	38,817
Stock dividends .....	(281)	(2,435)
Proceeds from common stock issuance, net of repurchases .....	235	7,881
Net cash provided by financing .....	50,625	44,263
Change in cash .....	(2,496)	1,833
Cash and equivalents at beginning of period .....	4,897	3,047
Cash and equivalents at end of period .....	\$ 2,401	\$ 4,880

SEE ACCOMPANYING NOTES.

LOMAK PETROLEUM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION:

Lomak Petroleum, Inc. ("Lomak" or the "Company") is an independent oil and gas company engaged in the acquisition, production, development and exploration of oil and gas in the United States. Lomak's core areas of operation are located in the Mid-Continent and Appalachia regions. Since January 1, 1990, the Company has made 68 acquisitions at a total cost of \$256 million and \$34 million has been expended on development and exploration activities. As a result, proved reserves and production have each grown during this period at a rate in excess of 80% per annum. At December 31, 1995, proved reserves totaled 298 Bcfe, having a pre-tax present value at constant prices of \$229 million and a reserve life of nearly 12 years.

Lomak's acquisition effort is focused on properties with prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, marketing and administration should be realized. In 1992, Lomak began to exploit its growing inventory of development projects. In 1994, the Company initiated exploration activities. In the future, Lomak expects its growth to be driven by a combination of acquisitions, development and exploration.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas properties. Temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

OIL AND GAS PROPERTIES

The Company follows the successful efforts method of accounting. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geographical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Oil is converted to Mcfe at the rate of six Mcf per barrel. The depletion rate per Mcfe produced was \$.73 in both the third quarters of 1995 and 1996. Approximately \$12.2 million (\$11.5 million proved undeveloped properties and \$.8 million - unproved acreage) and \$21.7 million (\$20.6 million proved undeveloped properties and \$1.1 million - unproved acreage) of oil and gas properties were not subject to depletion as of December 31, 1995 and September 30, 1996, respectively. These costs are assessed periodically to determine whether their value has been impaired. If they have, the amount of any impairment is expensed.

GAS TRANSPORTATION AND FIELD SERVICE ASSETS

The Company owns and operates over 1,900 miles of gas gathering systems in proximity to its principal gas properties. Depreciation of these systems is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to five years, except buildings which are being depreciated over ten to twenty-five years.

## NATURE OF BUSINESS

The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, and the highly competitive nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon the Company's ability to obtain the necessary capital through cash flow, borrowings or equity funds.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The following table sets for the book value and estimated fair values of the Company's financial instruments:

	December 31, 1995		September 30, 1996	
	(In thousands)			
	Book Value	Fair Value	Book Value	Fair Value
Cash and equivalents.....	\$ 3,047	\$ 3,047	\$ 4,880	\$ 4,880
Marketable securities.....	829	1,020	13,176	13,392
Senior debt .....	(83,035)	(83,035)	(121,905)	(121,905)
Commodity swaps .....	--	93	--	(129)
Interest rate swaps .....	--	375	--	88

The Company's financial instruments include cash and equivalents, accounts receivable, accounts payable and debt obligations. The book value of cash and equivalents, accounts receivable and payable and short term debt are considered to be representative of fair value because of the short maturity of these instruments. The Company believes that the carrying value of its borrowings under its bank credit facility approximates their fair value as they bear interest at rates indexed at Libor. The Company's accounts receivable are concentrated in the oil and gas industry. The Company does not view such a concentration as an unusual credit risk.

A portion of the Company's prices received in crude oil and natural gas sales are periodically hedged against market risks through the use of futures, option or swap contracts. The gains and losses on these instruments are included in the valuation of the production being hedged in the contract month and are included as an adjustment to oil and gas revenue. The Company also manages interest rate risk on its credit facility through the use of interest rate swap agreements. Gains and losses on swap agreements are included as an adjustment to interest expenses.

## MARKETABLE SECURITIES

In 1996, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Under Statement No. 115, debt and marketable equity securities are required to be classified in one of three categories: trading, available-for-sale, or held to maturity. The Company's equity securities qualify under the provisions of Statement No. 115 as available-for-sale. Such securities are recorded at fair value, and unrealized holding gains and losses, net of the related tax effect, are not reflected in earnings or as a separate component of stockholders' equity because the amounts are immaterial. A decline in the market value of an available-for-sale security below cost that is deemed other than temporary is charged to earnings and results in the establishment of a new cost basis for the security. Realized gains and losses are determined on the specific identification method and are reflected in income.

## NET INCOME PER SHARE

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

## RECLASSIFICATIONS

Certain reclassifications have been made to prior period presentations to conform with current period classifications.

## (3) ACQUISITIONS:

Since 1990, the Company has acquired over \$256 million of oil and gas properties. During 1995, the Company completed \$71.1 million of acquisitions. In the first nine months of 1996, acquisitions totaling \$56.8 million were completed. The purchases were funded by working capital, advances under a revolving credit facility and the issuance of common and preferred stock. These acquisitions are discussed below.

## 1996 ACQUISITIONS

## Mid-Continent

Bannon Interests. In April 1996, the Company acquired interests in approximately 270 producing wells and 108 proven recompletion and development drilling opportunities for \$37.0 million. Also included were 17,300 net undeveloped acres located in east and south Texas.

The Company purchased incremental interests in approximately 40 properties located in the Laura La Velle Field of east Texas for \$.8 million.

## Appalachia

Eastern Petroleum Company. In January 1996, the Company acquired proved oil and gas reserves and 40 miles of gas gathering lines in Ohio for \$13.7 million. In the second quarter of 1996, the Company initiated a program extending purchase offers to other interest owners in these properties. Through September 30, 1996, interests in 61 wells had been purchased for approximately \$100,000.

The Company purchased incremental interests in approximately 440 operated properties in Pennsylvania and Ohio for \$5.2 million.



## 1995 ACQUISITIONS

## Mid-Continent

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Red Eagle Resources Corporation. In late 1994, the Company acquired effective control of Red Eagle through the purchase of two stockholders' holdings. In early 1995, the remaining stockholders of Red Eagle voted to approve the merger of Red Eagle with a wholly owned subsidiary of the Company in exchange for approximately 2.2 million shares of the Company's common stock. The additional equity of Red Eagle acquired in February 1995 was reflected as minority interest on the Company's balance sheet at December 31, 1994. Acquisition costs of approximately \$46.5 million were capitalized in regards to this acquisition. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Field of Oklahoma's Anadarko Basin. Subsequently, the Company acquired additional interests in 70 Red Eagle wells for \$1.7 million.

The Company purchased interests in 52 wells in the Caddo and Canadian Counties of Oklahoma for \$4.8 million. The Company assumed operation of half of these wells.

Additional interests in properties acquired from Red Eagle in 1994 were purchased for \$3.2 million.

The Company purchased interests in 140 wells located primarily in the Big Lake Area of west Texas and the Laura La Velle Field of east Texas for \$2.8 million.

## Appalachia

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Transfuel Interests. In September 1995, the Company acquired proved oil and gas reserves, 1,100 miles of gas gathering lines and 175,000 undeveloped acres of Ohio, Pennsylvania and New York from Transfuel, Inc. for \$21 million.

Parker & Parsley Interests. In August, the Company purchased proved oil and gas reserves, 300 miles of gas gathering lines and 16,400 undeveloped acres in Pennsylvania and West Virginia from Parker & Parsley Petroleum Company for \$20.2 million.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table presents unaudited, pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase of certain oil and gas properties from a subsidiary of Parker & Parsley Petroleum, Co., (ii) the purchase of certain oil and gas properties from Transfuel, Inc., (iii) the purchase of certain oil and gas properties from Bannon Energy Inc. and (iv) the private placement of preferred and common stock of the Company and the application of the net proceeds, therefrom.

	Nine months Ended September 30,	
	1995	1996
	-----	
	(in thousands except per share data)	
Revenues.....	\$ 50,366	\$ 67,303
Net income.....	3,819	8,055
Earnings per share.....	.29	.42

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual results had the acquisitions been made at the beginning of each period presented or to necessarily be indicative of future operations.

## (4) INDEBTEDNESS:

The Company had the following debt outstanding as of the dates shown. Interest rates at September 30, 1996 are shown parenthetically (in thousands):

	December 31, 1995	September 30, 1996 (unaudited)
	-----	-----
Bank credit facility (6.7%).....	\$ 83,035 53	\$ 121,905 -
	-----	-----
Less amounts due within one year.....	83,088 53	121,905 -
	-----	-----
Long-term debt, net.....	\$ 83,035	\$ 121,905
	=====	=====

The Company maintains a \$250 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At November 4, 1996, the borrowing base on the credit facility was \$150 million, of which \$112 million was outstanding. The facility bears interest at the prime rate or LIBOR plus 0.75% to 1.25% depending upon the percentage of the borrowing base drawn. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning February 1, 1999. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually. The weighted average interest rate on these borrowings were 7.5% and 6.7% for the nine months ended September 30, 1995 and 1996, respectively. The weighted average interest rate gives effect to two \$20 million interest rate swap arrangements which have the effect of fixing the interest rate on \$40 million of the credit facility at a rate of 6.4%. The interest rate swaps will remain in effect through July 1997 and October 1997, respectively, but may be extended at the counterparties' option for two years.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. Interest paid in cash during the nine months ended September 30, 1995 and 1996 totaled \$3.5 million and \$4.1 million, respectively.

## (5) FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES:

The Company uses derivative financial instruments to manage well-defined commodity price and interest rate risks and does not use them for speculative purposes.

Periodically, the Company enters into futures, option and swap contracts to reduce the effects of fluctuations in crude oil and natural gas prices. At September 30, 1996, the Company had open contracts for oil and gas price swaps of 280,000 barrels and 586,000 Mcfs. These swap contracts are designed to set average prices of \$23.09 per barrel and \$1.98 per Mcf. While these transactions have no carrying value, their fair value, represented by the estimated amount that would be required to terminate the contracts, was a net cost of approximately \$129,000 at September 30, 1996. These contracts expire monthly through March 1997. In October 1996, the Company entered into swap contracts for an additional 250,000 barrels of oil at an average price per barrel of \$22.86. These contracts expire monthly through April 1997. The gains or losses on the Company's hedging transactions is determined as the difference between the contract price and a reference price, generally closing prices on the New York Mercantile Exchange. The resulting transaction gains and losses are determined monthly and are included in net income for the contract month as an adjustment to oil and gas revenue. Net gains relating to these derivatives for the nine months ended September 30, 1996 approximated \$29,700.

Interest rate swap agreements, which are used by the Company in the management of interest exposure, is accounted for on an accrual basis. Income and expense resulting from these agreements are recorded in the same category as expense arising from the related liability. Amounts to be paid or received under interest rate swap agreements are recognized as an adjustment to expense in the periods in which they accrue. At September 30, 1996, the Company had \$40 million of borrowings subject to two interest rate swap agreements at rates of 5.25% and 5.49% through July 1997 and October 1997, respectively, but may be extended at the counterparties' option for two years. The agreements require that the Company pay the counterparty interest at the above fixed swap rates and requires the counterparty to pay the Company interest at the 30-day LIBOR rate. The closing 30-day LIBOR rate on September 30, 1996 was 5.44%. The fair value of the interest rate swap agreements at September 30, 1996, based upon current quotes for equivalent agreements, amounted to \$87,700, which represents the Company's income if the agreements were terminated on this date. In October 1996, the Company entered into a swap arrangement on an additional \$20 million of the credit facility at a rate of 5.7%, which will remain in effect through October 1998, but may be extended at the counterparties' option for two years.

These financial instruments are executed with major financial or commodities institutions which expose the Company to acceptable levels of market and credit risks and may at times be concentrated with certain counterparties or groups of counterparties. The credit worthiness of counterparties is subject to continuing review and full performance is anticipated.

(6) COMMITMENTS AND CONTINGENCIES:

The Company is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims are likely to be resolved without material adverse effect on the Company's financial position.

(7) EQUITY SECURITIES

In 1993, \$5 million of 7-1/2% cumulative convertible exchangeable preferred stock (the "7-1/2% Preferred Stock") was privately placed. In April and May 1996, the Company exercised its option and converted the 7-1/2% Preferred Stock into 576,945 shares of Common Stock.

In November 1995, the Company sold 1,150,000 shares of \$2.03 convertible exchangeable preferred stock (the "\$2.03 Preferred Stock") for \$28.8 million. The \$2.03 Preferred Stock is convertible into the Company's common stock at a conversion price of \$9.50 per share, subject to adjustment in certain events. The \$2.03 Preferred Stock is redeemable, at the option of the Company, at any time on or after November 1, 1998, at redemption prices beginning at 105%. At the option of the Company, the \$2.03 Preferred Stock is exchangeable for the Company's 8-1/8% convertible subordinated notes due 2005. The notes would be subject to the same redemption and conversion terms as the \$2.03 Preferred Stock

In December 1995, the Company privately placed 1.2 million shares of its Common Stock for \$10.2 million to a state employees retirement plan. In April 1996, the Company privately placed 600,000 shares of its Common Stock to a limited number of institutional investors for approximately \$6.9 million. Warrants to acquire 40,000 shares of common stock at a price of \$7.50 per share were exercised in October 1996. Additionally, warrants to acquire 20,000 shares of common stock at a price of \$12.88 per share were outstanding at September 30, 1996 and will expire in December 1997.

## (8) STOCK OPTION AND PURCHASE PLAN

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 2.0 million shares of Common Stock. However, no new options may be granted which would result in their being outstanding aggregate options exceeding 10% of common shares outstanding plus those shares issuable under convertible securities. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. During the nine months ended September 30, 1996, options covering 109,750 shares were exercised at prices ranging from \$3.38 to \$8.25 per share. At September 30, 1996, options covering a total of 1.2 million shares were outstanding under the plan, of which 504,000 options were exercisable. The exercise prices of the outstanding options range from \$3.38 to \$10.50.

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). Only Directors who are not employees of the Company are eligible under the Directors Plan. The Directors Plan covers a maximum of 200,000 shares. At September 30, 1996, 76,000 options were outstanding under the Directors Plan of which 16,800 were exercisable as of that date. The exercise price of the options ranges from \$7.75 to \$13.88 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of common stock to officers, directors, key employees and consultants. Under the Plan, the right to purchase shares at prices ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plans are administered by the Compensation Committee of the Board. During the nine months ended September 30, 1996, the Company sold 100,000 unregistered common shares to officers and outside directors. From inception of the 1989 Plan through September 30, 1996, a total of 488,000 unregistered shares had been sold, for a total consideration of approximately \$2.8 million at prices equal to 75% of market value at the time of the sale.

## (9) BENEFIT PLAN

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan. Company contributions for 1995 totaled \$346,000.

## (10) INCOME TAXES:

In 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes". As permitted by Statement 109, the Company elected not to restate prior year financial statements. As a result of tax basis in excess of the basis on the financial statements at January 1, 1993, the Company estimated deferred tax assets of \$2.6 million and deferred tax liabilities of \$900,000, for net deferred tax assets of \$1.7 million. Due to uncertainty as to the Company's ability to realize the tax benefit, a valuation allowance was established for the full amount of the net deferred tax assets. In 1993 and 1994, income taxes were reduced from the statutory rate of 34% by approximately \$5 million and \$.3 million, respectively, through realization of the valuation allowance that was established.

During 1993, the Company acquired Mark Resources Corporation, in a taxable combination accounted for as a purchase. Deferred tax assets of \$3.9 million and a deferred tax liability of \$8.1 million were recorded in the transaction. During 1994, the Company acquired Gilling Oil Company and Grand Banks Energy Company, taxable combinations accounted for as purchases. Deferred tax assets of \$3.5 million and deferred tax liabilities of \$3.4 million were recorded in these transactions. In late 1994, the Company acquired Red Eagle Resources Corporation, a taxable combination accounted for as a purchase. Deferred tax liabilities of \$12.3 million and deferred tax assets of \$.3 million were recorded in this transaction. In 1996, the Company acquired Eastern Petroleum Company in a taxable combination accounted for as a purchase. A net deferred tax liability of \$2.1 million was recorded in the transaction.

For the nine months ended September 30, 1995 and 1996, the Company made a provision for federal income taxes of \$898,000 and \$4.4 million, respectively. At September 30, 1996, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$16.9 million which are subject to annual limitations as to their utilization and expire between 1996 and 2010. The Company has alternative minimum tax net operating loss carryovers of \$11.6 million which are subject to annual limitations as to their utilization and expire from 1996 to 2009. The Company has statutory depletion carryover of approximately \$8.2 million and an alternative minimum tax credit carryover of \$500,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

(11) MAJOR CUSTOMERS:

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year, but which are cancelable at either party's discretion in 30-120 days. Approximately 60% of the Company's gas production is currently sold under market sensitive contracts which do not contain floor price provisions. For the nine months ended September 30, 1996, no one customer accounted for 10% or more of the Company's total oil and gas revenues. Management believes that the loss of any one customer would not have a material adverse effect on the operations of the Company. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. Oil is sold on a basis of price and service.

The Company has currently hedged 88% of its oil production through April 1997. These hedges involve fixed price arrangements and other price arrangements at a variety of prices, floors and caps. Although these hedging activities provide the Company some protection against falling prices, these activities also reduce the potential benefits to the Company of price increases above the levels of the hedges.

## (12) OIL AND GAS ACTIVITIES:

The following summarizes selected information with respect to oil and gas activities (in thousands):

	December 31, 1995	September 30, 1996
	-----	-----
		(unaudited)
Capitalized costs:		
Proved properties .....	\$ 209,310	\$ 279,001
Unproved properties .....	763	1,088
	-----	-----
Total .....	210,073	280,089
Accumulated depletion, depreciation and amortization .....	(33,371)	(48,025)
	-----	-----
Net capitalized costs .....	\$ 176,702	\$ 232,064
	=====	=====
	Year Ended December 31, 1995	Nine months Ended September 30, 1996
	-----	-----
		(unaudited)
Costs incurred:		
Property acquisition .....	\$ 69,244	\$ 63,538
Development .....	9,968	8,621
Exploration .....	216	638
	-----	-----
Total costs incurred .....	\$ 79,428	\$ 72,797
	=====	=====

## (13) RELATED PARTY TRANSACTIONS:

Mr. Edelman, Chairman of the Company, is also an executive officer and shareholder of Snyder Oil Corporation ("SOCO"). At September 30, 1996, Mr. Edelman owned 5.7% of the Company's common stock. In 1995, the Company acquired SOCO's interest in certain wells located in Appalachia for \$4 million. The price was determined based on arms-length negotiations through a third-party broker retained by SOCO. Subsequent to the transaction, the Company and SOCO no longer hold interests in any of the same properties.

During 1995, the Company incurred fees of \$145,000 to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were consistent with those paid by the Company to third parties for similar services.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with management's discussion and analysis contained in the Company's 1995 annual report on Form 10-K as well as with the consolidated financial statements and notes thereto included in this quarterly report on Form 10-Q.

OIL AND GAS PRODUCTION, PRODUCT PRICES AND COSTS

	Quarter Ended September 30,			Nine Months Ended September 30,		
	1995	1996	Increase (Decrease)	1995	1996	Increase (Decrease)
Total production						
Oil (MBbl).....	236	262	11%	649	801	23%
Gas (MMcf).....	3,059	5,341	75%	7,825	15,968	104%
Equivalents (MMcfe).....	4,477	6,914	54%	11,722	20,776	77%
Average daily production						
Oil (Bbl).....	2,569	2,850	11%	2,379	2,925	23%
Gas (Mcf).....	33,246	58,023	75%	28,663	58,266	104%
Equivalents (Mcfe).....	48,660	75,126	54%	42,936	75,813	77%
Average sales price						
Oil (Bbl).....	\$16.20	\$20.08	24%	\$16.58	\$18.60	12%
Gas (Mcf).....	1.63	2.13	31%	1.71	2.19	28%
Equivalents (Mcfe).....	1.97	2.40	13%	2.06	2.40	17%
Direct operating cost per Mcfe.....	\$0.78	\$0.88	22%	\$0.85	\$0.88	4%

Bbl - Barrel  
Mcf - Thousand cubic feet  
Mcfe - Thousand cubic feet equivalent (one Bbl equals six Mcf)

Total oil and gas production is increased from comparable 1995 periods due to acquisitions and the successful results of the 1995 and 1996 development programs, partially offset by well dispositions and the natural decline of well production.

Direct operating costs per Mcfe increased in the third quarter of 1996 compared to 1995 primarily due to the assimilation of acquisitions, the reworking of wells and repairs to gathering systems.

RESULTS OF OPERATIONS

QUARTER ENDED SEPTEMBER 30, 1996 COMPARED WITH QUARTER ENDED SEPTEMBER 30, 1995

The Company reported net income for the three months ended September 30, 1996 of \$2.7 million a 203% increase over third quarter 1995. The increase is principally the result of higher production volumes and higher product prices.

Oil and gas revenues increased in the third quarter of 1996 principally due to higher production levels which increased 54% to 6.9 Bcfe, an average of 75.1 MMcfe per day. Oil and gas revenues also benefited from a 22% price increase per Mcfe from \$1.97 to \$2.40. The average oil price increased from \$16.20 to \$20.08 per barrel and average gas prices increased 31% from \$1.63 to \$2.13 per Mcf. Producing properties added through acquisitions caused operating expenses to increase 75% to \$6.1 million and operating cost per Mcfe produced to increase from \$.78 in 1995 to \$.88 in 1996.

Gas transportation and marketing revenues rose 103% to \$1.7 million versus \$.8 million in the third quarter of 1995. The higher revenues were due primarily to expanded marketing activities and increased gas transportation on pipelines added through recent acquisitions. The increase in gas transportation and marketing expenses of 140% reflects higher administration costs associated with the growth in gas marketing.

Field services revenues increased 64% in the third quarter of 1996 to \$3.6 million versus \$2.2 million in the third quarter 1995. The higher revenues were due primarily to a larger base of operated properties. Field services expenses increased 103% in the third quarter of 1996 versus 1995, due to lower operating margins on well services operations in Oklahoma. Exploration expense rose 75% due to the Company's increased involvement in acreage acquisition, seismic and exploratory drilling.

General and administrative expenses increased 43% from \$.7 million in 1995 to \$1.0 million in 1996. On a per Mcfe of production basis, general and administrative expenses remained the same between quarters at \$.15. Interest and other income increased 30% principally due to gains realized on the sale of marketable securities and a higher level of property sales. Interest expense increased 44% to \$2.1 million as a result of the higher average outstanding debt balance during the period due to the financing of acquisitions.

Depletion, depreciation and amortization expense rose 49% as a result of increased production volumes.

#### NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1995

The Company reported net income for the nine months ended September 30, 1996 of \$8.1 million a 198% increase over the same period in 1995. The increase is the result of higher production levels and product prices.

During the first nine months, oil and gas production volumes increased 77% to 20.8 Bcfe, an average of 75.8 MMcfe per day. Production revenues also benefited from a 17% increase in the average price received per Mcfe of production from \$2.06 to \$2.40. The average oil price increased from \$16.58 to \$18.60 per barrel and average gas prices increased 28% from \$1.71 to \$2.19 per Mcf. As a result of a larger base of producing properties, operating expenses increased 84% to \$18.3 million. However, the operating cost per Mcfe produced increased only slightly from \$.85 in 1995 to \$.88 in 1996.

Gas transportation and marketing revenues rose 77% to \$4.1 million versus \$2.3 million in the first nine months of 1995. The higher revenues were due primarily to expanded marketing activities and increased gas transportation revenues attributable to its larger pipeline network. The increase in gas transportation and marketing expenses of 103% reflects higher administration costs associated with the growth in gas marketing.

Field services revenues increased 47% in the nine months of 1996 to \$10.5 million versus \$7.1 million for the same period of 1995. The higher revenues were due primarily to a larger base of operated properties. Field services expenses increased 86% in the nine month period of 1996 versus 1995, due to lower overall margins on the increasing revenue base. Exploration expense rose 77% due to the Company's increased involvement in acreage acquisition, seismic and exploratory drilling.



General and administrative expenses increased 31% from \$2.2 million in 1995 to \$2.9 million for the nine months in 1996. On a per Mcfe of production basis, general and administrative expenses decreased from \$.19 in the 1995 period to \$.14 for the same period in 1996. Interest and other income increased slightly primarily due to a higher level of property sales. Interest expense increased 46% to \$5.6 million as a result of the higher average outstanding debt balance during the period due to the financing of acquisitions.

Depletion, depreciation and amortization expense rose 69% as a result of increased production volumes.

#### COMPARATIVE EXPENSES PER EQUIVALENT UNIT OF PRODUCTION

The following are expenses on a net equivalent barrel (Mcfe) basis:

	Quarter Ended September 30,			Nine Months Ended September 30,		
	1995	1996	Increase (Decrease)	1995	1996	Increase (Decrease)
Direct operating cost.....	\$ .78	\$ .88	13 %	\$ .85	\$ .88	4 %
Depletion (a).....	.73	.73	-	.73	.73	-
Depreciation, depletion and amortization.....	.76	.83	9 %	.84	.80	(5)%
General and administrative.....	.15	.15	-	.19	.14	(26)%
Interest.....	.32	.30	(6)%	.33	.27	(18)%

(a) Includes only depletion specifically related to oil and gas reserves produced.

Direct operating costs per Mcfe increased in the third quarter of 1996 compared to 1995 primarily due to the assimilation of acquisitions, the reworking of wells and repairs to gathering systems.

Depreciation, depletion and amortization increased in the third quarter of 1996 compared to 1995 due to the shorter depreciable lives of field service assets added through recent acquisitions.

General and administrative expense decreased on a per Mcfe basis in 1996 relative to the comparable period in 1995 due to the costs being spread over increased production volumes from a growing oil and gas property base.

Interest expense decreased on a per Mcfe basis in 1996 relative to the comparable period in 1995 due to the costs being spread over increased production volumes from a growing oil and gas property base.

#### ACQUISITION, DEVELOPMENT AND EXPLORATION

During the nine months ended September 30, 1996, the Company incurred approximately \$73.6 million in capital expenditures, including \$63.5 million for acquisitions, \$8.6 million for development, \$.6 million for exploration and \$.9 million for corporate purposes.

The Company expended \$63.5 million relating to acquisitions during the nine months ended September 30, 1996. Of this amount, \$54.5 million was for producing properties and \$9 million was for proved undeveloped reserves and undeveloped acreage in or around the Company's operating hubs. Of the \$54.5 million expended for producing properties, \$28 million related to the acquisition of the Bannon Interests and \$15.4 million related to producing properties obtained through the Eastern Petroleum acquisition.

Of the total development expenditures, \$4.7 million was concentrated in the Appalachia region, including 2 recompletions and 38 newly drilled wells. At September 30, 1996, 14 of these wells were turned into production with an additional 15 waiting to be connected into a pipeline and 6 more wells which were drilled and were waiting on completion. Approximately \$3.9 million of development expenditures were concentrated in the Midcontinent region, including 26 recompletions and 11 newly drilled wells.

#### FACTORS AFFECTING FINANCIAL CONDITION AND LIQUIDITY

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At September 30, 1996, the Company reached \$284 million in total assets and stockholders' equity of \$113 million. The growth was primarily a result of recent acquisition and development activities. Net income for the third quarter of 1996 increased 203% to \$2.7 million versus \$0.9 million in the prior year. The increases were primarily due to higher production levels from acquisition and development activities and higher product prices. Working capital at September 30, 1996 was \$9.0 million. During the quarter, long-term debt rose from \$119 million to \$122 million.

At September 30, 1996, capitalization totaled \$235 million, of which 48% was represented by stockholders' equity and 52% by long-term debt. All of the long-term debt is comprised of borrowings under a \$250 million revolving bank credit facility. The facility currently provides for quarterly payments of interest with principal payments beginning February 1999.

For the three months ended September 30, 1996 operating cash flow totaled \$9.9 million, a 98% increase over the prior year period. Cash flow, bank borrowings and \$7.9 million of proceeds from the issuance of common stock have funded \$73.6 million of acquisitions and development expenditures. The Company expects to continue to fund its activities from internally generated funds, borrowings under its credit facility and the issuance of debt and equity securities. During the next twelve months, non-discretionary cash requirements include \$2.3 million of preferred dividends and interest on the Company's credit facility. Additionally, the Company expects to continue its acquisition and development activities in 1996. Although these expenditures are principally discretionary, the Company estimates that it will spend approximately \$12-15 million on exploration and development activities in 1996, of which \$8.7 million was incurred in the first nine months. Cash flow is expected to be more than sufficient to fund exploration and development expenditures with the remainder available to fund acquisitions. In 1994, the Company instituted an annual program to repurchase its common stock from stockholders who own less than 100 shares. From inception of the program, through September 30, 1996 approximately 46,900 shares had been repurchased for \$446,100.

The Company believes that its capital resources are adequate to meet the requirements of its business. However, future cash flows are subject to a number of variables including the level of production and oil and natural gas prices, and there can be no assurance that operations and other capital resources will provide cash in sufficient amounts to maintain planned levels of capital expenditures or that increased capital expenditures will not be undertaken.

## INFLATION AND CHANGES IN PRICES

While certain of its costs are affected by the general level of inflation, factors unique to the oil and natural gas industry result in independent price fluctuations. Over the past five years, significant fluctuations have occurred in oil and gas prices. Although it is difficult to estimate future prices of oil and natural gas, price fluctuations have had, and will continue to have, a material effect on the Company.

The following table indicates the average oil and natural gas prices received over the last five years and highlights the price fluctuations by quarter for 1995 and 1996. Average prices per Mcfe indicate the composite impact of changes in oil and natural gas prices. Oil production is converted to thousand cubic feet equivalents at the rate of 6 Mcf per barrel.

	Average Prices		
	Crude Oil and Liquids	Natural Gas	Equivalents
	(Per Bbl)	(Per Mcf)	(Per Mcfe)
Annual			
1991	\$ 18.91	\$ 2.21	\$ 2.56
1992	18.40	2.25	2.58
1993	16.07	2.32	2.47
1994	15.23	2.10	2.26
1995	16.57	1.79	2.08
1996 (9 months)	18.60	2.19	2.40
Quarterly			
1995			
First	\$ 16.36	\$ 1.78	\$ 2.09
Second	17.19	1.75	2.14
Third	16.20	1.63	1.97
Fourth	16.16	1.95	2.21
1996			
First	\$ 17.43	\$ 2.32	\$ 2.46
Second	18.45	2.13	2.35
Third	20.08	2.13	2.40

All oil and gas properties are subject to production declines over time. Through acquisitions, the Company has increased its reserves in each of the last five years. It is anticipated that the Company will continue to build reserves primarily through acquisitions and development over the next several years. The profitability of production and, to a lesser extent, other areas of the Company's business are influenced by energy prices.

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

The Company is involved in various other legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims are likely to be resolved without material adverse effect on the Company's financial position, although an unfavorable outcome in any reporting period could have a material impact on the Company's results of operations for that period.

Items 2 - 5. Not applicable

## Item 6. Exhibits and Report on Form 8-K

## (a) Exhibits

- 11.1 Statement re: computation of per share earnings for the three months ended September 30, 1995 and 1996, filed herewith.
- 11.2 Statement re: computation of per share earnings for the nine months ended September 30, 1995 and 1996, filed herewith.
- 27 Financial data schedule

## (b) Reports on Form 8-K

No reports on Form 8-K were filed with the Securities and Exchange Commission during the period.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned.

LOMAK PETROLEUM, INC.

By: /s/ Thomas W. Stoelk

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Thomas W. Stoelk  
Vice President - Finance  
Chief Financial Officer

November 7, 1996

## EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
11.1	Statement re: computation of per share earnings for the three months ended September 30, 1995 and 1996, filed herewith.	23
11.2	Statement re: computation of per share earnings for the nine months ended September 30, 1995 and 1996, filed herewith.	24
27	Financial data schedule	25

## EXHIBIT 11.1

## LOMAK PETROLEUM, INC.

Computation of Earnings Per Common  
and Common Equivalent Shares  
(In thousands, except per share data)

	Three Months Ended September 30,	
	1995	1996
Average shares outstanding	11,939	14,674
Net effect of conversion of warrants and stock options	191	484
Total primary and fully diluted shares	12,130	15,158
Net income	\$ 897	\$ 2,719
Less preferred stock dividends	(94)	(584)
Net income applicable to common shares	\$ 803	\$ 2,135
Earnings per common share	\$ .07	\$ .14

## EXHIBIT 11.2

## LOMAK PETROLEUM, INC.

Computation of Earnings Per Common  
and Common Equivalent Shares  
(In thousands, except per share data)

	Nine months Ended September 30,	
	1995	1996
Average shares outstanding	11,434	14,190
Net effect of conversion of warrants and stock options	154	425
Total primary and fully diluted shares	11,588	14,615
Net income	\$ 2,718	\$ 8,102
Less preferred stock dividends	(281)	(1,870)
Net income applicable to common shares	\$ 2,437	\$ 6,232
Earnings per common share	\$ .21	\$ .43



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	JAN-01-1996	
	SEP-30-1996	
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	14,861	
	0	
	1,696	
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	(53,147)	
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25,569		0
		147
0		
	1,150	
	111,569	
284,152		
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	65,600	
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	0.43	