

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

FORM 10-Q

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

For the quarterly period ended March 31, 2018

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

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

ROSEHILL RESOURCES INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

47-5500436

(IRS Employer Identification No.)

16200 Park Row, Suite 300

Houston, Texas 77084

(Address of principal executive offices)

(281) 675-3400

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

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

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

As of May 10, 2018, 6,428,008 shares of Class A common stock, par value \$0.0001 per share, and 29,807,692 shares of Class B common stock, par value \$0.0001 per share, were issued and outstanding.

ROSEHILL RESOURCES INC.
FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(In thousands, except share and per share amounts)

	March 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,551	\$ 20,677
Restricted cash	—	4,005
Accounts receivable	3,276	1,527
Accounts receivable, related parties	30,992	16,022
Prepaid and other current assets	1,207	1,312
Total current assets	42,026	43,543
Property and equipment:		
Oil and natural gas properties (successful efforts), net	509,670	431,332
Other property and equipment, net	1,804	1,283
Total property and equipment, net	511,474	432,615
Other assets, net	1,692	824
Deferred tax assets	2,190	—
Total assets	\$ 557,382	\$ 476,982
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 34,632	\$ 31,868
Accounts payable, related parties	12	223
Derivative liabilities	22,032	10,772
Accrued liabilities and other	21,632	15,492
Accrued capital expenditures	26,791	45,045
Total current liabilities	105,099	103,400
Long-term liabilities:		
Long-term debt, net	173,066	93,199
Asset retirement obligations, net of current portion	9,957	8,522
Deferred tax liabilities	153	153
Derivative liabilities	14,890	8,008
Other	171	168
Total long-term liabilities	198,237	110,050
Total liabilities	303,336	213,450
Commitments and contingencies (Note 16)		
Mezzanine equity		
Series B Preferred Stock, \$0.0001 par value, 10.0% Redeemable, \$1,000 per share liquidation preference; of the 1,000,000 shares of Preferred Stock authorized, 210,000 shares designated, 152,112 and 150,626 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	144,373	140,868
Stockholders' equity		
Series A Preferred Stock, \$0.0001 par value, 8.0% Cumulative Perpetual Convertible, \$1,000 per share liquidation preference; of the 1,000,000 shares of Preferred Stock authorized, 150,000 shares designated, 98,662 and 97,698 shares issued and outstanding as of March 31, 2018 and December 31, 2017, respectively	81,624	80,660
Class A Common Stock; \$0.0001 par value, 95,000,000 shares authorized, 6,222,299 issued and outstanding as of March 31, 2018 and December 31, 2017	1	1
Class B Common Stock; \$0.0001 par value, 30,000,000 shares authorized, 29,807,692 issued and outstanding as of March 31, 2018 and December 31, 2017	3	3
Additional paid-in capital	29,107	29,946
Total common stockholders' equity	29,111	29,950
Noncontrolling interest	(1,062)	12,054
Total stockholders' equity	109,673	122,664
Total liabilities and stockholders' equity	\$ 557,382	\$ 476,982

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

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

	Three Months	
	Ended March 31,	
	2018	2017
Revenues:		
Oil sales	\$ 51,554	\$ 13,783
Natural gas sales	1,745	1,894
Natural gas liquids sales	2,487	1,824
Total revenues	<u>55,786</u>	<u>17,501</u>
Operating expenses:		
Lease operating expenses	8,885	1,617
Production taxes	2,640	808
Gathering and transportation	712	726
Depreciation, depletion, amortization and accretion	20,809	8,231
Exploration costs	436	317
General and administrative	7,097	1,465
Transaction costs	—	1,094
(Gain) loss on sale of property and equipment	133	(11)
Total operating expenses	<u>40,712</u>	<u>14,247</u>
Operating income	<u>15,074</u>	<u>3,254</u>
Other income (expense):		
Interest expense, net	(3,867)	(543)
Gain (loss) on commodity derivative instruments, net	(21,285)	1,899
Other income (expense), net	132	(110)
Total other income (expense), net	<u>(25,020)</u>	<u>1,246</u>
Loss before income taxes	<u>(9,946)</u>	<u>4,500</u>
Income tax expense (benefit)	(2,190)	86
Net income (loss)	<u>(7,756)</u>	<u>4,414</u>
Net income (loss) attributable to noncontrolling interest	(14,076)	—
Net income attributable to Rosehill Resources Inc. before preferred stock dividends	6,320	4,414
Series A Preferred Stock dividends and deemed dividends	1,928	—
Series B Preferred Stock dividends, deemed dividends, and return	5,733	—
Net income (loss) attributable to Rosehill Resources Inc. common stockholders	<u>\$ (1,341)</u>	<u>\$ 4,414</u>
Earnings (loss) per common share:		
Basic	\$ (0.22)	\$ 0.75
Diluted	\$ (0.22)	\$ 0.75
Weighted average common shares outstanding:		
Basic	6,222	5,857
Diluted	6,222	5,857

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

ROSEHILL RESOURCES INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY / PARENT NET INVESTMENT
(Unaudited)
(In thousands, except share amounts)

	Preferred Stock Series A		Common Stock				Additional Paid-in Capital	Retained Earnings	Total Common Stockholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Value	Class A		Class B						
	Shares	Value	Shares	Value	Shares	Value					
Balance at December 31, 2017	97,698	\$80,660	6,222,299	\$ 1	29,807,692	\$ 3	\$ 29,946	\$ —	\$ 29,950	\$ 12,054	\$122,664
Net income (loss)	—	—	—	—	—	—	—	6,320	6,320	(14,076)	(7,756)
Stock based compensation	—	—	—	—	—	—	1,462	—	1,462	—	1,462
Series A Preferred stock dividends	964	964	—	—	—	—	—	(1,928)	(1,928)	—	(964)
Series B Preferred stock dividends, deemed dividends and return	—	—	—	—	—	—	(1,341)	(4,392)	(5,733)	—	(5,733)
Impact of transactions affecting noncontrolling interests	—	—	—	—	—	—	(960)	—	(960)	960	—
Balance at March 31, 2018	98,662	\$81,624	6,222,299	\$ 1	29,807,692	\$ 3	\$ 29,107	\$ —	\$ 29,111	\$ (1,062)	\$109,673

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

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

	Three Months Ended March	
	31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (7,756)	\$ 4,414
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	20,809	8,231
Deferred income taxes	(2,190)	—
Stock-based compensation	1,462	—
(Gain) loss on sale of fixed assets	133	(11)
(Gain) loss on derivative instruments	21,185	(1,749)
Net cash received (paid) in settlement of derivative instruments	(3,043)	(443)
Amortization of debt issuance costs	943	113
Settlement of asset retirement obligations	(8)	(67)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable and accounts receivable, related parties	(16,719)	(1,505)
(Increase) decrease in prepaid and other assets	105	134
Increase (decrease) in accounts payable and accrued liabilities and other	4,162	(4,031)
Increase (decrease) in accounts payable, related parties	(211)	3,672
Net cash provided by operating activities	<u>18,872</u>	<u>8,758</u>
Cash flows from investing activities:		
Additions to oil and natural gas properties	(109,310)	(8,159)
Acquisition of White Wolf	(4,005)	—
Additions to other property and equipment	(799)	(89)
Proceeds from sale of other property and equipment	—	47
Net cash used in investing activities	<u>(114,114)</u>	<u>(8,201)</u>
Cash flows from financing activities:		
Proceeds from revolving credit facility	147,602	—
Repayment on revolving credit facility	(68,000)	—
Distribution to parent	—	(2,267)
Debt issuance costs	(1,547)	—
Dividends paid on preferred stock	(936)	—
Payment on capital lease obligation	(8)	(8)
Net cash provided by (used in) financing activities	<u>77,111</u>	<u>(2,275)</u>
Net decrease in cash and cash equivalents	(18,131)	(1,718)
Cash, cash equivalents, and restricted cash, beginning of period	<u>24,682</u>	<u>8,434</u>
Cash, cash equivalents, and restricted cash, end of period	<u>\$ 6,551</u>	<u>\$ 6,716</u>

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

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

Supplemental cash flow information and noncash activity:

	Three Months Ended March	
	31,	
	2018	2017
Supplemental disclosures:		
Cash paid for interest	\$ 2,924	\$ 280
Supplemental noncash activity:		
Asset retirement obligations incurred	\$ 1,307	\$ 219
Changes in accrued capital expenditures	\$ 18,254	\$ (1,211)
Changes in accounts payable for capital expenditures	\$ (6,526)	\$ —
Series A Preferred Stock dividends paid-in-kind	\$ 964	\$ —
Series A Preferred Stock dividends declared but not yet paid	\$ 964	\$ —
Series B Preferred Stock dividends paid-in-kind	\$ 1,486	\$ —
Series B Preferred Stock cash dividends declared but not yet paid	\$ 2,228	\$ —
Series B Preferred Stock return	\$ 1,317	\$ —
Series B Preferred Stock deemed dividend	\$ 291	\$ —

Reconciliation of cash, cash equivalents and restricted cash presented on the Condensed Consolidated Statement of Cash Flows:

	March 31, 2018	December 31, 2017
Cash and cash equivalents	\$ 6,551	\$ 20,677
Restricted cash	—	4,005
Total cash, cash equivalents and restricted cash	<u>\$ 6,551</u>	<u>\$ 24,682</u>

As of December 31, 2017, restricted cash was attributable to the White Wolf Acquisition purchase price in an escrow account. The full amount of the escrow account was released to the sellers in March 2018.

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

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

Note 1 – Organization and Basis of Presentation

Organization

Rosehill Resources Inc. (the “Company” or “Rosehill”) is an independent oil and natural gas company focused on the acquisition, exploration, development and production of unconventional oil and associated liquids-rich natural gas reserves in the Permian Basin. At March 31, 2018, the Company’s assets are concentrated in the Delaware Basin, a sub-basin of the Permian Basin.

The Company was incorporated in Delaware on September 21, 2015 as a special purpose acquisition company under the name of KLR Energy Acquisition Corp. (“KLRE”) for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination involving the Company and one or more businesses. On April 27, 2017, the Company acquired a portion of the equity of Rosehill Operating Company, LLC (“Rosehill Operating”), in a transaction structured as a reverse recapitalization (the “Transaction”), into which Tema Oil & Gas Company (“Tema”), a wholly owned subsidiary of Rosemore, Inc. (“Rosemore”), contributed certain assets and liabilities. At the closing of the Transaction, the Company became the sole managing member of Rosehill Operating. Following the Transaction, the Company changed its name to Rosehill Resources Inc.

As the sole managing member of Rosehill Operating, the Company, through its officers and directors, is responsible for all operational and administrative decision-making and control of all of the day-to-day business affairs of Rosehill Operating without the approval of any other member, unless specified in the Second Amended and Restated Limited Liability Company Agreement of Rosehill Operating (the “LLC Agreement”).

Transaction

On April 27, 2017, upon closing the Transaction, the Company acquired a portion of the common units of Rosehill Operating for (i) the contribution to Rosehill Operating by the Company of \$35 million in cash (the “Cash Consideration”), excluding the working capital adjustment, and the issuance to Rosehill Operating by the Company of 29,807,692 shares of its Class B Common Stock, (ii) the assumption by Rosehill Operating of \$55 million in Tema indebtedness and (iii) the contribution to Rosehill Operating by the Company of the remaining cash proceeds of the Company’s initial public offering net of redemptions of approximately \$60.6 million. In connection with the closing of the Transaction, the Company issued to Rosehill Operating 4,000,000 warrants exercisable for shares of the Company’s Class A Common Stock (the “Tema warrants”) in exchange for 4,000,000 warrants exercisable for Rosehill Operating common units (the “Rosehill warrants”). The Cash Consideration, estimated working capital adjustment, Tema warrants and shares of Class B Common Stock were immediately distributed to Tema. The working capital adjustment was originally estimated to be \$5.6 million and was contributed to Rosehill Operating by the Company upon closing the Transaction. As of December 31, 2017, the final working capital adjustment of \$2.4 million due to the Company from Tema was reflected as a reduction to the preliminary purchase price.

In connection with the Transaction, the Company issued and sold 75,000 shares of its 8% Series A Cumulative Perpetual Convertible Preferred Stock (the “Series A Preferred Stock”) and 5,000,000 warrants in a private placement to certain qualified institutional buyers and accredited investors (the “PIPE Investors”) for net proceeds of \$70.8 million (the “PIPE Investment”). The Company issued an additional 20,000 shares of Series A Preferred Stock to Rosemore Holdings, Inc. (wholly owned subsidiary of Rosemore) and KLR Energy Sponsor, LLC (the “Sponsor”) in connection with the closing of the Transaction for net proceeds of \$20 million. The Company contributed the net proceeds from the PIPE Investment and from the issuance of 20,000 shares of Series A preferred stock to Rosemore Holdings, Inc. and the Sponsor to Rosehill Operating in exchange for Rosehill Operating Series A preferred units and additional Rosehill warrants. Of these proceeds, \$55 million was used to retire the indebtedness assumed by Rosehill Operating.

Net cash provided by the Company upon the closing of the Transaction was \$109.5 million, which consisted of \$90.8 million of net proceeds from the sale of Series A Preferred Stock and \$18.7 million from the sale of common shares prior to the Transaction, net of redemptions and offering and transaction costs.

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

Basis of Presentation

The consolidated financial results of the Company consist of the financial results of Rosehill and Rosehill Operating, its consolidated subsidiary. Pursuant to the Transaction described above, the Company acquired approximately 16% of the Rosehill Operating Common Units, while Tema retained approximately 84% of the Rosehill Operating Common Units. As of March 31, 2018, the Company owns approximately 17.3% of the Rosehill Operating Common Units and Tema owns approximately 82.7% of the Rosehill Operating Common Units.

The Transaction was accounted for in a manner similar to a reverse recapitalization. As a result, the reports filed by the Company subsequent to the Transaction are prepared "as if" Rosehill Operating is the predecessor and legal successor to the Company. The historical operations of Rosehill Operating are deemed to be those of the Company. Thus, the financial statements included in this report reflect (i) the historical operating results of Rosehill Operating prior to the Transaction; (ii) the combined results of the Company and Rosehill Operating following the Transaction; (iii) the assets and liabilities of Rosehill Operating at their historical cost; and (iv) the Company's equity and earnings per share for all periods presented.

All periods prior to the date of the Transaction shown in the accompanying consolidated financial statements have been prepared on a "carve-out" basis and are derived from the accounting records of Tema. The accompanying consolidated financial statements prior to the Transaction include direct expenses related to Rosehill Operating and expense allocations for certain functions of Tema including, but not limited to, general corporate expenses related to finance, legal, information technology, human resources, communications, insurance, utilities, and compensation. These expenses have been allocated on the basis of direct usage when identifiable, actual volumes and revenues, with the remainder allocated proportionately on a barrel of oil equivalent ("Boe") basis. Management considers the basis on which the expenses have been allocated to reasonably reflect the utilization of services provided to or the benefit received by Rosehill Operating during the periods presented. The allocations may not, however, reflect the expenses that would have been incurred as an independent company for the periods presented. Actual costs that may have been incurred prior to the Transaction would depend on a number of factors, including the organizational structure, whether functions were outsourced or performed by employees and strategic decisions made in areas such as information technology and infrastructure. The allocations and related estimates and assumptions are described more fully in Note 15 - *Transactions with Related Parties*.

The following unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's latest Annual Report on Form 10-K. The unaudited condensed consolidated financial statements reflect all normal and recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results of operations for the interim periods.

Variable Interest Entities

Rosehill Operating is a variable interest entity (VIE). The Company determined that it is the primary beneficiary of Rosehill Operating as the Company is the sole managing member and has the power to direct the activities most significant to Rosehill Operating's economic performance as well as the obligation to absorb losses and receive benefits that are potentially significant. The Company consolidated 100% of Rosehill Operating's assets and liabilities and results of operations in the Company's consolidated financial statements. Although Tema had a larger ownership interest in Rosehill Operating, because it has disproportionately fewer voting rights, Tema is shown as a noncontrolling interest holder of Rosehill Operating. For further discussion, see Noncontrolling Interest in Note 13 - *Stockholders' Equity / Parent Net Investment*.

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

The significant accounting policies followed by the Company are set forth in Note 2 – *Summary of Significant Accounting Policies* included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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

Accounting Standards Adopted in 2018

Equity-based Compensation. In May 2017, the FASB issued ASU 2017-09 – *Compensation – Stock Compensation (Topic 718); Scope of Modification Accounting*. The new guidance clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award as equity or liability changes as a result of the change in terms or conditions. The Company adopted ASU 2017-09 in the first quarter of 2018. There were no changes to the terms or conditions of the Company's share-based payment awards in the first quarter of 2018.

Recently Issued Accounting Standards Not Yet Adopted

Revenue Recognition. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date*, which defers the effective date of ASU 2014-09 by one year to be effective for annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 31, 2019. The Company is an emerging growth company and is permitted to adopt this ASU among others on a private company timeline. ASU 2014-09, *Revenue from Contracts with Customers*, supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and industry-specific guidance in *Subtopic 932-605, Extractive Activities-Oil and Gas-Revenue Recognition* and requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. Subsequently, in April 2016, the FASB issued ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* as further clarification on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, as clarifying guidance to improve the operability and understandability of the implementation guidance on principal versus agent considerations. In December 2016, the FASB further issued ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, to increase stakeholders' awareness of the proposals and to expedite improvements to ASU 2014-09. The Company is still in the early stages of evaluating this ASU.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. In January 2018, ASU 2018-01, *Leases (Topic 842)*, which provides additional implementation guidance on the previously issued ASU. Early adoption is permitted. The method of adoption and impact this standard will have on the financial statements and related disclosures is currently being evaluated.

Financial Instruments – Credit Losses. In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* requiring the measurement of all expected credit losses for financial assets, which include trade receivables, held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The guidance in this ASU is effective for the Company for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021 with early adoption permitted for interim and annual periods beginning after December 15, 2018. The evaluation of this standard and its impact on the financial statements and related disclosures is currently being assessed.

Non-financial assets. In February 2017, the FASB issued ASU 2017-05, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, which clarifies the scope of Subtopic 610-20 and provides further guidance for partial sales of nonfinancial assets. Subtopic 610-20, which was issued in May 2014 as part of ASU 2014-09, provides guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. An entity is required to apply the amendments in ASU 2017-05 at the same time it applies the amendments in ASU 2014-09. Therefore, ASU 2017-05 is effective for the Company for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. An entity may elect to apply the amendments in ASU 2017-05 either retrospectively to each period presented in the financial statements in accordance with the guidance on accounting changes in FASB's Accounting Standards Codification ("ASC") Topic 250, *Accounting Changes and Error Corrections*, paragraphs 10-45-5 through 10-45-10 (i.e. the retrospective approach) or retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption (i.e. the modified retrospective approach). An entity may elect to apply all of the amendments in ASU 2017-05 and ASU 2014-09 using the same transition method, and alternatively may elect to use different transition methods. Entities may apply the guidance earlier as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The impact ASU 2017-05 will have on the financial statements and related disclosures is currently ongoing.

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

Derivatives and Hedging. In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which expands and refines hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments and hedge items in the financial statements, and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. ASU 2017-12 is effective for the Company for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company has not yet evaluated the impact of this standard on its financial statements and related disclosures.

Income Statement - Reporting Comprehensive Income. In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The standard provides financial statement preparers with an option to reclassify stranded tax effects within Accumulated Other Comprehensive Income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. ASU 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Financial Assets and Financial Liabilities. In February 2018, the FASB issued ASU 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which clarifies certain aspects of the guidance issued in ASU 2016-01 including: the ability to irrevocably elect to change the measurement approach for equity securities measured using the practical expedient (at cost plus or minus observable transactions less impairment) to a fair value method in accordance with Topic 820, Fair Value Measurement; clarification that if an observable transaction occurs for such securities, the adjustment is as of the observable transaction date; clarification that the prospective transition approach for equity securities without a readily determinable fair value is meant only for instances in which the practical expedient is elected; and various other clarifications. The ASU is effective for us July 1, 2018 and early adoption is permitted. The Company does not expect this ASU to have a material impact on its consolidated financial statements.

Debt Securities and Regulated Operations. In March 2018, the FASB issued ASU 2018-04, *Investments-Debt Securities (Topic 320) and Regulated Operations (Topic 980): Amendments to SEC paragraph Pursuant to SEC Staff Accounting Bulletin No. 177 and SEC Release No 33-9273*, which adds, amends and supersedes various paragraphs that contain SEC guidance in ASC 320, *Investments - Debt Securities* and ASC 980, *Regulated Operations*. The Company does not anticipate the adoption of ASU 2018-04 will have a material impact on its consolidated financial statements.

Income Taxes. In March 2018, the FASB issued ASU 2018-05, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*. This ASU adds SEC paragraphs pursuant to the SEC Staff Accounting Bulletin No. 118, which expresses the view of the Staff regarding application of Topic 740, *Income Taxes*, in the reporting period that includes December 22, 2017 - the date on which the Tax Cuts and Jobs Act was signed into law. The amendments are effective upon addition to the FASB Accounting Standards Codification. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements.

Note 3 – Earnings Per Share

The Transaction was structured as a reverse recapitalization by which the Company issued stock for the net assets of Rosehill Operating accompanied by a recapitalization. Earnings per share has been recast for all historical periods to reflect the Company's capital structure for all comparative periods.

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

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	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share data)	
Net Income (Loss) (numerator):		
<i>Basic:</i>		
Net income (loss) attributable to common stockholders of Rosehill Resources Inc.	\$ (1,341)	\$ 4,414
<i>Diluted:</i>		
Net income (loss) attributable to common stockholders of Rosehill Resources Inc.	\$ (1,341)	\$ 4,414
Add: Dividends on convertible preferred stock (1)	—	—
Net income (loss) attributable to common stockholders of Rosehill Resources Inc. - diluted	<u>\$ (1,341)</u>	<u>\$ 4,414</u>
Weighted average shares (denominator):		
Weighted average shares – basic	6,222	5,857
Weighted average shares – diluted	6,222	5,857
Basic earnings (loss) per share	\$ (0.22)	\$ 0.75
Diluted earnings (loss) per share	\$ (0.22)	\$ 0.75

(1) Series A Preferred Stock dividends are not added back for diluted earnings per share because the conversion of the Series A Preferred Stock to Class A Common Stock would be anti-dilutive.

For the three months ended March 31, 2018, the Company excluded the following common stock equivalents from the computation of diluted earnings per share because the effect of conversion was anti-dilutive as a result of the net loss for the periods:

- 8.6 million shares of Class A Common Stock issuable upon conversion of the Company's Series A Preferred Stock,
- 25.6 million warrants convertible into shares of Class A Common Stock,
- 29.8 million shares of Class A Common Stock issuable upon conversion of the Company's Class B Common Stock, and
- 1.7 million shares of restricted stock units issued to directors and employees.

Note 4 – Accounts Receivable

Accounts receivable is comprised of the following:

	March 31, 2018		December 31, 2017	
	Related Parties	Third-Parties	Related Parties	Third-Parties
	(In thousands)			
Revenue receivable	\$ 28,551	\$ 2,622	\$ 13,601	\$ 1,153
Transaction purchase price settlement	2,381	—	2,381	—
Joint interest billings	50	513	20	83
Other	10	141	20	291
Accounts receivable	<u>\$ 30,992</u>	<u>\$ 3,276</u>	<u>\$ 16,022</u>	<u>\$ 1,527</u>

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Note 5 – Derivative Instruments

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

Series B Preferred Stock bifurcated derivative - In the event of a change of control, the Company shall redeem in cash all of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares as defined in Note 11 - *10% Series B Redeemable Preferred Stock*, for a price per share equal to the Base Return Amount as defined in Note 11 - *10% Series B Redeemable Preferred Stock*. The Company assessed the change of control feature and determined that the redemption of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount was a bifurcated derivative. See Note 11 - *10% Series B Redeemable Preferred Stock* for defined terms and more detail.

The following tables summarize the location and fair value amounts of all the Company's derivative instruments in the consolidated balance sheets, as well as the gross recognized derivative assets, liabilities and amounts offset in the condensed consolidated balance sheets:

	March 31, 2018		
	Gross Fair Value	Gross Amounts Offset (1)	Net Recognized Fair Value
	(In thousands)		
Assets			
Commodity derivatives - current	\$ 1,308	\$ (1,308)	\$ —
Commodity derivatives - non-current	2,559	(2,559)	—
Total assets	\$ 3,867	\$ (3,867)	\$ —
Liabilities			
Commodity derivatives - current	\$ (23,340)	\$ 1,308	\$ (22,032)
Commodity derivatives - non-current	(16,924)	2,559	(14,365)
Series B Preferred Stock bifurcated derivative - non-current	(525)	—	(525)
Total liabilities	\$ (40,789)	\$ 3,867	\$ (36,922)

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

ROSEHILL RESOURCES INC.
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	December 31, 2017		
	Gross Fair Value	Gross Amounts Offset (1)	Net Recognized Fair Value
	(In thousands)		
Assets			
Commodity derivatives - current	\$ 1,079	\$ (1,079)	\$ —
Commodity derivatives - non-current	120	(120)	—
Total assets	\$ 1,199	\$ (1,199)	\$ —
Liabilities			
Commodity derivatives - current	\$ (11,851)	\$ 1,079	\$ (10,772)
Commodity derivatives - non-current	(7,503)	120	(7,383)
Series B Preferred Stock bifurcated derivative - non-current	(625)	—	(625)
Total liabilities	\$ (19,979)	\$ 1,199	\$ (18,780)

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

As of March 31, 2018, the open commodity derivative positions with respect to future production were as follows:

	2018	2019	2020	2021	2022
Commodity derivative swaps					
Oil:					
Notional volume (Bbls)	2,044,000	2,664,000	960,000	360,000	300,000
Weighted average fixed price (\$/Bbl)	\$ 55.04	\$ 53.59	\$ 51.16	\$ 50.42	\$ 50.12
Natural Gas:					
Notional volume (MMBtu)	2,880,000	2,220,000	1,500,000	1,200,000	1,200,000
Weighted average fixed price (\$/MMBtu)	\$ 3.02	\$ 2.88	\$ 2.84	\$ 2.85	\$ 2.87
Commodity derivative two-way collars					
Oil:					
Notional volume (Bbls)	210,000	420,000	—	—	—
Weighted average ceiling price (\$/Bbl)	\$ 58.25	\$ 60.03	\$ —	\$ —	\$ —
Weighted average floor price (\$/Bbl)	\$ 55.00	\$ 53.14	\$ —	\$ —	\$ —
Commodity derivative three-way collars					
Oil:					
Notional volume (Bbls)	—	240,000	—	—	—
Weighted average ceiling price (\$/Bbl)	\$ —	\$ 61.75	\$ —	\$ —	\$ —
Weighted average floor price (\$/Bbl)	\$ —	\$ 52.50	\$ —	\$ —	\$ —
Weighted average sold put option price (\$/Bbl)	\$ —	\$ 42.50	\$ —	\$ —	\$ —

ROSEHILL RESOURCES INC.
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For the three months ended March 31, 2018 and 2017, the effect of the derivative activity on the Company's Condensed Consolidated Statements of Operations was as follows:

	Three Months Ended	
	March 31,	
	2018	2017
(In thousands)		
Realized gain (loss) on derivatives		
Commodity derivative options	\$ 19	\$ 154
Commodity derivative swaps	(3,062)	(447)
Total	(3,043)	(293)
Interest rate swap	—	(150)
Total realized gain (loss) on derivatives	\$ (3,043)	\$ (443)
Unrealized gain (loss) on derivatives		
Commodity derivative options	\$ (15,960)	\$ 162
Commodity derivative swaps	(2,282)	2,030
Total	(18,242)	2,192
Series B Preferred Stock bifurcated derivative	100	—
Total unrealized gain (loss) on derivatives	\$ (18,142)	\$ 2,192

The gains and losses resulting from the cash settlement and mark-to-market of the commodity derivatives are included within "Other income (expense)" in the Condensed Consolidated Statements of Operations. The gains and losses resulting from the cash settlement and mark-to-market of the interest rate swap are included in "Interest expense" in the Condensed Consolidated Statements of Operations.

Note 6 – Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Fair value measurements are classified and disclosed within the following fair value hierarchy:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Active markets are those in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. This category includes those derivative instruments that are valued using observable market data.

Level 3 – Measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources. Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment.

Observable data is considered to be market data if it is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, provided by multiple, independent sources that are actively involved in the relevant market. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level with the fair value hierarchy is based on lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment. However, the determination of what constitutes "observable" requires significant judgment. The categorization of an investment within the hierarchy is based upon the pricing transparency of the investment and does not necessarily correspond to the perceived risk of that investment.

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Fair Value of Financial Instruments

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

	March 31, 2018	December 31, 2017
	(In thousands)	
Derivative liabilities		
Derivative liabilities - current	\$ (22,032)	\$ (10,772)
Derivative liabilities - non-current	(14,890)	(8,008)
Total derivative assets liabilities	\$ (36,922)	\$ (18,780)

Derivative assets and liabilities primarily represent unsettled amounts related to commodity derivative positions, including swaps and options. Derivative liabilities also include the Series B Preferred Stock bifurcated derivative for the various redemption amounts that the Company could incur if a change of control event occurs. The Company utilizes Level 3 assumptions to estimate the probability of a change in control occurring and when that would occur as the timing impacts the Base Return Amount as defined in Note 11 - *10% Series B Redeemable Preferred Stock*. The change in fair value to the Series B Preferred Stock bifurcated derivative for the period is recorded in Other income (expense), net.

The tables below set forth by level within the fair value hierarchy represent the net components of the assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2018 and December 31, 2017. These net balances are intended solely to provide information on sources of inputs to fair value and proportions of fair value involving objective versus subjective valuations and do not represent either the actual credit exposure or net economic exposure.

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Derivative liabilities				
Commodity derivative liabilities - current	\$ —	\$ (22,032)	\$ —	\$ (22,032)
Commodity derivative liabilities - non current	—	(14,365)	—	(14,365)
Series B Preferred Stock bifurcated derivative - non-current	—	—	(525)	(525)
Total derivative liabilities	\$ —	\$ (36,397)	\$ (525)	\$ (36,922)

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Derivative liabilities				
Commodity derivative liabilities - current	\$ —	\$ (10,772)	\$ —	\$ (10,772)
Commodity derivative liabilities - non-current	—	(7,383)	—	(7,383)
Series B Preferred Stock bifurcated derivative - non-current	—	—	(625)	(625)
Total derivative liabilities	\$ —	\$ (18,155)	\$ (625)	\$ (18,780)

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Financing Arrangements

The carrying amounts of the Company's cash, cash equivalents, accounts receivable, accounts payable, and accrued liabilities approximate their fair values because of the short-term maturities and/or liquid nature of these assets and liabilities. The Revolving Credit Facility carrying value is representative of its fair value because the interest rate changes monthly based on the current market of the stated rates in the agreement. Since issuance of the 10% Senior Secured Lien Notes in December 2017, the Company's credit rating has not changed, bond yields for our credit rating has not changed significantly, and commodity prices, which impacts the fair value of our producing assets, have not changed significantly. Based on those factors, the Company believes the carrying value of the 10% Senior Secured Second Lien Notes are representative of their fair values as of March 31, 2018.

Non-Financial Assets and Liabilities

Non-financial assets and liabilities that are initially measured at fair value are comprised of asset retirement obligations and the corresponding increase to the related long-lived asset and are not remeasured at fair value in subsequent periods. Such initial measurements are classified as Level 3 since certain significant unobservable inputs are utilized in their determination. The fair value of additions to asset retirement obligation liability and certain changes in the estimated fair value of the liability are measured using valuation techniques consistent with the income approach, converting future cash flows to a single discounted amount. Significant inputs to the valuation include (i) estimated plug and abandonment cost per well based on historical experience and information from third-party vendors; (ii) estimated remaining life per well; (iii) future inflation factors; and (iv) average credit-adjusted risk-free rate. These inputs require significant judgments and estimates by management at the time of the valuation and are the most sensitive and subject to change.

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

Note 7 – Property and equipment

Property and equipment is comprised of the following:

	March 31, 2018	December 31, 2017
	(In thousands)	
Proved oil and natural gas properties	\$ 521,320	\$ 423,611
Unproved oil and natural gas properties	122,870	121,690
Land	406	406
Less: accumulated DD&A	(134,926)	(114,375)
Total oil and natural gas properties (successful efforts), net	509,670	431,332
Other property and equipment	4,702	4,345
Less: accumulated DD&A	(2,898)	(3,062)
Total other property and equipment	1,804	1,283
Total property and equipment, net	\$ 511,474	\$ 432,615

DD&A expense related to oil and natural gas properties was \$20.6 million and \$8.1 million for the three months ended March 31, 2018 and 2017, respectively. Depreciation and amortization expense related to other property and equipment was \$0.1 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively. Capitalized costs included in proved oil and natural gas properties not subject to DD&A totaled \$56.7 million at March 31, 2018 and \$57.2 million at December 31, 2017.

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Note 8 – Asset Retirement Obligations

The change in asset retirement obligations for the three months ended March 31, 2018 is set forth below (in thousands):

Asset retirement obligations, beginning of period	\$ 8,630
Additional liabilities incurred	1,307
Dispositions	—
Accretion expense	129
Liabilities settled upon plugging and abandoning wells	(23)
Revision of estimates	—
Asset retirement obligations, end of period	<u>10,043</u>
Less: current portion of asset retirement obligations	<u>(86)</u>
Long-term asset retirement obligations	<u>\$ 9,957</u>

Note 9 – Accrued Liabilities and Other

Accrued liabilities and other is comprised of the following as of the respective dates:

	March 31, 2018	December 31, 2017
	(In thousands)	
Accrued payroll	\$ 3,076	\$ 2,352
Royalties payable	7,070	3,903
Accrued lease operating expense	5,509	2,230
Contingent liability - White Wolf Acquisition	—	4,005
Preferred Stock dividends payable	3,192	937
Other	2,785	2,065
Total accrued liabilities and other	<u>\$ 21,632</u>	<u>\$ 15,492</u>

Note 10 – Long-term debt, net

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

	March 31, 2018	December 31, 2017
	(In thousands)	
Second Lien Notes	\$ 100,000	\$ 100,000
Revolving credit facility	79,602	—
Total debt	<u>179,602</u>	<u>100,000</u>
Debt issuance cost on Second Lien Notes, net	3,681	3,830
Discount on Second Lien Notes, net	2,855	2,971
Total debt issuance cost and discounts	<u>6,536</u>	<u>6,801</u>
Total long-term debt, net	<u>\$ 173,066</u>	<u>\$ 93,199</u>

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Revolving Credit Facility

On March 28, 2018, the Company entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, and certain other financial institutions party thereto, as lenders. The borrowings under the Amended and Restated Credit Agreement will bear interest at an adjusted base rate plus an applicable margin ranging from 1% to 2% or at an adjusted LIBO Rate plus an applicable margin ranging from 2% to 3%. The Amended and Restated Credit Agreement amends and restates in its entirety the original Credit Agreement entered into on April 27, 2017 and amended on December 8, 2017. Pursuant to the Amended and Restated Credit Agreement, the lenders party thereto have agreed to provide the Company with a \$500 million secured reserve-based revolving credit facility with a current borrowing base of \$150 million. The maturity date of the Amended and Restated Credit Agreement is August 31, 2022 and automatically extended to March 2023 upon the payment in full of the Second Lien Notes. The borrowing base will be redetermined semi-annually, with the lenders and the Company each having the right to one interim unscheduled redetermination between any two consecutive semi-annual redeterminations. The first scheduled redetermination date is August 1, 2018 and then beginning in 2019 each April 1 and October 1 thereafter. As of March 31, 2018, the Company had \$79.6 million outstanding under the Amended and Restated Credit Agreement.

The amounts outstanding under the Amended and Restated Credit Agreement are secured by first priority liens on substantially all of Rosehill Operating's oil and natural gas properties and associated assets and all of the stock of Rosehill Operating's material operating subsidiaries that are guarantors of the Amended and Restated Credit Agreement. If an event of default occurs under the Amended and Restated Credit Agreement, JPMorgan Chase Bank, N.A. will have the right to proceed against the pledged capital stock and take control of substantially all of Rosehill Operating and Rosehill Operating's material operating subsidiaries that are guarantors' assets. There are currently no guarantors under the Amended and Restated Credit Agreement.

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

The Amended and Restated Credit Agreement also requires Rosehill Operating to maintain the following financial ratios: (1) commencing on March 31, 2018, a current ratio, which is the ratio of consolidated current assets (including unused commitments under the Amended and Restated Credit Agreement, but excluding non-cash assets) to consolidated current liabilities (excluding non-cash obligations, current maturities under the Amended and Restated Credit Agreement and the Note Purchase Agreement), of not less than 1.0 to 1.0; (2) (x) commencing on March 31, 2018, a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Total Debt to Annualized EBITDAX (as such terms are defined in the Amended and Restated Credit Agreement) for the four fiscal quarters then ended, of not greater than 4.0 to 1.0 and (y) commencing on and after repayment in full of the Second Lien Notes (other than surviving contingent indemnification obligations) and the repayment or redemption in full of the Series B Redeemable Preferred Stock, a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Net Debt to Annualized EBITDAX (as such terms are defined in the Amended and Restated Credit Agreement), of not greater than 4.0 to 1.0 and (3) commencing on March 31, 2018 for so long as the Series B Redeemable Preferred Stock remains outstanding, a coverage ratio, which is the ratio of (i) EBITDAX (as defined in the Amended and Restated Credit Agreement) to (ii) the sum of (x) Interest Expense (as defined in the Amended and Restated Credit Agreement) plus (y) the aggregate amount of Restricted Payments made in cash pursuant to Sections 9.04(a)(iv) and (v) of the Amended and Restated Credit Agreement during the preceding four fiscal quarters, of not less than 2.5 to 1.0. The Company was in compliance with all the financial covenants in the Amended and Restated Credit Agreement for the measurement period ended March 31, 2018.

Second Lien Notes

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

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

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

The Note Purchase Agreement requires Rosehill Operating to maintain a leverage ratio, which is the ratio of the sum of all of Rosehill Operating's Total Debt to Annualized EBITDAX (as such terms are defined in the Note Purchase Agreement) for the four fiscal quarters then ended, of not greater than 4.00 to 1.00.

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

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

The Company was in compliance with the financial covenants in the Note Purchase Agreement for the measurement period ended March 31, 2018.

Deferred Financing Costs and Debt discount

The Company capitalizes discounts and certain direct costs associated with the issuance of debt and amortizes such costs over the lives of the respective debt instruments. The Company amortized debt issuance costs and discounts of \$0.9 million and \$0.1 million for the three months ended March 31, 2018 and 2017, respectively. The deferred financing costs related to the revolving credit facility are classified in prepaid assets and the deferred financing costs and discounts related to the Second Lien Notes are netted against the long-term debt. The following table summarizes the Company's deferred financing costs and debt discounts:

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	March 31, 2018	December 31, 2017
(In thousands)		
Revolving credit facility		
Debt issuance costs	\$ 1,547	\$ 1,219
Accumulated amortization of debt issuance costs	—	(541)
Net deferred costs - Revolving credit facility	\$ 1,547	\$ 678
Second Lien Notes		
Debt discount	\$ 3,000	\$ 3,000
Accumulated amortization of debt discount	(145)	(29)
Debt issuance costs	3,868	3,868
Accumulated amortization of debt issuance costs	(187)	(38)
Net deferred costs - Second Lien Notes	\$ 6,536	\$ 6,801
Total net deferred financing costs and debt discount	\$ 8,083	\$ 7,479

Note 11 – 10% Series B Redeemable Preferred Stock

On December 8, 2017, in connection with the acquisition of mineral rights, royalty interest and other associated assets in the Southern Delaware Basin (the "White Wolf Acquisition"), the Company entered into a Series B Redeemable Preferred Stock Purchase Agreement (the "Series B Preferred Stock Agreement") to issue 150,000 shares of the Company's 10.00% Series B Redeemable Preferred Stock (the "Series B Preferred Stock"), par value of \$0.0001 per share, for an aggregate purchase price of \$150.0 million, less transaction costs, advisory and up-front fees of approximately \$10.0 million to certain private funds and accounts managed by EIG Global Energy Partners, LLC (collectively, the "Series B Preferred Stock Purchasers"). The Company has the option, subject to certain conditions, to sell from time to time up to an additional 50,000 shares of Series B Preferred Stock, in aggregate, to the Series B Preferred Stock Purchasers and their transferees for a purchase price of \$1,000 per share of Series B Preferred Stock. Such option terminates on December 8, 2018.

Holders of the Series B Preferred Stock are entitled to receive, when, as and if declared by the Board of Directors of the Company (the "Board"), cumulative dividends in cash, at a rate of 10.00% per annum on the \$1,000 liquidation preference per share of Series B Preferred Stock, payable quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on January 15, 2018. With respect to dividends declared for any quarter ending on or prior to January 15, 2019, the Company may elect to pay as dividends additional shares of Series B Preferred Stock in kind (the "Series B PIK Shares") in an amount up to 40% of that which would have been payable had the dividends been fully paid in cash. On December 29, 2017, the Board declared a dividend that was paid 40% in-kind with Series B Preferred Shares, and 60% in cash on January 16, 2018.

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

The shares of Series B Preferred Stock are redeemable by the Company at the election of the holders on or after December 8, 2023, and upon certain conditions, and at any time at the Company's option. As the Series B Preferred Stock holders have an option to redeem the Series B Preferred Stock at a future date, the proceeds from the Series B Preferred Stock have been included in temporary, or "mezzanine" equity, between total liabilities and stockholders' equity / parent net investment on the consolidated balance sheets. The Series B Preferred Stock, while not currently redeemable at the option of the holders, are considered probable of becoming redeemable and therefore will be subsequently remeasured each reporting period by accreting the initial value to the estimated redemption date of December 8, 2023 when the Series B Preferred Stock are redeemable in whole or in part at the election of the Series B Preferred Stock holders. The accretion is presented as a deemed dividend and recorded in mezzanine equity on the consolidated balance sheets and within preferred dividends on the consolidated statements of operations.

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In addition to the 10.00% per annum cumulative dividend holders of the Series B Preferred Stock are entitled to receive, upon redemption of the Series B Preferred Stock, such holders are guaranteed a base return on the initial 150,000 shares purchased in an amount equal to (1) \$1,250 per share of Series B Preferred Stock times the number of outstanding shares of Series B Preferred Stock if the Company redeems the shares prior to the first anniversary of the date of issuance of such share of Series B Preferred Stock; (2) \$1,350 per share of Series B Preferred Stock times the number of outstanding shares of Series B Preferred Stock if the Company redeems the shares on or after the first anniversary and prior to the second anniversary of the date of issuance of such share of Series B Preferred Stock; and (3) on or after the second anniversary of the date of issuance of such share of Series B Preferred Stock, the greater of (x) \$1,500 per share of Series B Preferred Stock and (y) an amount necessary to achieve a 16% internal rate of return ("IRR") (the "Base Return Amount") with respect to such shares of Series B Preferred Stock. Since the Series B Preferred Stock can be redeemed by the holders on or after December 23, 2023 and management has no plans to redeem before that date, the Company has accrued a guaranteed return amount in order to achieve the 16% IRR.

In the event of a change of control, the Company shall redeem in cash all of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount and all Series B PIK Shares at the purchase price of \$1,000 per share. The Company assessed the change of control feature and determined that the redemption of the outstanding shares of Series B Preferred Stock, excluding Series B PIK Shares, for a price per share equal to the Base Return Amount was an embedded derivative that requires bifurcation and shall be accounted for at fair value. The Company measured the derivative liability and recorded a discount of \$0.6 million upon initial measurement.

The Company reflected the following in mezzanine equity for the Series B Preferred Stock as of March 31, 2018:

	Series B Preferred Shares	Series B Preferred Stock	Guaranteed Return	Total
(In thousands, except share data)				
Total Series B Preferred Stock at December 31, 2017	150,626	\$ 140,158	\$ 710	\$ 140,868
Return (16% IRR)	—	—	5,442	5,442
Dividends declared and payable in cash	—	—	(2,228)	(2,228)
Dividends declared and paid-in-kind	1,486	1,486	(1,486)	—
Accretion of discount - deemed dividend	—	291	—	291
Total Series B Preferred Stock at March 31, 2018	152,112	\$ 141,935	\$ 2,438	\$ 144,373

Note 12 – Income Taxes

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation through Public Law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The provisions of the Tax Act that impact the Company include, but are not limited to, (1) reducing the U.S. federal corporate income tax rate from 35% to 21%; (2) eliminating the corporate alternative minimum tax (AMT); (3) allowing businesses to immediately expense the cost of new investments in certain qualified depreciable assets acquired after September 27, 2017 (with a phase-down of such expensing starting in 2023), (4) reducing the maximum deduction for net operating loss (NOL) carryforwards generated in tax years beginning after December 31, 2017, to 80 percent of a taxpayer's taxable income and (5) imposing additional limits on future deductibility of interest expense and certain executive compensation.

The Company remeasured its deferred tax assets and liabilities at December 31, 2017 using the lower 21% rate, resulting in a decrease in net deferred tax assets and our valuation allowance. Aside from the reduction to the U.S. federal corporate income tax rate, the Tax Act is not expected to have a significant current impact to the Company. The ultimate impact of the Tax Act may differ from our estimates due to changes in interpretations or assumptions, as well as additional regulatory guidance that may be issued. The Company has not made any further adjustments to its deferred tax assets and liabilities since recording the effects of the tax rate change during the year ended December 31, 2017.

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The Company's income tax provision was a benefit of \$2.2 million and an expense of \$0.1 million for the three months ended March 31, 2018 and 2017, respectively. The Company's effective tax rate was 22% and 1.9% for the three months ended March 31, 2018 and 2017, respectively. The effective tax rate increase is primarily due to the Company becoming a corporation and being subject to U.S. federal income tax as a result of the Transaction in 2017. The effective tax rate differs from the enacted statutory rate of 21% and 35% for the three months ended March 31, 2018, primarily due to state income taxes, non-deductible instruments, and allocation of income to the noncontrolling interest holder Tema, and for the three months ended March 31, 2017, primarily due to the allocation of income to the noncontrolling interest holder, Tema.

As of March 31, 2018, the Company had approximately \$20.7 million of U.S. federal net operating loss carryovers, which will begin to expire in 2035. The Company periodically assesses whether it is more likely than not that it will generate sufficient taxable income to realize its deferred tax assets, including net operating loss carry forwards. A valuation allowance for deferred tax assets is recognized when it is more likely than not that some or all of the benefit from the deferred tax asset will not be realized. As of March 31, 2018, we have a valuation allowance of \$2.9 million. In making this determination, the Company considers all available positive and negative evidence and makes certain assumptions. The Company considers, among other things, its deferred tax liabilities, the overall business environment, its historical earnings and losses, current industry trends, and its outlook for future years.

Upon closing the Transaction, the Company acquired a portion of the Rosehill Operating Common Units, and a deferred tax asset was recorded relating to the outside basis difference of its investment in Rosehill Operating for \$5.7 million with an offsetting effect recorded in additional paid in capital. Due to uncertainties relating to the realization of the deferred tax asset, the Company recorded a full valuation allowance with an offsetting effect recorded in additional paid in capital. During the year ended December 31, 2017, the subsequent recognition of tax benefits resulted in a partial reduction of the valuation allowance of \$1.5 million, with an offsetting effect recorded in additional paid in capital. Section 382 of the Internal Revenue Code of 1986, as amended ("IRC"), addresses company ownership changes and specifically limits the utilization of tax benefits generated prior to the Transaction following an ownership change. Upon closing of the Transaction, the Company believes it experienced an ownership change within the meaning of IRC Section 382, and recorded a valuation allowance of \$0.2 million and an offsetting effect in additional paid in capital to fully offset these tax benefits.

The Company is subject to the following material taxing jurisdictions: the United States, Texas and New Mexico. As of March 31, 2018, the Company has no current tax years under audit. The Company remains subject to examination for federal income taxes and state income taxes for tax years 2015 through 2017.

The Company has evaluated all tax positions for which the statute of limitations remains open and believes that the material positions taken would more likely than not be sustained upon examination. Therefore, as of March 31, 2018, the Company had not established any reserves for, nor recorded any unrecognized benefits related to, uncertain tax positions. The Company's policy is to recognize interest and penalties related to uncertain tax positions in income tax expense.

Tax Receivable Agreement

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

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The estimation of liability under the Tax Receivable Agreement is by its nature imprecise and subject to significant assumptions regarding the amount and timing of future taxable income. As of March 31, 2018, our preliminary estimate of the TRA liability resulting from the distribution of the Cash Consideration to Tema in connection with the Transaction was approximately \$0.4 million. However, the Company has not been able to determine that future payments under the TRA are likely to occur and therefore has concluded that no recognizable TRA liability has been incurred. To the extent the Company realizes tax benefits in future years, or in the event of a change in future tax rates, this liability may change. The Company does not anticipate it will realize cash savings on its 2018 tax return as a result of tax attributes arising from the Transaction, however, may record a liability in future periods if a payment under the Tax Receivable Agreement is anticipated for the 2018 tax year.

The Tax Receivable Agreement liability is recorded based upon projected tax savings, and the actual amount and timing of payments will depend upon a number of factors, including the amount and timing of taxable income generated in the future, changes in future tax rates, the use of loss carryovers, and the portion of the Company's payments constituting imputed interest. If and when Tema exercises its right to cause the Company to redeem all or a portion of its Rosehill Operating Common Units, a liability under the Tax Receivable Agreement relating to such redemption will be recorded. The amount of liability will be based on 90% of the estimated future cash tax savings that the Company will realize as a result of increases in the basis of Rosehill Operating's assets attributed to the Company resulting from such redemption. The amount of the increase in asset basis, the related estimated cash tax savings and the attendant Tax Receivable Agreement liability will depend, in part, on the price of the Class A Common Stock at the time of the relevant redemption. Due to the uncertainty surrounding the amount and timing of future redemptions of Rosehill Operating Common Units by Tema, the Company does not believe it is appropriate to record additional Tax Receivable Agreement liability until such time that Rosehill Operating Common Units are redeemed for shares of Class A Common Stock or cash.

Note 13 – Stockholders' Equity

Class A Common Stock. Holders of the Company's Class A Common Stock are entitled to one vote for each share held on all matters to be voted on by the stockholders. Holders of the Class A Common Stock and holders of the Class B Common Stock voting together as a single class, have the exclusive right to vote for the election of directors and on all other matters properly submitted to a vote of the stockholders. Additionally, the Sponsor and Tema agreed to restrictions on certain transfers of the Company's securities, which include, subject to certain exceptions, restrictions on the transfer of (i) 33% of their common stock through the first anniversary of the closing date of the Transaction and (ii) 67% of their common stock through the second anniversary of the closing date, provided that sales of common stock above \$18.00 per share will be permitted between the first and second anniversaries of the closing date of the Transaction. Further, in connection with underwritten offerings by the Sponsor and Tema, and subject to certain conditions, sales of common stock at a price reasonably expected to equal or exceed \$18.00 per share and in any case equal to or in excess of \$16.00 per share will be permitted.

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

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

In the Transaction, the Company issued to Rosehill Operating 29,807,692 shares of its Class B common stock and 4,000,000 warrants exercisable for shares of its Class A common stock in exchange for 4,000,000 warrants exercisable for Rosehill Operating common units. Rosehill Operating immediately distributed the warrants and shares of Class B common stock to Tema.

Class F Common Stock. Upon the completion of the Transaction in April 2017, all of the outstanding Class F Common Stock (the "Founder Shares") were automatically converted into 3,475,665 shares of Class A common stock in connection with the Transaction. As used herein, unless the context otherwise requires, the "Founder Shares" are deemed to include the shares of Class A common stock issued upon conversion of the Founder Shares and such converted shares continue to be subject to certain transfer restrictions.

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8% Series A Cumulative Perpetual Convertible Preferred Stock. Each share of Series A Preferred Stock has a liquidation preference of \$1,000 per share and is convertible, at the holder's option at any time, initially into 86.9565 shares of the Company's Class A Common Stock (which is equivalent to an initial conversion price of approximately \$11.50 per share of Class A Common Stock), subject to specified adjustments and limitations as set forth in the Certificate of Designations of Series A Preferred Stock (the "Certificate of Designations"). Under certain circumstances, the Company will increase the conversion rate upon a "fundamental change" as described in the Certificate of Designations.

The Company contributed the net proceeds of \$70.8 million from its issuance of 75,000 shares of Series A Preferred Stock and 5,000,000 warrants exercisable for shares of Class A Common Stock to Rosehill Operating. In connection with the issuance of the Series A Preferred Stock, the Sponsor transferred 476,540 of its Class A common shares to the PIPE Investors to consummate the Transaction. The net proceeds from the issuance of these preferred shares and warrants was attributed to the preferred stock, warrants and Class A shares contributed by the Sponsor issued to the PIPE Investors based on the relative fair value of those securities using, among other factors, the closing price of the Class A Common Stock and the closing price of the warrants on April 27, 2017.

Rosemore and the Sponsor backstopped redemptions by the public stockholders of the Company once 30% of the outstanding shares of Class A common stock were redeemed by purchasing 20,000 shares of Series A Preferred Stock for net proceeds of \$20 million pursuant to a side letter entered into between Rosemore, the Sponsor and the Company. The Company contributed to Rosehill Operating the net proceeds from the issuance of 20,000 shares of Series A Preferred Stock to Rosemore Holdings, Inc. and the Sponsor.

Upon issuance of the Series A Preferred Stock in April 2017, the nondetachable conversion option embedded in the Series A Preferred Stock was evaluated pursuant to ASC 470-20 and the Company determined that a beneficial conversion feature existed as of the closing date of the Transaction. The beneficial conversion feature was recognized separately from the Series A Preferred Stock in the Company's consolidated financial statements. The Company recognized in additional paid-in-capital, with an offsetting reduction in the carrying amount of the Series A Preferred Stock, the value of the beneficial conversion feature at the commitment date of \$6.7 million. Since the Company's Series A Preferred Stock is perpetual and has no stated maturity date and no restrictions on conversion, the value attributable to the nondetachable conversion option was recognized immediately as a non-cash deemed dividend on the date that the Series A Preferred Stock was issued. Future issuances of Series A Preferred Stock resulting from dividends paid-in-kind may, depending on the trading price per share of the Company's Class A Common Stock on the dividend date, contain a beneficial conversion option determined on the same basis as described above and, thus, result in additional non-cash deemed dividends which will reduce net income attributable to Rosehill Resources, Inc. common stockholders when such paid-in-kind preferred shares are granted.

The Company also ratably recognizes additional non-cash deemed dividends attributable to the Series A Preferred Stock discount which was created by the issuance of the warrants exercisable for shares of Class A Common Stock and the contribution of the Class A Common Stock, as the Series A Preferred Stock which was sold to the PIPE Investors is converted. Also, upon Series A Preferred Stock conversions, non-cash deemed dividends will be recognized and will reduce net income attributable to Rosehill Resources Inc, common stockholders.

The table below summarizes the Series A Preferred Stock dividends reflected in the Company's consolidated statements of operations for the three months ended March 31, 2018 (in thousands):

Series A Preferred Stock paid-in-kind	\$	964
Series A Preferred Stock paid in cash		964
Series A Preferred Stock dividends	<u>\$</u>	<u>1,928</u>

Warrants. Each of the Company's warrants entitles the registered holder to purchase one share of the Company's Class A Common Stock at a price of \$11.50 per share, subject to adjustment pursuant the terms of the warrant agreement. The warrants have a five-year term which commenced on April 27, 2017, upon the completion of the Transaction and will expire on April 27, 2022. The Company may call the warrants for redemption if the reported last sale price of the Class A Common Stock equals or exceeds \$21.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date the Company sends the notice of redemption to the warrant holders.

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There were 588,276 warrants issued in connection with the formation of the Company and 7,597,044 public warrants issued in connection with KLRE's IPO. Additionally, there were 8,408,838 warrants issued to the Sponsor and EarlyBirdCapital Inc. pursuant to a private placement (the "Private Placement Warrants") in connection with the Company's initial public offering (including the Class A common stock issuable upon exercise of the Private Placement Warrants). The Private Placement Warrants will not be redeemable by the Company and will be exercisable on a cashless basis so long as they are held by the initial holders or their permitted transferees. Otherwise, the Private Placement Warrants have terms and provisions that are identical to those of the warrants described above. If the Private Placement Warrants are held by holders other than the initial holders or their permitted transferees, the Private Placement Warrants will be redeemable by the Company and exercisable by the holders on the same basis as the warrants described above.

In connection with the closing of the Transaction, the Company issued 5,000,000 warrants to the PIPE Investors and 4,000,000 warrants to Tema. These warrants were issued on the same terms, and are subject to the same rights and obligations, as described above.

As of March 31, 2018, there were 25,594,158 warrants exercisable for shares of Class A Common Stock outstanding at a price of \$11.50. All warrants will expire on April 27, 2022.

Noncontrolling Interest. Noncontrolling interest represents the membership interest held by holders other than the Company. On April 27, 2017, upon the closing of the Transaction, the Company's noncontrolling interest percentage in Rosehill Operating, held by Tema, was approximately 84.0%. The Company has consolidated the financial position and results of operations of Rosehill Operating and reflected the proportionate interest held by Tema as a noncontrolling interest. The non-controlling interest will change when shares of Series A Preferred stock are converted into shares of Class A Common Stock, when shares of Class A Common Stock are issued in connection with the Company's long-term incentive compensation plan and when Tema elects to exchange the Class B Common Stock received in connection with the transaction for shares of our Class A Common Stock. At March 31, 2018, Tema held an approximate 82.7% noncontrolling interest in Rosehill Operating.

Note 14 - Stock Based Compensation

Long-Term Incentive Plan

On April 27, 2017, the stockholders of the Company approved the Rosehill Resources Inc. Long-Term Incentive Plan (the "LTIP"), which permits the grant of a number of different types of equity, equity-based, and cash awards to employees, directors and consultants including grant options, SARs, restricted stock, restricted stock units, stock awards, dividend equivalents, other stock-based awards, substitute awards, performance awards, or any combination of the foregoing, as determined by the Compensation Committee of the Board of Directors (the "Compensation Committee"), in its sole discretion. The purpose of the LTIP is to provide a means to attract and retain qualified service providers by affording such individuals a means to acquire and maintain stock ownership or awards, the value of which is tied to the performance of the Company. The LTIP also provides additional incentives and reward opportunities designed to strengthen such individuals' concern for the welfare of the Company and their desire to remain in its employ. At the plan's inception, 7,500,000 shares of Class A Common Stock were available for issuance under the LTIP.

Stock based compensation expense for restricted stock and restricted stock units is recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. Stock based compensation is included in general and administrative expense on the Company's consolidated statement of operations. Stock based compensation for the three months ended March 31, 2018 was \$1.5 million. We did not record any stock based compensation for the three months ended March 31, 2017. As of March 31, 2018, there were 5,640,077 shares of Class A Common Stock available for issuance under the LTIP, subject to adjustment pursuant to the plan.

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Restricted Stock

The following table sets forth the restricted stock transactions for the three months ended March 31, 2018:

	Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding - December 31, 2017	105,666	\$ 7.95
Granted	—	—
Vested	—	—
Forfeited	—	—
Outstanding - March 31, 2018	105,666	\$ 7.95

As of March 31, 2018, there was \$0.2 million of unrecognized compensation cost related to nonvested restricted stock which is expected to be recognized over a weighted-average period of 0.2 years.

Restricted Stock Units

The following table sets forth time-based restricted stock unit transactions for the three months ended March 31, 2018:

	Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested - December 31, 2017	713,919	\$ 9.88
Granted	501,333	6.60
Vested	—	—
Forfeited	—	—
Nonvested - March 31, 2018	1,215,252	\$ 8.53

As of March 31, 2018, there was \$8.4 million of unrecognized compensation cost related to nonvested restricted stock units which is expected to be recognized over a weighted-average period of 1.2 years.

Market Based Performance Restricted Stock Units

On March 26, 2018, the Company granted 432,973 target shares of market based performance awards at a fair value of \$8.99 per share to certain employees. The market based performance awards cliff vest on December 31, 2020. The performance criteria applicable to such awards is relative total shareholder return, which measures the Company's total shareholder return as compared to the total shareholder return of the peer group identified by the Compensation Committee of the Board of Directors. As of March 31, 2018, there was \$3.9 million of unrecognized compensation cost related to shares of market based performance restricted stock units which is expected to be recognized over a weighted average period of 1.4 years.

Cash-Settled Restricted Stock Units

On March 26, 2018, the Company granted to employees 92,222 shares of cash-settled restricted stock units. Cash-settled restricted stock units entitle the holder to receive the cash equivalent of one share of common stock for each unit when the unit vests. These restricted stock units grade vest over a three-year period. Cash-settled restricted stock units are classified as liabilities and are remeasured at each reporting date until settled. At March 31, 2018, the fair value of each share of cash-settled restricted stock unit was \$5.87.

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Retirement Benefits

The Company has not maintained, and does not currently maintain, a defined benefit pension plan or nonqualified deferred compensation plan. The Company currently maintains a retirement plan pursuant to which employees are permitted to contribute portions of their base compensation to a tax-qualified retirement account. The Company provides matching contributions equal to 100% of elective deferrals up to 3% of eligible compensation and 50% of elective deferrals from 3% to a maximum of 5% of eligible compensation, subject to the applicable contributions limits. Matching contributions are immediately fully vested. The Company's matching contributions under the plan totaled \$0.1 million and less than \$0.1 million for the three months ended March 31, 2018 and 2017, respectively.

Note 15 – Transactions with Related Parties

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

Transition Service Agreement. On April 27, 2017 in connection with the closing of the Transaction, the Company entered into a Transition Service Agreement ("TSA") with Tema to provide certain services to each other following the closing of the Transaction. Pursuant to the terms, the Company agreed to provide to Tema (i) operation services for the assets excluded from the Transaction, (ii) divestment assistance, and (iii) office space to Gateway. Tema agreed to provide to the Company (i) human resources and benefits administration, (ii) information technology and telecommunications, (iii) general business insurance, and (iv) legal services. The TSA terminates on October 27, 2018, unless terminated or discontinued earlier in accordance with the terms and condition of the TSA. The amounts incurred for the three months ended March 31, 2018 and the amounts due from and payable to Tema at March 31, 2018 and December 31, 2017 were less than \$0.1 million. The TSA was not effective for the three months ended March 31, 2017.

Gateway Gathering and Marketing ("Gateway"). A portion of Rosehill Operating's oil, natural gas and NGLs is sold to Gateway, a subsidiary of Rosemore. For the three months ended March 31, 2018 and 2017, revenues from production sold to Gateway were approximately \$51.5 million and \$13.8 million, respectively. As of March 31, 2018 and December 31, 2017, the related receivable due from Gateway was approximately \$28.6 million and \$13.6 million, respectively. During the three months ended March 31, 2018 and 2017, approximately \$0.3 million and \$0.2 million, respectively was incurred related to a marketing and gathering agreement with Gateway. As of March 31, 2018, there was no payable due to Gateway related to this agreement and as of December 31, 2017, the payable due to Gateway related to this agreement was \$0.2 million.

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

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Cost Allocations. For periods prior to the Transaction, Tema allocated certain overhead costs associated with general and administrative services, including insurance, professional fees, facilities, information services, human resources and other support departments related to Rosehill Operating. Also included in the cost allocations are costs associated with employees covered under Rosemore's defined benefit plan and long-term incentive compensation plan. Employees of Rosehill Operating no longer participate in either employee benefit plan. Overhead costs allocated were \$1.5 million for the three months ended March 31, 2017 and there were no overhead costs allocated for the three months ended March 31, 2018. Where costs incurred related to Rosehill Operating's assets in the periods prior to the Transaction could not be determined by specific identification, the costs were primarily allocated proportionately on a Boe basis. Management believes the allocations are a reasonable reflection of the utilization of services provided. However, the allocations may not fully reflect the expense that would have been incurred had Rosehill Operating's assets been a stand-alone company during the three months ended March 31, 2017.

Note 16 – Commitments and Contingencies

Commitments

Rights of Securities Holders. The holders of the Founder Shares, the Series A Preferred Stock, the Private Placement Warrants and unregistered Class A Common Stock were entitled to registration rights pursuant to certain agreements of the Company. In May 2017, the Company filed a registration statement registering the Founder Shares, the Series A Preferred Stock (and any shares of common stock issuable upon conversion of the Series A Preferred Stock), the Private Placement Warrants (and any shares of Class A Common Stock issuable upon the exercise of the Private Placement Warrants), the unregistered Class A Common Stock and the shares of common stock issuable upon exercise of the outstanding Public Warrants. The registration statement was declared effective on June 19, 2017.

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

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

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

Contingencies

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

Environmental Matters. Environmental assessments and remediation efforts are conducted at multiple locations, primarily previously owned or operated facilities. Environmental and clean-up costs are accrued when it is both probable that a liability has been incurred and the amount can be reasonably estimated. Accruals for losses from environmental remediation obligations generally are recorded no later than completion of the remediation feasibility study. Estimated costs, which are based upon experience and assessments, are recorded at undiscounted amounts without considering the impact of inflation and are adjusted periodically as additional or new information is available. Environmental assessments and remediation costs for the three months ended March 31, 2018 and 2017 did not have a material adverse effect on the financial condition, results of operations and cash flows.

Note 17 - Subsequent Events

On April 6, 2018, the Company's second amended and restated certificate of incorporation was amended to authorize an additional 155,000,000 shares of the Company's Class A Common Stock, par value \$0.0001 per share, which increased the Company's authorized capital stock to include 250,000,000 shares of Class A Common Stock.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the accompanying condensed consolidated financial statements and the notes thereto contained elsewhere in this Quarterly Report on Form 10-Q. Unless the context otherwise requires, references to (i) “Rosehill Resources,” “the Company,” “our company,” “we,” “our” and “us,” or like terms, refer to Rosehill Resources Inc. and its subsidiaries, currently Rosehill Operating Company, LLC, and (ii) “Rosehill Operating” refer to Rosehill Operating Company, LLC, an entity of which we act as the sole managing member and of whose common units we currently own approximately 17.3%.

On April 27, 2017, we consummated a reverse recapitalization (the “Transaction”) pursuant to which we acquired a portion of the equity of Rosehill Operating. The Transaction was accounted for in a manner similar to a reverse recapitalization because the former owners of Rosehill Operating have control over the combined company through their 84% ownership of the common stock of the Company. The historical operations of Rosehill Operating are deemed to be those of the Company. Thus, the financial statements included in this Quarterly Report on Form 10-Q reflect (i) the historical operating results of Rosehill Operating prior to the Transaction; (ii) the combined results of the Company following the Transaction; (iii) the assets and liabilities of Rosehill Operating at their historical cost; and (iv) the Company’s equity and earnings per share for all periods (both pre- and post-Transaction) presented.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements, other than statements of historical fact included in this report, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report on Form 10-Q, the words “could,” “believe,” “anticipate,” “intend,” “estimate,” “expect,” “project” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on management’s current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2017 (our “Annual Report on Form 10-K”), and the risk factors and other cautionary statements contained in our other filings with the United States Securities and Exchange Commission (“SEC”). These forward-looking statements are based on management’s current beliefs as of the date of this Quarterly Report on Form 10-Q, based on currently available information, as to the outcome and timing of future events.

Forward-looking statements may include statements about

- our ability to realize the anticipated benefits of the acquisition of mineral rights, royalty interest and other associated assets in the Southern Delaware Basin that was consummated on December 8, 2017 (the “White Wolf Acquisition”);
- our business strategy;
- our reserves;
- our drilling prospects, inventories, projects and programs;
- our ability to replace the reserves we produce through drilling and property acquisitions;
- our financial strategy, liquidity and capital required for our development program;
- our realized oil, natural gas and natural gas liquids (“NGL”) prices;
- the timing and amount of our future production of oil, natural gas and NGLs;
- our hedging strategy and results;
- our future drilling plans;
- our competition and government regulations;

- our ability to obtain permits and governmental approvals;
- our pending legal or environmental matters;
- our marketing of oil, natural gas and NGLs;
- our leasehold or business acquisitions;
- our costs of developing our properties;
- general economic conditions;
- credit markets;
- uncertainty regarding our future operating results; and
- our plans, objectives, expectations and intentions contained in this Quarterly Report on Form 10-Q that are not historical

You should not place undue reliance on these forward-looking statements. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including but not limited to those risks described under Risk Factors in our Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make.

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

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

All forward-looking statements, expressed or implied, included in this Quarterly Report on Form 10-Q are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

Overview

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

We have no direct operations and no significant assets other than our ownership interest in Rosehill Operating, an entity of which we act as the sole managing member and of whose common units we currently own approximately 17.3% (or 82.7%) assuming the conversion of Rosehill Operating Series A preferred units into Rosehill Operating Common Units).

How We Evaluate Our Operations

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

- production volumes;
- operating expenses on a per Barrel of oil equivalent (“Boe”);
- cost of reserve additions from drilling operations; and
- Adjusted EBITDAX as defined under “Non-GAAP Financial Measure”.

Market conditions

The oil and natural gas industry is cyclical and commodity prices are highly volatile. Our industry is currently experiencing a recovery from a severe down cycle that began in late 2014 and which persisted through 2016. In the second half of 2014, oil prices began a rapid and significant decline as the global oil supply began to outpace demand. During 2015, 2016 and early 2017, the global oil supply continued to outpace demand, resulting in a sustained decline in realized prices for oil production. In general, this imbalance between supply and demand reflected the significant supply growth achieved in the United States as a result of shale drilling and oil production increases by certain other countries, including the efforts of Russia and Saudi Arabia to retain market share, combined with only modest demand growth in the United States and less-than-expected demand in other parts of the world, particularly in Europe and China. NGL prices generally correlate to the price of oil. Prices for domestic natural gas began to decline during the third quarter of 2014 and continued to be weak during 2015 through 2017. This decline is primarily due to an imbalance between supply and demand across North America. Due to these and other factors, commodity prices cannot be accurately predicted.

Realized Prices

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

	Three Months Ended March	
	31,	
	2018	2017
Crude Oil (per Bbl)	\$ 60.72	\$ 48.63
Natural Gas (per Mcf)	\$ 2.32	\$ 2.89
NGLs (per Bbl)	\$ 19.28	\$ 19.01

Lower commodity prices in the future could result in impairments of our properties and may materially and adversely affect our future business, financial condition, results of operations, operating cash flows, liquidity, or ability to finance planned capital expenditures. Lower oil, natural gas, and NGL prices may also reduce the borrowing base under our credit agreement, which may be determined at the discretion of the lenders and is based on the collateral value of our proved reserves that have been mortgaged to the lenders. Alternatively, higher oil and natural gas prices may result in significant non-cash fair value losses being incurred on our commodity derivatives, which could cause us to experience net losses when oil and natural gas prices rise.

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

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Oil sales	\$ 5,155	\$ 1,378
Natural gas sales	175	189
NGL sales	249	182
Total revenues	\$ 5,579	\$ 1,749

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

Sources of Our Revenues

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

Commodity Revenues: (1)(2)	Three Months Ended March 31,	
	2018	2017
Oil sales	93%	79%
Natural gas sales	3	11
NGL sales	4	10
	100%	100%

(1) Percentage totals may not sum or recalculate due to rounding

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

Operational and Financial Highlights for the Three Months Ended March 31, 2018

Production Results

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

	Three Months Ended March 31,	
	2018	2017
Oil (MBbls)	849	283
Natural gas (MMcf)	752	656
NGL (MBbls)	129	96
Total (MBoe)	1,103	489
Average net daily production (Boe/d)	12,256	5,430

As reservoir pressures decline, production from a given well or formation decreases. Growth in our future production and reserves will depend on our ability to continue to add proved reserves in excess of our production. Accordingly, we plan to maintain our focus on adding reserves through drilling as well as acquisitions. Our ability to add reserves through development projects and acquisitions is dependent on many factors, including our ability to borrow or raise capital, obtain regulatory approvals, procure contract drilling rigs and personnel and successfully identify and consummate acquisitions.

Derivative Activity

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

Below is a summary of our open commodity derivative instrument positions for 2018 and beyond as of March 31, 2018:

	2018	2019	2020	2021	2022
Commodity derivative swaps					
Oil:					
Notional volume (Bbls)	2,044,000	2,664,000	960,000	360,000	300,000
Weighted average fixed price (\$/Bbl)	\$ 55.04	\$ 53.59	\$ 51.16	\$ 50.42	\$ 50.12
Natural Gas:					
Notional volume (MMBtu)	2,880,000	2,220,000	1,500,000	1,200,000	1,200,000
Weighted average fixed price (\$/MMbtu)	\$ 3.02	\$ 2.88	\$ 2.84	\$ 2.85	\$ 2.87
Commodity derivative two-way collars					
Oil:					
Notional volume (Bbls)	210,000	420,000	—	—	—
Weighted average ceiling price (\$/Bbl)	\$ 58.25	\$ 60.03	\$ —	\$ —	\$ —
Weighted average floor price (\$/Bbl)	\$ 55.00	\$ 53.14	\$ —	\$ —	\$ —
Commodity derivative three-way collars					
Oil:					
Notional volume (Bbls)	—	240,000	—	—	—
Weighted average ceiling price (\$/Bbl)	\$ —	\$ 61.75	\$ —	\$ —	\$ —
Weighted average floor price (\$/Bbl)	\$ —	\$ 52.50	\$ —	\$ —	\$ —
Weighted average sold put option price (\$/Bbl)	\$ —	\$ 42.50	\$ —	\$ —	\$ —

See Note 5 - *Derivative Instruments* in the Condensed Consolidated Financial Statements under Part I, Item 1 of this Quarterly Report on Form 10-Q for additional information about our derivatives

Results of Operations

Three Months Ended March 31, 2018 Compared to Three Months Ended March 31, 2017

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

	Three Months Ended March 31,		Change	Change %
	2018	2017		
(In thousands)				
Revenues:				
Oil sales	\$ 51,554	\$ 13,783	\$ 37,771	274 %
Natural gas sales	1,745	1,894	(149)	(8)
NGL sales	2,487	1,824	663	36
Total revenues	<u>\$ 55,786</u>	<u>\$ 17,501</u>	<u>\$ 38,285</u>	<u>219 %</u>
Average sales price (1):				
Oil (per Bbl)	\$ 60.72	\$ 48.63	\$ 12.09	25 %
Natural gas (per Mcf)	2.32	2.89	(0.57)	(20)
NGLs (per Bbl)	19.28	19.01	0.27	1
Total (per Boe)	<u>\$ 50.58</u>	<u>\$ 35.81</u>	<u>\$ 14.77</u>	<u>41 %</u>
Total, including effects of gain (loss) on settled commodity derivatives, net (per Boe)	<u>\$ 47.82</u>	<u>\$ 39.71</u>	<u>\$ 8.11</u>	<u>20 %</u>
Net Production:				
Oil (MBbls)	849	283	566	200 %
Natural gas (MMcf)	752	656	96	15
NGLs (MBbls)	129	96	33	34
Total (MBoe)	<u>1,103</u>	<u>489</u>	<u>614</u>	<u>126 %</u>
Average daily net production volume:				
Oil (Bbls/d)	9,433	3,149	6,284	200 %
Natural gas (Mcf/d)	8,356	7,288	1,068	15
NGLs (Bbls/d)	1,433	1,066	367	34
Total (Boe/d)	<u>12,256</u>	<u>5,430</u>	<u>6,826</u>	<u>126 %</u>

(1) Excluding the effects of realized and unrealized commodity derivative transactions unless noted otherwise.

The increase in total revenues was due to higher sales volumes and higher average sales prices. The increase in average sales price contributed approximately \$9.9 million of the increase in total revenues and the increase in sales volume contributed approximately \$28.4 million of the increase in total revenues. The increase in sales volume is primarily attributable to additional wells going into production in 2017 and 2018.

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

	Three Months Ended		Change	Change %
	March 31,			
	2018	2017		
(In thousands, except price data)				
Operating expenses:				
Lease operating expenses	\$ 8,885	\$ 1,617	\$ 7,268	449 %
Production taxes	2,640	808	1,832	227
Gathering and transportation	712	726	(14)	(2)
Depreciation, depletion, amortization and accretion	20,809	8,231	12,578	153
Exploration costs	436	317	119	38
General and administrative, excluding stock based compensation	5,635	1,465	4,170	285
Stock based compensation	1,462	—	1,462	100
Transaction costs	—	1,094	(1,094)	(100)
(Gain) loss on sale of property and equipment	133	(11)	144	(1,309)
Total operating expenses	\$ 40,712	\$ 14,247	\$ 26,465	186 %
Operating expenses per Boe:				
Lease operating expenses	\$ 8.06	\$ 3.31	\$ 4.75	144 %
Production taxes	2.39	1.65	0.74	45
Gathering and transportation	0.65	1.49	(0.84)	(56)
Depreciation, depletion, amortization and accretion	18.87	16.84	2.03	12
Exploration costs	0.40	0.65	(0.25)	(38)
General and administrative, excluding stock based compensation	5.11	3.00	2.11	70
Stock based compensation	1.33	—	1.33	100
Transaction costs	—	2.24	(2.24)	(100)
(Gain) loss on sale of property and equipment	0.12	(0.02)	0.14	(700)
Total operating expenses per Boe	\$ 36.91	\$ 29.16	\$ 7.75	27 %

Lease operating expenses ("LOE"). The increase in LOE was due to higher sales volumes and higher average LOE rate. The increase in average LOE per Boe contributed approximately \$5.2 million of the increase in LOE and the increase in sales volume contributed approximately \$2.1 million of the increase in LOE. The increase in sales volume is primarily attributable to additional wells going into production throughout 2017 and 2018. The increase to the LOE rate is primarily due to increases in water disposal costs and equipment rentals. We expect to continue incurring increased water disposal costs until we have installed infrastructure that allows us to reduce the costs we are incurring to haul water away.

Production taxes. Production taxes are primarily based on the market value of our wellhead production. The increase was primarily due to increased total revenues. Our total revenues increased by 219% and production taxes increased by 227%. Production taxes as a percentage of total revenues were approximately 4.7% and 4.6% for the three months ended March 31, 2018 and 2017, respectively.

Gathering and transportation. Gathering and transportation expenses are primarily incurred with natural gas production. The decrease to gathering and transportation expenses decreased by approximately \$1.0 million due to a decrease in gathering and transportation per Boe and increased by approximately \$1.0 million due to an increase in sales volume. The gathering and transportation per Boe decreased due to the disposition of our Barnett Shale assets in the fourth quarter of 2017, which had higher gathering and transportation expenses per Boe.

Depreciation, Depletion, Amortization and Accretion Expense (“DD&A”). See the following table for a breakdown of DD&A:

	Three Months Ended		Change	Change %
	March 31,			
	2018	2017		
(In thousands)				
Components of DD&A				
Depreciation, depletion, and amortization of oil and gas properties	\$ 20,551	\$ 8,066	\$ 12,485	155 %
Depreciation of other property and equipment	129	99	30	30
Accretion expense	129	66	63	95
	<u>\$ 20,809</u>	<u>\$ 8,231</u>	<u>\$ 12,578</u>	<u>153 %</u>
DD&A per MBoe				
Depreciation, depletion, and amortization of oil and gas properties	\$ 18.63	\$ 16.49	\$ 2.14	13 %
Depreciation of other property and equipment	0.12	0.21	(0.09)	(43)
Accretion expense	0.12	0.14	(0.02)	(14)
Total DD&A per MBoe	<u>\$ 18.87</u>	<u>\$ 16.84</u>	<u>\$ 2.03</u>	<u>12 %</u>

DD&A for oil and gas properties increased by approximately \$12.5 million due to an increase of approximately \$10.1 million related to an increase in production and an increase of approximately \$2.4 million due to an increase in DD&A rate.

Exploration costs. Exploration costs increased primarily due to an increase in geological and geophysical (“G&G”) hardware and software maintenance costs and other G&G related costs of \$0.2 million. On a Boe basis, exploration costs increased due to the factors discussed above.

General and Administrative (“G&A”), excluding stock based compensation. The increase to G&A expense was primarily due to an increase in payroll and payroll related costs of approximately \$1.7 million due to an increase in full-time headcount. Also, there was an increase of approximately \$1.0 million for public company expenses such as board of director fees and expenses, public relations costs, filing fees, audit fees, and legal fees. Furthermore, we incurred an increase of approximately \$0.7 million for consultants to assist with various corporate functions such as accounting and human resources. These expenses were not incurred at the same levels, or at all, in periods prior to the Transaction. The remaining increase primarily relates to an increase in general corporate costs such as insurance, office leases, and employee costs.

Stock based compensation. In April 2017, the stockholders approved the Rosehill Resources Inc. Long-Term Incentive Plan and grants were made in 2017. There was no stock based compensation plan effective during the three months ended March 31, 2017.

Transaction costs. We incurred transaction expenses of \$1.1 million during the three months ended March 31, 2017 related to the Transaction. We do not expect to incur such transaction expense from our normal operations going forward.

(Gain) loss on sale of property and equipment. The loss on sale of property and equipment primarily relates to the write-off of non-producing assets.

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

	Three Months Ended		Change	Change %
	March 31,			
	2018	2017		
(In thousands)				
Other (expense) income:				
Interest expense, net	\$ (3,867)	\$ (543)	\$ (3,324)	612 %
Gain (loss) on commodity derivative instruments, net	(21,285)	1,899	(23,184)	(1,221)
Other income (expense), net	132	(110)	242	(220)
Total other income (expense), net	<u>\$ (25,020)</u>	<u>\$ 1,246</u>	<u>\$ (26,266)</u>	<u>(2,108)%</u>

Interest Expense. The increase was primarily due to interest incurred of \$2.5 million on the issuance of \$100 million aggregate principal amount of 10.00% Senior Secured Second Lien Notes issued on December 8, 2017. There was also an increase of \$0.7 million to amortization of debt issuance costs related to the write-off of the unamortized debt issuance costs associated with our old revolving credit facility when we secured a new revolving credit facility in March 2018.

Loss on commodity derivatives, net. Net gains and losses on our commodity derivatives are a function of fluctuations in the underlying commodity prices versus fixed hedge prices and the monthly settlement of the instruments. The total net loss for three months ended March 31, 2018 is comprised of net losses of \$3.0 million on cash settlements and net losses of \$18.2 million on mark-to-market adjustments on unsettled positions. The total net loss for the three months ended March 31, 2017 is comprised of net losses of \$0.3 million on cash settlements and net gains of \$2.2 million on marked-to-market adjustments on unsettled positions.

Capital Requirements and Sources of Liquidity

Overview

Our development and acquisition activities require us to make significant operating and capital expenditures. Historically our primary sources of liquidity have been cash flows from operations, financing entered into in connection with the Transaction and the White Wolf Acquisition, proceeds from the sale of assets in the Barnett Shale and borrowings under our Amended and Restated Credit Agreement. We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements, including capital expenditures, working capital requirements, and other liquidity requirements, through at least the next 12 months. Our primary uses of cash have been for the acquisition and development of oil and natural gas properties, payments of operating and general and administrative costs, and interest payment on outstanding debt.

We expect to continue funding our short-term and long-term growth with cash on hand, cash flow from operations, availability under our Amended and Restated Credit Agreement, the issuance of up to \$50 million of additional Series B Preferred Stock and/or opportunistically accessing the capital markets. The amount and allocation of future capital expenditures will depend upon a number of factors, including the number and size of acquisition opportunities, our cash flows from operations, investing and financing activities, and our ability to assimilate acquisitions and execute our drilling program. We review our capital expenditure forecast periodically to assess changes in current and projected cash flows, acquisition and divestiture activities, debt requirements, and other factors. If we are unable to obtain funds when needed or on acceptable terms, we may not be able to complete acquisitions that may be favorable to us or finance the capital expenditures necessary to execute on our drilling program.

Because we are the operator of a high percentage of our acreage, the timing and level of our capital spending is largely discretionary and within our control. We could choose to defer a portion of these planned capital expenditures depending on a variety of factors, including, but not limited to, the success of our drilling activities, prevailing and anticipated prices for oil, natural gas and NGLs, the availability of necessary equipment, infrastructure and capital, the receipt and timing of required regulatory permits and approvals, seasonal conditions, drilling and acquisition costs, and the level of participation by other working interest owners. A deferral of planned capital expenditures, particularly with respect to drilling and completing new wells, could result in a reduction in anticipated production and cash flows. Additionally, if we curtail our drilling program, we may lose a portion of our acreage through lease expirations. In addition, we may be required to reclassify some portion of our reserves currently booked as proved undeveloped reserves if such a deferral of planned capital expenditures means we will be unable to develop such reserves within five years of their initial booking.

In the event we make any acquisitions and the amount of capital required is greater than the amount we have available for acquisitions at that time, we could be required to reduce the expected level of capital expenditures and/or seek additional capital. If we require additional capital for that or other reasons, we may seek such capital through traditional reserve base borrowings, joint venture partnerships, production payment financings, asset sales, offerings of debt or equity securities, or other means.

Working Capital Analysis

We define working capital as current assets less current liabilities. At March 31, 2018 and December 31, 2017, we had working capital deficits of \$63.1 million and \$59.9 million, respectively. We may continue to incur working capital deficits in the future due to liabilities incurred in connection with our drilling program until revenue is recognized from the associated production. Collection of our accounts receivable has historically been timely, and losses associated with uncollectible receivables have historically not been significant. Cash and cash equivalents totaled \$6.6 million and \$20.7 million, at March 31, 2018 and December 31, 2017, respectively. The Company's borrowing base under its credit facility increased from \$75 million to \$150 million, effective March 28, 2018, with borrowings of \$79.6 million outstanding at March 31, 2018. We expect that the pace of development activities, production volumes, commodity prices, and differentials to NYMEX prices for oil and natural gas production will be the most significant variables affecting our working capital.

Cash Flows from Operating, Investing and Financing Activities

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

	Three Months Ended March	
	31,	
	2017	2016
	(In thousands)	
Net cash provided by operating activities	\$ 18,872	\$ 8,758
Net cash used in investing activities	(114,114)	(8,201)
Net cash provided by (used in) financing activities	77,111	(2,275)
Net decrease in cash and cash equivalents	<u>\$ (18,131)</u>	<u>\$ (1,718)</u>

Operating Activities. Net cash provided by operating activities is primarily driven by the changes in commodity prices, operating expenses, production volumes, and associated changes in working capital. The increase in net cash provided by operating activities of \$10.1 million was primarily due to an increase in production and realized prices increasing revenues \$38.3 million.

Investing Activities. Net cash used in investing activities for the three months ended March 31, 2018 included \$109.3 million attributable to the development of oil and natural gas properties and mineral leases and \$4.0 million for the release of the escrow deposit for the White Wolf Acquisition. Net cash used in investing activities included \$8.2 million attributable to the development of oil and natural gas properties and mineral leases for the three months ended March 31, 2017.

Financing Activities. Net cash provided by financing activities for the three months ended March 31, 2018 primarily consists of net borrowings \$79.6 million under our revolving credit facilities partially offset by \$1.6 million of debt issuance costs and \$1.0 million of dividend payments. Net cash used in financing activities for the three months ended March 31, 2017 primarily consisted of a \$2.3 million distribution to the parent.

Debt Agreements

Amended and Restated Credit Agreement. On March 28, 2018, Rosehill Operating and JPMorgan Chase Bank, N.A., as Administrative Agent and Issuing Bank, and each of the lenders from time to time party thereto (collectively, the "Lenders") entered into an Amended and Restated Credit Agreement (the "Amended and Restated Credit Agreement") to refinance and replace Rosehill Operating's previous credit facility with PNC Bank, National Association (the "Previous Credit Facility").

Pursuant to the terms and conditions of the Amended and Restated Credit Agreement, Rosehill Operating's revolving line of credit and a letter of credit facility increased from up to \$250 million under the Previous Credit Facility to up to \$500 million under the Amended and Restated Credit Agreement, subject to a borrowing base that is determined semi-annually by the Lenders based upon Rosehill Operating's financial statements and the estimated value of its oil and gas properties, in accordance with the Lenders' customary practices for oil and gas loans. Rosehill Operating's initial borrowing base is \$150 million, which represents an increase of \$75 million from the borrowing base in effect under the Previous Credit Facility. The first scheduled redetermination under the Amended and Restated Credit Agreement will occur on or about August 1, 2018 and, thereafter beginning in 2019, on or about April 1st and October 1st of each year. Rosehill Operating and the Lenders may each request an additional redetermination of the borrowing base once between two successive scheduled redeterminations. The borrowing base will be automatically reduced upon the issuance or incurrence of debt under senior unsecured notes or upon Rosehill Operating's or any of its subsidiary's disposition of properties or liquidation of hedges in excess of certain thresholds. Amounts borrowed under the Amended and Restated Credit Agreement may not exceed the borrowing base. The initial borrowing increase may be increased with the consent of all lenders. The senior secured revolving credit facility also does not permit Rosehill Operating to borrow funds if at the time of such borrowing, Rosehill Operating is not in pro forma compliance with the financial covenants. Additionally, Rosehill Operating's borrowing base may be reduced in connection with the subsequent redetermination of the borrowing base. The amounts outstanding under the senior secured revolving credit facility are secured by first priority liens on substantially all of Rosehill Operating's oil and natural gas properties and associated assets and all of the stock of Rosehill Operating's material operating subsidiaries that are guarantors of the senior secured revolving credit facility. If an event of default occurs under the senior secured revolving credit facility, JPMorgan Chase Bank, N.A. will have the right to proceed against the pledged capital stock and take control of substantially all of Rosehill Operating and Rosehill Operating's material operating subsidiaries that are guarantors' assets. There are currently no guarantors under the senior secured revolving credit facility.

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

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

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

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

We were in compliance with all of the financial ratios in the Amended and Restated Credit Agreement for the measurement period ended March 31, 2018.

For additional information regarding our Amended and Restated Credit Agreement, see Note 8 - *Long-term Debt -Revolving Credit Facility* in the Notes to the Consolidated Financial Statements.

Second Lien Notes. On December 8, 2017, Rosehill Operating issued and sold \$100,000,000 in aggregate principal amount of 10.00% Senior Secured Second Lien Notes due January 31, 2023 (the “Second Lien Notes”) to EIG under and pursuant to the terms of that certain Note Purchase Agreement, dated as of December 8, 2017 (as amended by the Limited Consent and First Amendment to the Note Purchase Agreement, dated as of March 28, 2018, the “Note Purchase Agreement”), among Rosehill Operating and us, the holders of the Second Lien Notes party thereto (the “Holders”) and U.S. Bank National Association, as agent and collateral agent on behalf of the Holders (the “Agent”).

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

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

The Note Purchase Agreement requires Rosehill Operating to maintain a leverage ratio, which is the ratio of the sum of all of Rosehill Operating’s Total Debt to Annualized EBITDAX (as such terms are defined in the Note Purchase Agreement) for the four fiscal quarters then ended, of not greater than 4.00 to 1.00.

The Note Purchase Agreement contains various affirmative and negative covenants. The negative covenants may limit Rosehill Operating’s ability to, among other things, incur additional indebtedness (including pursuant to senior unsecured notes), make investments, make or declare dividends or distributions, redeem its preferred equity, acquire or dispose of oil and gas properties and other assets or engage in certain other transactions without the prior consent of the Holders, subject to various exceptions, qualifications and value thresholds. Rosehill Operating is also required to meet minimum commodity hedging levels based on its expected production on an ongoing basis.

We are subject to certain limited restrictions under the Note Purchase Agreement, including (without limitation) a negative pledge with respect to our equity interests in Rosehill Operating and a contingent obligation to guarantee the Second Lien Notes upon request by the Holders in the event that we incur debt obligations.

The obligations of Rosehill Operating under the Note Purchase Agreement are secured on a second-lien basis by the same collateral that secures its first-lien obligations. In connection with the Notes Purchase Agreement, Rosehill Operating granted first-lien and second-lien security interests over additional collateral to meet the minimum mortgage requirements under the Note Purchase Agreement.

Preferred Stock and Warrants

We are authorized to issue up to 1,000,000 shares of our preferred stock, of which 150,000 have been designated as Series A Preferred Stock and 210,000 have been designated as Series B Preferred Stock. On April 27, 2017, we issued 75,000 shares of Series A Preferred Stock and 5,000,000 warrants (exercisable for shares of Class A Common Stock) in a private placement to certain qualified institutional buyers and accredited investors for net proceeds of \$70.8 million. We issued an additional 20,000 shares of Series A Preferred Stock to Rosemore Holdings, Inc. and KLR Energy Sponsor, LLC in connection with the closing of the Transaction. See Note 2 - *Summary of Significant Accounting Policies* in the Condensed Consolidated Financial Statements under Part I, Item I of this Quarterly Report on Form 10-Q for additional information regarding our preferred stock and warrants issuance.

On December 8, 2017, in connection with the White Wolf Acquisition, we issued 150,000 shares of Series B Preferred Stock, par value of \$0.0001 per share, to EIG (the "Series B Preferred Stock Purchasers") for an aggregate purchase price of \$150.0 million, less transaction costs and up-front fees of approximately \$10.0 million. The Company has the option, subject to certain conditions, to sell from time to time up to an additional 50,000 shares of Series B Preferred Stock, in the aggregate, to the Series B Preferred Stock Purchasers and their transferees for a purchase price of \$1,000 per share of Series B Preferred Stock. Such option terminates on December 8, 2018.

Critical Accounting Policies and Estimates

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

- Successful efforts method of accounting for oil and natural gas activities
- Impairment of oil and natural gas properties
- Oil and natural gas reserve quantities
- Revenue recognition
- Commodity derivative instruments
- Asset retirement obligations

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

Recently Issued Accounting Pronouncements

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

JOBS Act

On April 5, 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") was signed into law. The JOBS Act contains provisions that, among other things, relax certain reporting requirements for qualifying public companies. We qualify as an "emerging growth company" and under the JOBS Act are allowed to comply with new or revised accounting pronouncements based on the effective date for private (not publicly traded) companies. We have elected to delay the adoption of new or revised accounting standards, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Additionally, we are in the process of evaluating the benefits of relying on the other reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if, as an "emerging growth company", we choose to rely on such exemptions we may not be required to, among other things, (i) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404, (ii) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the Dodd-Frank Wall Street Reform and Consumer Protection Act, (iii) comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements (auditor discussion and analysis), and (iv) disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the CEO's compensation to median employee compensation. These exemptions will apply for a period of five years following the completion of our initial public offering or until we are no longer an "emerging growth company," whichever is earlier.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk, including the effects of adverse changes in commodity prices and interest rates as described below. The primary objective of the following information is to provide quantitative and qualitative information about our potential exposure to market risks. The term “market risk” refers to the risk of loss arising from adverse changes in oil and natural gas prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. All of our market risk sensitive instruments were entered into for purposes other than speculative trading.

Commodity Price Risk

Our major market risk exposure is in the pricing that we receive for oil, natural gas, and NGLs production. Pricing for oil, natural gas, and NGLs has been volatile and unpredictable for several years, and we expect this volatility to occur in the future. The prices we receive for oil, natural gas, and NGLs production depend on numerous factors beyond our control.

To achieve a more predictable cash flow and reduce exposure to adverse fluctuations in commodity prices, we have historically used commodity derivative instruments, such as swaps, two-way costless collars, and three-way costless collars, to hedge price risk associated with a portion of our anticipated oil and natural gas production. By removing a significant portion of the price volatility associated with our oil and natural gas production, we mitigate, but do not eliminate, the potential negative effects of declines in benchmark oil and natural gas prices on our cash flow from operations for those periods. We are under no obligation to hedge a specific portion of our production. See more information on our derivative activity in Item 2 of Part II, specifically the information set forth under the caption “*Derivative Activity*”.

Counterparty Exposure and Customer Credit Risk

Our commodity derivative contracts expose us to credit risk in the event of nonperformance by counterparties. While we do not require counterparties to our commodity derivative contracts to post collateral, we do evaluate the credit standing of such counterparties as we deem appropriate. The counterparty to our commodity derivative contracts currently in place, all of which will either be transferred to us or settled in connection with the closing of the Transaction, have investment grade ratings.

Our principal exposures to credit risk are through receivables resulting from joint interest receivables and receivables from the sale of our oil and natural gas production due to the concentration of its oil and natural gas receivables with several significant customers. The inability or failure of our significant customers to meet their obligations to us or their insolvency or liquidation may adversely affect our financial results. However, the credit quality of our customers is believed to be high.

Joint operations receivables arise from billings to entities that own partial interests in the wells we operate. These entities participate in our wells primarily based on their ownership in leases on which we intend to drill. We have little ability to control whether these entities will participate in our wells.

Our hedging policy permits us to enter into derivative contracts with major financial institutions or major energy entities. Our derivative contracts are currently with major financial institutions as lenders under our Amended and Restated Credit Agreement. We have rights of offset against the borrowings under our Amended and Restated Credit Agreement.

Interest Rate Risk

As of March 31, 2018, we had \$79.6 million outstanding under the Amended and Restated Credit Agreement with a weighted average interest rate of 4.8%. Interest under the Amended and Restated Credit Agreement is tiered based on amount borrowed. The interest rate is LIBOR plus a range of 2% to 3% depending on the outstanding balance. Assuming no change in the amount outstanding, the impact on interest expense of a 1% increase or decrease in the assumed weighted average interest rate would be approximately \$0.8 million. We currently have no derivative arrangements to protect against fluctuations in interest rates applicable to our outstanding indebtedness.

Item 4. Internal Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, we have evaluated, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2018. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, we concluded that our disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting

Other than the ongoing remediation efforts of the material weaknesses reported by management in our Annual Report on Form 10-K, there have been no changes in our internal control over financial reporting during the three months ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

You should carefully consider the risk factors discussed in our Annual Report on Form 10-K under the heading "Item 1A. Risk Factors," which risks could materially affect our business, financial condition or future results. There have been no material changes in our risk factors from those described in our Annual Report on Form 10-K for the year ended December 31, 2017. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2017 are not the only risks facing the Company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may have a material adverse effect on our business, financial condition and future results.

Item 6. Exhibits.

Exhibit No.	Description
3.1	Second Amended and Restated Certificate of Incorporation of Rosehill Resources Inc. (1)
3.2	Certificate of Amendment of the Second Amended and Restated Certificate of Incorporation of Rosehill Resources Inc. (2)
3.3	Certificate of Designation for the Series A Preferred Stock of Rosehill Resources Inc. (1)
3.4	Amended and Restated Bylaws of Rosehill Resources Inc. (1)
3.5	Certificate of Designations for the Series B Preferred Stock of Rosehill Resources Inc. (3)
10.1	Amended and Restated Credit Agreement, dated as of March 28, 2018, among Rosehill Operating Company, LLC, as borrower, Rosehill Resources Inc., as parent, JPMorgan Chase Bank, N.A., as administrative agent, and the financial institutions party thereto as lenders. (4)
10.2	First Amendment to Note Purchase Agreement, dated as of March 28, 2018, among Rosehill Operating Company, LLC, as issuer, Rosehill Resources Inc., each of the holders from time to time party thereto and U.S. Bank National Association, as agent and collateral agent for the holders. (4)
12.1 *	Computation of the Ratio of Earnings to Fixed Charges and Fixed Charges and Preferred Dividends.
31.1 *	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 *	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 **	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 **	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase.
101.PRE*	XBRL Taxonomy Extension Label Linkbase.
101.LAB*	XBRL Taxonomy Extension Presentation Linkbase.

* Filed herewith

** Furnished herewith

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

(2) Incorporated by reference to the Company's Registration Statement on Form S-1, filed with the Commission on May 11, 2018.

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

(4) Incorporated by reference to the Company's Form 8-K, filed with the Commission on March 29, 2018.

SIGNATURES

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

ROSEHILL RESOURCES INC.

By: /s/ J. A. Townsend

J. A. Townsend

President and Chief Executive Officer

(Principal Executive Officer)

By: /s/ R. Craig Owen

R. Craig Owen

Chief Financial Officer

(Principal Financial and Accounting Officer)

Date: May 14, 2018

Computation of Ratio of Earnings to Fixed Charges and Fixed Charges and Preferred Dividends

(in thousands, except ratios)	Three Months	Year Ended December 31,			
	Ended March 31, 2018	2017	2016	2015	2014
Loss before income taxes	(9,946)	\$ (10,258)	\$ (15,041)	\$ (14,712)	\$ (19,253)
Interest expense	3,866	2,529	1,818	3,240	5,466
Rental expense attributable to interest	1	3	4	5	3
Earnings	\$ (6,079)	\$ (7,726)	\$ (13,219)	\$ (11,467)	\$ (13,784)
Interest expense	\$ 3,866	\$ 2,529	\$ 1,818	\$ 3,240	\$ 5,466
Capitalized interest	—	—	—	—	—
Rental expense attributable to interests	1	3	4	5	3
Fixed charges	\$ 3,867	\$ 2,532	\$ 1,822	\$ 3,245	\$ 5,469
Preferred dividend – cash	\$ 3,192	\$ 975	\$ —	\$ —	\$ —
Preferred dividend – paid-in-kind	2,450	6,156	—	—	—
Preferred dividend – deemed	2,019	8,252	—	—	—
Preferred stock dividends	\$ 7,661	\$ 15,383	\$ —	\$ —	\$ —
Ratio of earnings to fixed charges (a)	(c)	(c)	(c)	(c)	(c)
Ratio of earnings to fixed charges and preferred stock dividends (b)	(d)	(d)	(d)	(d)	(d)

(a) The ratio has been computed by dividing earnings by fixed charges. For purposes of computing the ratio:

- earnings include income (loss) before income taxes, adjusted for interest expense and the portion of rental expense deemed to be representative of interest; and
- fixed charges consist of interest expense, capitalized interest and the portion of rental expense deemed to be representative of interest.

(b) The ratio has been computed by dividing earnings by fixed charges and preferred stock dividends. For purposes of computing the ratio:

- earnings include income (loss) before income taxes, adjusted for interest expense and the portion of rental expense deemed to be representative of interest; and
- fixed charges and preferred stock dividends consist of interest expense, capitalized interest, the portion of rental expense deemed to be representative of interest and preferred stock dividends.

(c) Due to Rosehill Operating's loss before income taxes for the year ended December 31, 2017, 2016, 2015 and 2014, the ratio coverage was less than 1:1. To achieve ratio coverage of 1:1, the Company would have needed additional earnings of approximately \$9.9 million for the three months ended March 31, 2018 and \$10.3 million, \$15.0 million, \$14.7 million and \$19.3 million for the year ended December 31, 2017, 2016, 2015 and 2014, respectively.

(d) Due to Rosehill Operating's loss before income taxes for the year ended December 31, 2017, 2016, 2015 and 2014, the ratio coverage was less than 1:1. To achieve ratio coverage of 1:1, the Company would have needed additional earnings of approximately \$17.6 million for the three months ended March 31, 2018 and \$25.6 million, \$15.0 million, \$14.7 million and \$19.3 million for the year ended December 31, 2017, 2016, 2015 and 2014, respectively.

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

I, J. A. (Alan) Townsend, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this "report") of Rosehill Resources Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2018

/s/ J. A. (Alan) Townsend

Name: J. A. (Alan) Townsend
Title: President and Chief Executive Officer
(Principal Executive Officer)

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

I, R. Craig Owen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q (this "report") of Rosehill Resources Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2018

/s/ R. Craig Owen

Name: R. Craig Owen

Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Rosehill Resources Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 14, 2018

/s/ J. A. (Alan) Townsend

Name: J. A. (Alan) Townsend
Title: President and Chief Executive Officer
(Principal Executive Officer)

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

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2018 of Rosehill Resources Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the date indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: May 14, 2018

/s/ R. Craig Owen

Name: R. Craig Owen

Title: Chief Financial Officer
(Principal Financial and Accounting Officer)