ARENA PHARMACEUTICALS INC
Form SC 13G
November 09, 2007

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934
(Amendment No.)*

NAME OF ISSUER: Arena Pharmaceuticals, Inc.

TITLE OF CLASS OF SECURITIES: Common

CUSIP NUMBER: 040047102

DATE OF EVENT WHICH REQUIRES FIILNG OF THIS STATEMENT: October 31, 2007

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be 'filed' for the purpose of Section 18 of the Securities Exchange Act of 1934 ('Act') or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP NO. 040047102

(1) Names of Reporting Persons The Bank of New York Mellon Corporation
IRS Identification Nos. Of Above Person IRS No. 13-2614959

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization New York

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,888,852
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	6,207,482
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned by Each Reporting Person 6,207,482

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 10.14%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons MBC Investments Corporation
IRS Identification Nos. Of Above Person IRS No. 51-0301132

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization Delaware

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,396,356
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,605,650
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned by Each Reporting Person 5,605,650

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 9.15%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons Neptune LLC
IRS Identification Nos. Of Above Person IRS No. 00-0000000

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization Delaware

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,364,197
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,532,051
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned

by Each Reporting Person 5,532,051

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 9.03%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons Mellon International Holding S.AR.L.
IRS Identification Nos. Of Above Person IRS No. 00-0000000

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization Luxembourg

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,364,197
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,532,051
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned
by Each Reporting Person 5,532,051

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 9.03%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons Mellon International Ltd.
IRS Identification Nos. Of Above Person IRS No. 98-0464992

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization London

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,364,197
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,532,051
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned by Each Reporting Person 5,532,051

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 9.03%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons Newton Management Ltd.
IRS Identification Nos. Of Above Person IRS No. 00-0000000

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization London

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,364,197
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,532,051
	(8)	Shared Dispositive Power	0

(9) Aggregate Amount Beneficially Owned by Each Reporting Person 5,532,051

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions) ( )

(11) Percent of Class Represented by Amount in Row (9) 9.03%

(12) Type of Reporting Person (See Instructions) HC

CUSIP NO. 040047102

(1) Names of Reporting Persons Newton Investment Management Ltd.
IRS Identification Nos. Of Above Person IRS No. 98-0196228

(2) Check the Appropriate Box if a Member of a Group (See Instructions)
(a) ( ) (b) ( )

(3) SEC use only

(4) Citizenship or Place of Organization London

Number of Shares Beneficially Owned by Each Reporting Person With			
	(5)	Sole Voting Power	5,364,197
	(6)	Shared Voting Power	0
	(7)	Sole Dispositive Power	5,510,391

	(8) Shared Dispositive Power	0
(9)	Aggregate Amount Beneficially Owned by Each Reporting Person	5,510,391
(10)	Check if the Aggregate Amount in Row (9) Excludes Certain Shares (see Instructions)	( )
(11)	Percent of Class Represented by Amount in Row (9)	9.00%
(12)	Type of Reporting Person (See Instructions)	IA

SCHEDULE 13G

Item 1(a) Name of Issuer: Arena Pharmaceuticals, Inc.

Item 1(b) Address of Issuer's Principal Executive Offices:
6166 Nancy Ridge Dr.
San Diego, CA 92121

Item 2(a) Name of Person Filing: The Bank of New York Mellon Corporation and any other reporting person(s) identified on the second part of the cover page(s) and Exhibit I.

Item 2(b) Address of Principal Business Office, or if None, Residence:
c/o The Bank of New York Mellon Corporation
One Wall Street, 31st Floor
New York, New York 10286
(for all reporting persons)

Item 2(c) Citizenship: See cover page and Exhibit I.

Item 2(d) Title of Class of Securities: Common

Item 2(e) CUSIP Number: 040047102

Item 3 See Item 12 of cover page(s) ("Type of Reporting Person") for each reporting person.

Symbol		Category
BD	=	Broker or Dealer registered under Section 15 of the Securities Exchange Act of 1934
BK	=	Bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934
IV	=	Investment Company registered under Section 8 of the Investment Company Act of 1940
IA	=	Investment Advisor registered under Section 203 of the Investment Advisors Act of 1940
EP	=	Employee Benefit Plan, Pension Fund which is subject to the provisions of the Employee Retirement Income Security Act of 1974 or Endowment Fund; see Section 240.13-d(1)(b)(1)(ii)(F)

HC = Parent Holding Company, in accordance with Section 240.13-d(1)(b)(1)(ii)(G)

Item 4 Ownership: See Item 5 through 9 and 11 of cover page(s) as to each reporting person.

The amount beneficially owned includes, where appropriate, securities not outstanding which are subject to options, warrants, rights or conversion privileges that are exercisable within 60 days. The securities reported herein as beneficially owned may exclude securities of the issuer with respect to which voting and/or dispositive power is exercised by subsidiaries of The Bank of New York Mellon Corporation, or departments or units thereof, independently from the exercise of those powers over the securities reported herein. See SEC Release No. 34-39538 (January 12, 1998). The filing of this Schedule 13G shall not be construed as an admission that The Bank of New York Mellon Corporation, or its direct or indirect subsidiaries, including The Bank of New York and Mellon Bank, N.A., are for the purposes of Section 13(d) or 13(g) of the Act, the beneficial owners of any securities covered by this Schedule 13G.

The following information applies if checked: ( ) Mellon Bank, N.A. and/or ( ) The Bank of New York Trust Company is/are the trustee of the issuer's employee benefit plan (the "Plan"), which is subject to ERISA. The securities reported include all shares held of record by such reporting person(s) as trustee of the Plan which have not been allocated to the individual accounts of employee participants in the Plan. The reporting person, however, disclaims beneficial ownership of all shares that have been allocated to the individual accounts of employee participants in the Plan for which directions have been received and followed.

Item 5 Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ( )

Item 6 Ownership of More than Five Percent on Behalf of Another Person:

All of the securities are beneficially owned by The Bank of New York Mellon Corporation and its direct or indirect subsidiaries in their various fiduciary capacities. As a result, another entity in every instance is entitled to dividends or proceeds of sale. The number of individual accounts holding an interest of 5% or more is ( )

Item 7 Identification and Classification of the Subsidiary Which Acquired the Security Being Reported by the Parent Holding Company: See Exhibit I.

Item 8 Identification and Classification of Members of the Group: N/A

Item 9 Notice of Dissolution of Group: N/A

Item 10 Certification:

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired and are not held in connection with or as a participant in any transaction having such purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct. This filing is signed by The Bank of New York Mellon Corporation on behalf of all reporting entities pursuant to Rule 13d-1(k)(1) promulgated under the Securities and Exchange Act of 1934, as amended.

Date: November 9, 2007

THE BANK OF NEW YORK MELLON CORPORATION

By: /s/ DAVID BELSTERLING

David Belsterling
First Vice President
Attorney-In-Fact for
The Bank of New York Mellon Corporation

EXHIBIT I

The shares reported on the attached Schedule 13G are beneficially owned by the following direct or indirect subsidiaries of The Bank of New York Mellon Corporation, as marked (X):

(A) The Item 3 classification of each of the subsidiaries listed below is "Item 3(b) Bank as defined in Section 3(a)(6) of the Act (15 U.S.C. 78c)"

(X) The Bank of New York (parent holding company of Estabrook Capital Management LLC; Gannett, Welsh & Kotler LLC)
( ) The Bank of New York Trust Company, N.A.
( ) The Dreyfus Trust Company
(X) Mellon Bank, N.A. (parent holding company of The Dreyfus Corporation; Laurel Capital Advisors LLP; Mellon Trust of Delaware, N.A.)
( ) Mellon Private Trust Company, N.A.
( ) Mellon Trust of California
( ) Mellon Trust of Delaware, N.A.
(X) Mellon Trust of New England, N.A.
( ) Mellon Trust of New York LLC
( ) Mellon Trust of Washington

(B) The Item 3 classification of each of the subsidiaries listed below is "Item 3(e) An Investment Adviser in accordance with Section 240.13d-1 (b)(1)(ii)(E)"

(X) The Boston Company Asset Management LLC
( ) Boston Safe Advisors, Inc.
(X) The Dreyfus Corporation (parent holding company of MBSC Securities Corporation)
( ) Estabrook Capital Management LLC
(X) Founders Asset Management LLC
( ) Franklin Portfolio Associates LLC
( ) Gannett, Welsh & Kotler LLC
( ) Laurel Capital Advisors LLP
( ) Lockwood Capital Management, Inc.
(X) MBSC Securities Corporation (parent holding company of Founders Asset Management LLC)
(X) Mellon Capital Management Corporation

( ) Mellon Equity Associates LLP
( ) Mellon Global Investments Limited
( ) Newton Capital Management Limited
(X) Newton Investment Management Limited
( ) Standish Mellon Asset Management Company LLC
( ) Urdang Securities Management, Inc.
( ) Walter Scott & Partners Limited

(C) The Item 3 classification of each of the subsidiaries listed below is "Item 3(g) A Parent Holding Company or control person in accordance with Section 240.13d-1(b)(1)(ii)(G)"

(X) The Bank of New York Mellon Corporation
( ) BNY Separate Account Services, Inc. (parent holding company of Lockwood Capital Management, Inc.)
( ) The Boston Company Holding LLC (parent holding company of Mellon Private Trust Company, N.A.; Mellon Trust of California; Mellon Trust of New York LLC; Mellon Trust of Washington)
(X) MAM (DE) Trust (parent holding company of MAM (MA) Holding Trust)
(X) MAM (MA) Holding Trust (parent holding company of Boston Safe Advisors, Inc.; Franklin Portfolio Associates LLC; Mellon Equity Associates LLP; Standish Mellon Asset Management Company LLC; The Boston Company Asset Management LLC)
(X) MBC Investments Corporation (parent holding company of The Dreyfus Trust Company; Mellon Capital Management Corporation; Neptune LLC)
(X) Mellon International Holding S.AR.L (parent holding company of Mellon International Limited)
(X) Mellon International Limited (parent holding company of Newton Management Limited; Walter Scott & Partners Limited)
( ) MMIP, LLC (parent holding company of Laurel Capital Advisors LLP; Mellon Equity Associates LLP)
(X) Neptune LLC (parent holding company of Mellon International Holding S.AR.L)
(X) Newton Management Limited (parent holding company of Newton Capital Management Limited; Newton Investment Management Limited)
( ) Pershing Group LLC (parent holding company of BNY Separate Account Services, Inc.)

NOTE: ALL OF THE LEGAL ENTITIES LISTED UNDER (A) AND (B) ABOVE ARE DIRECT OR INDIRECT SUBSIDIARIES OF THE BANK OF NEW YORK MELLON CORPORATION. BENEFICIAL OWNERSHIP OF MORE THAN FIVE PERCENT OF THE CLASS BY ANY ONE OF THE SUBSIDIARIES OR INTERMEDIATE PARENT HOLDING COMPANIES LISTED ABOVE IS REPORTED ON A JOINT REPORTING PERSON PAGE FOR THAT SUBSIDIARY ON THE ATTACHED SCHEDULE 13G AND IS INCORPORATED IN THE TOTAL PERCENT OF CLASS REPORTED ON THE BANK OF NEW YORK MELLON CORPORATION'S REPORTING PERSON PAGE. (DO NOT ADD THE SHARES OR PERCENT OF CLASS REPORTED ON EACH JOINT REPORTING PERSON PAGE ON THE ATTACHED SCHEDULE 13G TO DETERMINE THE TOTAL PERCENT OF CLASS FOR THE BANK OF NEW YORK MELLON CORPORATION).

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS that each of the undersigned (each a 'Company') does hereby make, constitute and appoint each of David M. Belsterling and Andrew M. Kresl (and any other employee of The Bank of New York Mellon Corporation, or one of its affiliates, designated in writing by one of the attorneys-in-fact), acting individually, its true and lawful attorney, to execute and deliver in its name and on its behalf, whether the Company is acting individually or as representative of others, any and all filings required to be made by the Company under the Securities Exchange Act of 1934, as amended (the 'Exchange Act'), with respect to securities which may be deemed to be

beneficially owned by the Company or under the Company's investment discretion under the Exchange Act, giving and granting unto each said attorney-in-fact power and authority to act in the premises as fully and to all intents and purposes as the Company might or could do if personally present by one of its authorized signatories, hereby ratifying and confirming all that said attorney-in-fact shall lawfully do or cause to be done by virtue hereof.

THIS POWER OF ATTORNEY shall remain in full force and effect until either revoked in writing by a Company or until such time as the person or persons to whom power of attorney has been hereby granted cease(s) to be an employee of The Bank of New York Mellon Corporation or one of its affiliates.

THIS POWER OF ATTORNEY may be executed in any number of counterparts all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, each of the undersigned has duly subscribed these presents effective as of August 1, 2007.

THE BANK OF NEW YORK MELLON CORPORATION

By: /s/ Ronald P. O'Hanley
Ronald P. O'Hanley
Vice Chairman

THE BANK OF NEW YORK

By: /s/ Bruce W. Van Saun
Bruce W. Van Saun
Vice Chairman & Chief Financial Officer

By: /s/ John Dowd
John Dowd
Executive Vice President

THE BANK OF NEW YORK TRUST COMPANY, N.A.

By: /s/ Michael K. Klugman
Michael K. Klugman
President

BNY SEPARATE ACCOUNT SERVICES, INC.

By: /s/ Lisa Detwiler
Lisa Detwiler
Managing Counsel / Asst. Secretary

ESTABROOK CAPITAL MANAGEMENT LLC

By: /s/ William C. McClean III
William C. McClean III
President

GANNETT, WELSH & KOTLER LLC

By: /s/ Thomas Williams Roberts III
Thomas Williams Roberts III
Co-President &
Chief Compliance Officer

LOCKWOOD CAPITAL MANAGEMENT, INC.

By: /s/ Lisa Detwiler
Lisa Detwiler
Managing Counsel / Asst. Secretary

URDANG SECURITIES MANAGEMENT, INC.

By: /s/ Richard J. Ferst
Richard J. Ferst
President & Chief Operating Officer

JOINT FILING AGREEMENT

In accordance with Rule 13d-1(k)(1) under the Securities Exchange Act of 1934, as amended (the 'Exchange Act'), each undersigned entity (each a 'Company') hereby agrees to any and all joint filings required to be made on the Company's

behalf on Schedule 13G (including amendments thereto) under the Exchange Act, with respect to securities which may be deemed to be beneficially owned by the Company under the Exchange Act, and that this Agreement be included as an Exhibit to any such joint filing. This Agreement may be executed in any number of counterparts all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement effective this 1st day of August, 2007.

THE BANK OF NEW YORK MELLON CORPORATION

By: /s/ Ronald P. O'Hanley

Ronald P. O'Hanley
Vice Chairman

THE BANK OF NEW YORK

By: /s/ Bruce W. Van Saun

Bruce W. Van Saun
Vice Chairman & Chief Financial Officer

THE BANK OF NEW YORK TRUST COMPANY, N.A.

By: /s/ Michael K. Klugman

Michael K. Klugman
President

BNY SEPARATE ACCOUNT SERVICES, INC.

By: /s/ Lisa Detwiler

Lisa Detwiler
Managing Counsel / Asst. Secretary

ESTABROOK CAPITAL MANAGEMENT LLC

By: /s/ William C. McClean III

William C. McClean III
President

GANNETT, WELSH & KOTLER LLC

By: /s/ Thomas Williams Roberts III

Thomas Williams Roberts III
Co-President &
Chief Compliance Officer

LOCKWOOD CAPITAL MANAGEMENT, INC.

By: /s/ Lisa Detwiler

Lisa Detwiler
Managing Counsel / Asst. Secretary

URDANG SECURITIES MANAGEMENT, INC.

By: /s/ Richard J. Ferst

Richard J. Ferst
President & Chief Operating Officer

:inherit;font-size:8pt;font-weight:bold;">2022

2023
Senior Secured Credit Facility - floating rate

$
—

$
—

Average interest rate

2.372
%

—
%
January 2022 Notes - fixed rate

$
450.0

$
—

Interest rate

5.625
%

—
%
March 2023 Notes - fixed rate

$
—

$
350.0

Interest rate

—
%

6.250
%
Counterparty and customer credit risk
As of December 31, 2017, our principal exposure to credit risk was through receivables of (i) $67.1 million from the sales of our oil, NGL and natural gas production that we market to energy marketing companies and refineries, (ii) $19.5 million from sales of purchased oil and other products, (iii) $10.3 million from the fair values of our open derivative contracts, (iv) $8.8 million from joint-interest partners and (v) $0.6 million from matured derivatives.
We are subject to credit risk due to the concentration of (i) our oil, NGL and natural gas receivables with four significant customers and (ii) our sales of purchased oil receivable with one significant customer. On occasion, we require our customers to post collateral, and the inability of our significant customers to meet their obligations to us or their insolvency or liquidation may adversely affect our financial results.
We have entered into International Swap Dealers Association Master Agreements ("ISDA Agreements") with each of our derivative counterparties, each of whom is also a lender in our Senior Secured Credit Facility. The terms of the ISDA Agreements provide the non-defaulting or non-affected party the right to terminate the agreement upon the occurrence of certain events of default and termination events by a party and also provide for the marking to market of outstanding positions and the offset of the mark to market amounts owed to and by the parties (and in certain cases,

the affiliates of the non-

79

Table of Contents

defaulting or non-affected party) upon termination.
Refer to Note 12 to our consolidated financial statements included elsewhere in this Annual Report for additional disclosures regarding credit risk.

80

Table of Contents

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and supplementary financial data are included in this Annual Report beginning on page F-1.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles.

As of December 31, 2017, management assessed the effectiveness of the Company's internal control over financial reporting based on the criteria for effective internal control over financial reporting established in the 2013 "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment and those criteria, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2017.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Grant Thornton LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report, has issued their report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, is included in this Item under the heading "Report of Independent Registered Public Accounting Firm."

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Laredo Petroleum, Inc.

Opinion on internal control over financial reporting
We have audited the internal control over financial reporting of Laredo Petroleum, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2017, and our report dated February 15, 2018 expressed an unqualified opinion on those financial statements.

Basis for opinion
The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and limitations of internal control over financial reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Tulsa, Oklahoma
February 15, 2018

82

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

We had no changes in, and no disagreements with, our accountants on accounting and financial disclosure.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15(b) of the Exchange Act, we have evaluated, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report. 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 under the Exchange Act is accumulated and communicated to our 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 the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2017 at the reasonable assurance level.

Design and Evaluation of Internal Control Over Financial Reporting. Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, our management has included a report of their assessment of the design and effectiveness of our internal controls over financial reporting as part of this Annual Report for the fiscal year ended December 31, 2017. Grant Thornton LLP, the Company's independent registered public accounting firm, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting. Management's report and the independent registered public accounting firm's attestation report are included in "Item 8. Financial Statements and Supplementary Data" in this Annual Report under the caption entitled "Management's Report on Internal Control Over Financial Reporting" and "Report of Independent Registered Public Accounting Firm," respectively, and are incorporated herein by reference.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

Item 9B. Other Information

Item 1.01 Entry into a Material Definitive Agreement.

On February 14, 2018, the Company entered into the Second Amendment (the "Second Amendment") to the Senior Secured Credit Facility. The Second Amendment, allows the Company, on or prior to February 14, 2020, to repurchase its common stock provided that (i) no Default or Event of Default exists or results therefrom, (ii) immediately after giving effect to any such repurchase, undrawn Commitments are greater than or equal to 20% of the Borrowing Base in effect at such time, (iii) immediately after giving effect to any such repurchase, the Company will be in pro forma compliance with all financial covenants, determined as if such repurchase and any related borrowings or issuance of Debt occurred on the last day of the Fiscal Quarter then most recently ended, (iv) the amount of aggregate consideration paid in respect of any such repurchases shall not exceed $200,000,000 in the aggregate, and (v) the Consolidated Total Leverage Ratio on a pro forma basis (determined as if such repurchase and any related borrowing or issuance of Debt occurred on the last day of the Fiscal Quarter then most recently ended) is less than 2.75 to 1.00. All capitalized terms above have the meanings ascribed to them in the Second Amendment.

The foregoing description of the Second Amendment is a summary only and is qualified in its entirety by reference to the complete text of the Second Amendment, a copy of which is filed as Exhibit 10.3 to this Annual Report.

Item 8.01 Other Events.

In February 2018, the Company's board of directors authorized a $200 million share repurchase program commencing in February 2018 and expiring in February 2020. Share repurchases under the share repurchase program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions and block trades. The timing and actual number of shares repurchased, if any, will depend upon several factors, including market conditions, business conditions, the trading price of our common stock and the nature of other investment opportunities available to the Company.

83

Table of Contents

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding our Code of Conduct and Business Ethics, Code of Ethics For Senior Financial Officers and Corporate Governance Guidelines for our principal executive officer and principal financial and accounting officer are described in "Item 1. Business" in this Annual Report. Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 10 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2017.

Item 11. Executive Compensation

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 11 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2017.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 12 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2017.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 13 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2017.

Item 14. Principal Accounting Fees and Services

Pursuant to paragraph 3 of General Instruction G to Form 10-K, we incorporate by reference into this Item 14 the information to be disclosed in our definitive proxy statement, which is to be filed pursuant to Regulation 14A with the SEC within 120 days after the close of the year ended December 31, 2017.

Table of Contents

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

Our consolidated financial statements are included under Part II, Item 8 of this Annual Report. For a listing of these statements and accompanying footnotes, see "Index to Consolidated Financial Statements" on page F-1 of this Annual Report.

(a)(2) Financial Statement Schedules

All schedules have been omitted because they are either not applicable, not required or the information called for therein appears in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and between Laredo Petroleum, LLC and Laredo Petroleum Holdings, Inc., dated as of December 19, 2011 (incorporated by reference to Exhibit 2.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on December 22, 2011).
2.2	Membership Interest Purchase and Sale Agreement, dated as of October 1, 2017, by and among Medallion Midland Acquisition, LLC, Medallion Gathering & Processing, LLC, Laredo Midstream Services, LLC, and Medallion Midstream Holdings, LLC (incorporated by reference to Exhibit 2.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on October 30, 2017).
3.1	Amended and Restated Certificate of Incorporation of Laredo Petroleum Holdings, Inc. (incorporated by reference to Exhibit 3.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on December 22, 2011).
3.2	Certificate of Ownership and Merger, dated as of December 30, 2013 (incorporated by reference to Exhibit 3.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on January 6, 2014).
3.3	Second Amended and Restated Bylaws of Laredo Petroleum, Inc. (incorporated by reference to Exhibit 3.3 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 17, 2016).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Laredo's Registration Statement on Form 8-A12B/A (File No. 001-35380) filed on January 7, 2014).
4.2	Amended and Restated Indenture, dated as of June 24, 2014, among Laredo Petroleum, Inc., Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on August 7, 2014).
4.3	Sixth Supplemental Indenture, dated as of December 3, 2014, among Laredo Petroleum, Inc., Garden City Minerals, LLC, Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 26, 2015).
4.4	Indenture, dated as of April 27, 2012, among Laredo Petroleum, Inc., the several guarantors named therein and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on April 30, 2012).
4.5	Second Supplemental Indenture, dated as of December 31, 2013, among Laredo Petroleum Holdings, Inc., Laredo Petroleum, Inc., Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on January 6, 2014).
4.6	Amended and Restated Supplemental Indenture, dated as of June 24, 2014, among Laredo Petroleum, Inc., Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.3 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on August 7, 2014).

Table of Contents

Exhibit Number	Description
4.7	Fourth Supplemental Indenture, dated as of December 3, 2014, among Laredo Petroleum, Inc., Garden City Minerals, LLC, Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.7 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 26, 2015).
4.8	Indenture, dated as of January 23, 2014, among Laredo Petroleum, Inc., Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on January 24, 2014).
4.9	First Supplemental Indenture, dated as of December 3, 2014, among Laredo Petroleum, Inc., Garden City Minerals, LLC, Laredo Midstream Services, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.9 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 26, 2015).
4.10	Indenture, dated as of March 18, 2015, among Laredo Petroleum, Inc., Laredo Midstream Services, LLC, Garden City Minerals, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on March 24, 2015).
4.11	First Supplemental Indenture, dated as of March 18, 2015, among Laredo Petroleum, Inc., Laredo Midstream Services, LLC, Garden City Minerals, LLC and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on March 24, 2015).
10.1	Fifth Amended and Restated Credit Agreement, dated as of May 2, 2017, among Laredo Petroleum, Inc., as borrower, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions signatory thereto (incorporated by reference to Exhibit 10.1 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on May 4, 2017).
10.2	First Amendment to Fifth Amended and Restated Credit Agreement, dated as of October 24, 2017, among Laredo Petroleum, Inc., as borrower, Wells Fargo Bank, N.A., as administrative agent, Laredo Midstream Services, LLC and Garden City Minerals, LLC, as guarantors and the banks signatory thereto (incorporated by reference to Exhibit 10.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on October 30, 2017).
10.3*	Second Amendment to Fifth Amended and Restated Credit Agreement, dated as of February 14, 2018, among Laredo Petroleum, Inc., as borrower, Wells Fargo Bank, N.A., as administrative agent, Laredo Midstream Services, LLC and Garden City Minerals, LLC, as guarantors and the banks signatory thereto.
10.8	Form of Registration Rights Agreement dated December 20, 2011 among Laredo Petroleum Holdings, Inc. and the signatories thereto (incorporated by reference to Exhibit 10.5 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on December 22, 2011).
10.9#	Form of Indemnification Agreement between Laredo Petroleum Holdings, Inc. and each of the officers and directors thereof (incorporated by reference to Exhibit 10.6 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on December 22, 2011).
10.10#	Laredo Petroleum, Inc. Omnibus Equity Incentive Plan, as amended and restated as of March 30, 2016 (incorporated by reference to Exhibit 10.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on May 25, 2016).

Table of Contents

Exhibit Number	Description
10.11#	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.1 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on February 9, 2012).
10.12#	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.3 of Laredo's Quarterly Report on Form 10-Q (File No. 001-35380) filed on August 9, 2012).
10.13#	Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.2 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on May 25, 2016).
10.14#	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.2 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on February 9, 2012).
10.15#	Form of Stock Option Agreement (incorporated by reference to Exhibit 10.3 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on May 25, 2016).
10.16#	Form of Performance Compensation Award Agreement (incorporated by reference to Exhibit 10.3 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on February 9, 2012).
10.17#	Form of Performance Share Unit Award Agreement (incorporated by reference to Exhibit 10.4 of Laredo's Current Report on Form 8-K (File No. 001-35380) filed on May 25, 2016).
10.18#	Laredo Petroleum, Inc. Change in Control Executive Severance Plan, as amended June 21, 2015, December 14, 2015 and September 9, 2016 (incorporated by reference to Exhibit 10.18 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 16, 2017).
10.19#	Form of 2013 Performance Compensation Award Agreement (incorporated by reference to Exhibit 10.16 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on March 12, 2013).
10.20	Non-Exclusive Aircraft Lease Agreement, dated January 1, 2015 between Lariat Ranch, LLC and Laredo Petroleum, Inc. (incorporated by reference to Exhibit 10.14 of Laredo's Annual Report on Form 10-K (File No. 001-35380) filed on February 26, 2015).
21.1*	List of Subsidiaries of Laredo Petroleum, Inc.
23.1*	Consent of Grant Thornton LLP.
23.2*	Consent of Ryder Scott Company, L.P.
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18. U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Summary Report of Ryder Scott Company, L.P.
101.INS*	XBRL Instance Document.
101.CAL*	XBRL Schema Document.
101.SCH*	XBRL Calculation Linkbase Document.
101.DEF*	XBRL Definition Linkbase Document.
101.LAB*	XBRL Labels Linkbase Document.
101.PRE*	XBRL Presentation Linkbase Document.

* Filed herewith.
** Furnished herewith.
# Management contract or compensatory plan or arrangement.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	LAREDO PETROLEUM, INC.
Date: February 15, 2018	By: /s/ Randy A. Foutch
	Randy A. Foutch
	Chief Executive Officer

KNOWN ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Randy A. Foutch, Richard C. Buterbaugh, Kenneth E. Dornblaser and Michael T. Beyer, each of whom may act without joinder of the other, as their true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Randy A. Foutch Randy A. Foutch	Chairman and Chief Executive Officer (principal executive officer)	2/15/2018
/s/ Richard C. Buterbaugh Richard C. Buterbaugh	Executive Vice President and Chief Financial Officer (principal financial officer)	2/15/2018
/s/ Michael T. Beyer Michael T. Beyer	Vice President - Controller and Chief Accounting Officer (principal accounting officer)	2/15/2018
/s/ Peter R. Kagan Peter R. Kagan	Director	2/15/2018
/s/ James R. Levy James R. Levy	Director	2/15/2018
/s/ B.Z. (Bill) Parker B.Z. (Bill) Parker	Director	2/15/2018
/s/ Pamela S. Pierce Pamela S. Pierce	Director	2/15/2018
/s/ Dr. Myles W. Scoggins Dr. Myles W. Scoggins	Director	2/15/2018
/s/ Edmund P. Segner, III Edmund P. Segner, III	Director	2/15/2018
/s/ Donald D. Wolf Donald D. Wolf	Director	2/15/2018

Table of Contents

LAREDO PETROLEUM, INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of independent registered public accounting firm	F-2
Consolidated balance sheets as of December 31, 2017 and 2016	F-3
Consolidated statements of operations for the years ended December 31, 2017, 2016 and 2015	F-4
Consolidated statements of stockholders' equity for the years ended December 31, 2017, 2016 and 2015	F-5
Consolidated statements of cash flows for the years ended December 31, 2017, 2016 and 2015	F-6
Notes to the consolidated financial statements	
Note 1—Organization	F-7
Note 2—Basis of presentation and significant accounting policies	F-7
Note 3—Recently issued or adopted accounting pronouncements	F-15
Note 4—Divestitures and acquisitions	F-17
Note 5—Debt	F-19
Note 6—Equity offerings	F-22
Note 7—Employee compensation	F-23
Note 8—Net income (loss) per common share	F-28
Note 9—Derivatives	F-29
Note 10—Fair value measurements	F-34
Note 11—Income taxes	F-38
Note 12—Credit risk	F-40
Note 13—Commitments and contingencies	F-41
Note 14—Related parties	F-42
Note 15—Segments	F-43
Note 16—Subsidiary guarantors	F-45
Note 17—Subsequent events	F-48
Note 18—Supplemental oil, NGL and natural gas disclosures (unaudited)	F-49
Note 19—Supplemental quarterly financial data (unaudited)	F-54

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Laredo Petroleum, Inc.

Opinion on the financial statements
We have audited the accompanying consolidated balance sheets of Laredo Petroleum, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in the 2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated February 15, 2018 expressed an unqualified opinion.

Basis for opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2007.

Tulsa, Oklahoma
February 15, 2018

Table of Contents

Laredo Petroleum, Inc.
Consolidated balance sheets
(in thousands, except share data)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$112,159	$32,672
Accounts receivable, net	100,645	86,867
Derivatives	6,892	20,947
Other current assets	15,686	14,291
Total current assets	235,382	154,777
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	6,070,940	5,488,756
Unevaluated properties not being depleted	175,865	221,281
Less accumulated depletion and impairment	(4,657,466)	(4,514,183)
Oil and natural gas properties, net	1,589,339	1,195,854
Midstream service assets, net	138,325	126,240
Other fixed assets, net	40,721	44,773
Property and equipment, net	1,768,385	1,366,867
Derivatives	3,413	8,718
Investment in equity method investee (see Note 4.a)	—	243,953
Other noncurrent assets, net	16,109	8,031
Total assets	$2,023,289	$1,782,346
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities	$58,341	$52,204
Accrued capital expenditures	82,721	30,845
Undistributed revenue and royalties	37,852	26,838
Derivatives	22,950	20,993
Other current liabilities	75,555	57,065
Total current liabilities	277,419	187,945
Long-term debt, net	791,855	1,353,909
Derivatives	384	5,694
Asset retirement obligations	53,962	50,604
Other noncurrent liabilities	134,090	3,621
Total liabilities	1,257,710	1,601,773
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued as of December 31, 2017 and 2016	—	—
Common stock, $0.01 par value, 450,000,000 shares authorized and 242,521,143 and 241,929,070 issued and outstanding as of December 31, 2017 and 2016, respectively	2,425	2,419
Additional paid-in capital	2,432,262	2,396,236
Accumulated deficit	(1,669,108)	(2,218,082)
Total stockholders' equity	765,579	180,573
Total liabilities and stockholders' equity	$2,023,289	$1,782,346

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

Table of Contents

Laredo Petroleum, Inc.
Consolidated statements of operations
(in thousands, except per share data)

	For the years ended December 31,		
	2017	2016	2015
Revenues:			
Oil, NGL and natural gas sales	$621,507	$426,485	$431,734
Midstream service revenues	10,517	8,342	6,548
Sales of purchased oil	190,138	162,551	168,358
Total revenues	822,162	597,378	606,640
Costs and expenses:			
Lease operating expenses	75,049	75,327	108,341
Production and ad valorem taxes	37,802	28,586	32,892
Midstream service expenses	4,099	4,077	5,846
Costs of purchased oil	195,908	169,536	174,338
General and administrative	96,312	91,756	90,425
Restructuring expenses	—	—	6,042
Depletion, depreciation and amortization	158,389	148,339	277,724
Impairment expense	—	162,027	2,374,888
Other operating expenses	4,931	5,692	7,658
Total costs and expenses	572,490	685,340	3,078,154
Operating income (loss)	249,672	(87,962)	(2,471,514)
Non-operating income (expense):			
Gain (loss) on derivatives, net	350	(87,425)	214,291
Income from equity method investee (see Note 4.a)	8,485	9,403	6,799
Interest expense	(89,377)	(93,298)	(103,219)
Interest and other income	805	175	426
Loss on early redemption of debt	(23,761)	—	(31,537)
Write-off of debt issuance costs	—	(842)	—
Gain on sale of investment in equity method investee (see Note 4.a)	405,906	—	—
Loss on disposal of assets, net	(1,306)	(790)	(2,127)
Non-operating income (expense), net	301,102	(172,777)	84,633
Income (loss) before income taxes	550,774	(260,739)	(2,386,881)
Income tax (expense) benefit:			
Current	(1,800)	—	—
Deferred	—	—	176,945
Total income tax (expense) benefit	(1,800)	—	176,945
Net income (loss)	$548,974	$(260,739)	$(2,209,936)
Net income (loss) per common share:			
Basic	$2.30	$(1.16)	$(11.10)
Diluted	$2.29	$(1.16)	$(11.10)
Weighted-average common shares outstanding:			
Basic	239,096	225,512	199,158
Diluted	240,122	225,512	199,158

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

F-4

Table of Contents

Laredo Petroleum, Inc.
Consolidated statements of stockholders' equity
(in thousands)

	Common Stock		Additional paid-in capital	Treasury Stock (at cost)		(Accumulated deficit) retained earnings	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2014	143,686	$1,437	$1,309,171	—	$ —	$252,593	$1,563,201
Restricted stock awards	1,902	19	(19)	—	—	—	—
Restricted stock forfeitures	(553)	(6)	6	—	—	—	—
Vested stock exchanged for tax withholding	—	—	—	227	(2,811)	—	(2,811)
Retirement of treasury stock	(227)	(2)	(2,809)	(227)	2,811	—	—
Equity issuance, net of offering costs	69,000	690	753,473	—	—	—	754,163
Stock-based compensation	—	—	26,830	—	—	—	26,830
Net loss	—	—	—	—	—	(2,209,936)	(2,209,936)
Balance, December 31, 2015	213,808	2,138	2,086,652	—	—	(1,957,343)	131,447
Restricted stock awards	2,982	30	(30)	—	—	—	—
Restricted stock forfeitures	(457)	(5)	5	—	—	—	—
Vested stock exchanged for tax withholding	—	—	—	296	(1,635)	—	(1,635)
Retirement of treasury stock	(296)	(3)	(1,632)	(296)	1,635	—	—
Exercise of stock options	17	—	208	—	—	—	208
Equity issuances, net of offering costs	25,875	259	275,793	—	—	—	276,052
Stock-based compensation	—	—	35,240	—	—	—	35,240
Net loss	—	—	—	—	—	(260,739)	(260,739)
Balance, December 31, 2016	241,929	2,419	2,396,236	—	—	(2,218,082)	180,573
Restricted stock awards	1,237	12	(12)	—	—	—	—
Restricted stock forfeitures	(302)	(3)	3	—	—	—	—
Performance share conversion	150	2	(2)	—	—	—	—
Vested stock exchanged for tax withholding	—	—	—	547	(7,662)	—	(7,662)
Retirement of treasury stock	(547)	(5)	(7,657)	(547)	7,662	—	—
Exercise of stock options	54	—	397	—	—	—	397
Stock-based compensation	—	—	43,297	—	—	—	43,297
Net income	—	—	—	—	—	548,974	548,974
Balance, December 31, 2017	242,521	$2,425	$2,432,262	—	$ —	$(1,669,108)	$765,579

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

Table of Contents

Laredo Petroleum, Inc.
Consolidated statements of cash flows
(in thousands)

	For the years ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income (loss)	$548,974	$(260,739)	$(2,209,936)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Deferred income tax benefit	—	—	(176,945)
Depletion, depreciation and amortization	158,389	148,339	277,724
Impairment expense	—	162,027	2,374,888
Gain on sale of investment in equity method investee (see Note 4.a)	(405,906)	—	—
Loss on early redemption of debt	23,761	—	31,537
Bad debt expense	—	—	255
Non-cash stock-based compensation, net of amounts capitalized	35,734	29,229	24,509
Mark-to-market on derivatives:			
(Gain) loss on derivatives, net	(350)	87,425	(214,291)
Cash settlements received for matured derivatives, net	37,583	195,281	255,281
Cash settlements received for early terminations of derivatives, net	4,234	80,000	—
Change in net present value of derivative deferred premiums	394	232	203
Cash premiums paid for derivatives	(25,853)	(89,669)	(5,167)
Amortization of debt issuance costs	4,086	4,279	4,727
Write-off of debt issuance costs	—	842	—
Income from equity method investee (see Note 4.a)	(8,485)	(9,403)	(6,799)
Cash settlement of performance unit awards	—	(6,394)	(2,738)
Other, net	6,067	4,596	4,554
(Increase) decrease in accounts receivable	(12,124)	832	38,975
Increase in other current assets	(3,132)	(1,013)	(2,309)
Increase in other noncurrent assets	(5,103)	—	—
Increase (decrease) in accounts payable and accrued liabilities	9,137	5,432	(38,881)
Increase (decrease) in undistributed revenues and royalties	11,014	(7,735)	(30,898)
(Decrease) increase in other current liabilities	(2,327)	13,153	(12,942)
Increase (decrease) in other noncurrent liabilities	8,821	(419)	119
Increase in fair value of performance unit awards	—	—	4,081
Net cash provided by operating activities	384,914	356,295	315,947
Cash flows from investing activities:			
Deposit received for potential sale of oil and natural gas properties	—	3,000	—
Deposit utilized for sale of oil and natural gas properties	(3,000)	—	—
Capital expenditures:			
Acquisitions of oil and natural gas properties	—	(124,660)	—
Oil and natural gas properties	(538,122)	(360,679)	(588,017)
Midstream service assets	(20,887)	(5,240)	(35,459)
Other fixed assets	(4,905)	(7,611)	(9,125)
Investment in equity method investee (see Note 4.a)	(31,808)	(69,609)	(99,855)
Proceeds from disposition of equity method investee, net of selling costs (see Note 4.a)	829,615	—	—
Proceeds from dispositions of capital assets, net of selling costs	64,157	397	64,949
Net cash provided by (used in) investing activities	295,050	(564,402)	(667,507)

Cash flows from financing activities:			
Borrowings on Senior Secured Credit Facility	190,000	239,682	310,000
Payments on Senior Secured Credit Facility	(260,000)	(304,682)	(475,000)
Issuance of March 2023 Notes	—	—	350,000
Early redemption of debt	(518,480)	—	(576,200)
Proceeds from issuance of common stock, net of offering costs	—	276,052	754,163
Purchase of treasury stock	(7,662)	(1,635)	(2,811)
Proceeds from exercise of stock options	397	208	—
Payments for debt issuance costs	(4,732)	—	(6,759)
Net cash (used in) provided by financing activities	(600,477)	209,625	353,393
Net increase in cash and cash equivalents	79,487	1,518	1,833
Cash and cash equivalents, beginning of period	32,672	31,154	29,321
Cash and cash equivalents, end of period	$112,159	$32,672	$31,154

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

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

Note 1—Organization

Laredo Petroleum, Inc. ("Laredo"), together with its wholly-owned subsidiaries, Laredo Midstream Services, LLC ("LMS") and Garden City Minerals, LLC ("GCM"), is an independent energy company focused on the acquisition, exploration and development of oil and natural gas properties, and the transportation of oil and natural gas from such properties, primarily in the Permian Basin in West Texas. LMS and GCM (together, the "Guarantors") guarantee all of Laredo's debt instruments. In these notes, the "Company" refers to Laredo, LMS and GCM collectively, unless the context indicates otherwise. All amounts, dollars and percentages presented in these consolidated financial statements and the related notes are rounded and therefore approximate.

The Company operates in two business segments: (i) exploration and production and (ii) midstream and marketing. The exploration and production segment is engaged in the acquisition, exploration and development of oil and natural gas properties. The midstream and marketing segment provides Laredo's exploration and production segment and third parties with products and services that need to be delivered by midstream infrastructure, including oil and liquids-rich natural gas gathering services as well as rig fuel, natural gas lift and water delivery and takeaway.

Note 2—Basis of presentation and significant accounting policies

a. Basis of presentation

The accompanying consolidated financial statements were derived from the historical accounting records of the Company and reflect the historical financial position, results of operations and cash flows for the periods described herein. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany transactions and account balances have been eliminated in the consolidation of accounts. The Company uses the equity method of accounting to record its net interests when the Company holds 20% to 50% of the voting rights and/or has the ability to exercise significant influence but does not control the entity. Under the equity method, the Company's proportionate share of the investee's net income (loss) is included in the consolidated statements of operations. See Note 4.a, 14.a and 17.a for additional discussion of the Company's equity method investment.

b. Use of estimates in the preparation of consolidated financial statements

The preparation of the accompanying consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although management believes these estimates are reasonable, actual results could differ.

Significant estimates include, but are not limited to, (i) volumes of the Company's reserves of oil, natural gas liquids ("NGL") and natural gas, (ii) future cash flows from oil and natural gas properties, (iii) depletion, depreciation and amortization, (iv) impairments, (v) asset retirement obligations, (vi) stock-based compensation, (vii) deferred income taxes, (viii) deferred gain on sale of equity method investment, (ix) fair value of assets acquired and liabilities assumed in an acquisition, (x) fair values of derivatives and deferred premiums and (xi) contingent liabilities. As fair value is a market-based measurement, it is determined based on the assumptions that would be used by market participants. These estimates and assumptions are based on management's best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets and volatile equity and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. Management believes its estimates and assumptions to be reasonable under the circumstances. As future events and their effects cannot be determined with precision, actual values and results could differ from these estimates. Any changes in estimates resulting from future changes in the economic environment will be reflected in the financial statements in future periods.

c. Reclassifications

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2017 presentation. These reclassifications had no impact on previously reported total assets, total liabilities, net income (loss), stockholders' equity or total operating, investing or financing cash flows.

d. Cash and cash equivalents

The Company defines cash and cash equivalents to include cash on hand, cash in bank accounts and highly liquid investments with original maturities of three months or less. The Company maintains cash and cash equivalents in bank deposit accounts and money market funds that may not be federally insured. The Company has not experienced any losses in such

F-7

accounts and believes it is not exposed to any significant credit risk on such accounts. See Note 12 for discussion regarding the Company's exposure to credit risk.

e. Accounts receivable

The Company sells produced oil, NGL and natural gas and purchased oil to various customers and participates with other parties in the development and operation of oil and natural gas properties. The majority of the Company's accounts receivable are unsecured. Accounts receivable for joint interest billings are recorded as amounts billed to customers less an allowance for doubtful accounts.

The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio. In establishing the required allowance, management considers historical losses, current receivables aging and existing industry and economic data. The Company reviews its allowance for doubtful accounts quarterly. Past due amounts greater than 90 days and greater than a specified amount are reviewed individually for collectability. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is remote.

Accounts receivable consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Oil, NGL and natural gas sales	$ 67,116	$ 46,999
Sales of purchased oil and other products	19,504	16,213
Joint operations, net[1]	8,780	12,175
Matured derivatives	641	11,059
Other	4,604	421
Total accounts receivable	$ 100,645	$ 86,867

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(1) Accounts receivable for joint operations are presented net of an allowance for doubtful accounts of $0.1 million and $0.2 million as of December 31, 2017 and 2016, respectively. As the operator of the majority of its wells, the Company has the ability to realize some or all of these receivables through the netting of revenues.

f. Derivatives

The Company uses derivatives to reduce exposure to fluctuations in the prices of oil, NGL and natural gas. By removing a significant portion of the price volatility associated with future production, the Company expects to mitigate, but not eliminate, the potential effects of variability in cash flows from operations due to fluctuations in commodity prices. These transactions are in the form of puts, swaps, collars, basis swaps and, in the past, call spreads. Derivatives are recorded at fair value and are presented on a net basis on the consolidated balance sheets as assets and/or liabilities. The Company nets the fair value of derivatives by counterparty where the right of offset exists. The Company determines the fair value of its derivatives by utilizing pricing models for substantially similar instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. See Note 10.a for discussion regarding the fair value of the Company's derivatives.

The Company's derivatives were not designated as hedges for accounting purposes for any of the periods presented. Accordingly, the changes in fair value are recognized in the consolidated statements of operations in the period of change. Gains and losses on derivatives are included in cash flows from operating activities. See Notes 9, 10.a and 17.d for discussion regarding the Company's derivatives.

g. Other current assets, current liabilities and noncurrent liabilities

Other current assets consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Inventory[1]	$ 9,148	$ 8,063
Prepaid expenses and other	6,538	6,228
Total other current assets	$ 15,686	$ 14,291

(1) See Note 2.k for discussion of inventory held by the Company.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

Accounts payable and accrued liabilities consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Purchased oil payable	$ 19,084	$ 17,213
Lease operating expense payable	9,034	10,572
Trade accounts payable	5,730	15,054
Other accrued liabilities	24,493	9,365
Total accounts payable and accrued liabilities	$ 58,341	$ 52,204

Other current liabilities consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Accrued compensation and benefits	$ 21,287	$ 25,947
Deferred gain on sale of equity method investment(1)	20,144	—
Accrued interest payable	18,013	24,152
Other accrued liabilities	16,111	6,966
Total other current liabilities	$ 75,555	$ 57,065

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(1) See Notes 4.a, 14.a and 17.a for additional discussion regarding the Company's equity method investee.

Other noncurrent liabilities consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Deferred gain on sale of equity method investment(1)	$ 120,974	$ —
Other accrued liabilities	13,116	3,621
Total other noncurrent liabilities	$ 134,090	$ 3,621

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(1) See Notes 4.a, 14.a and 17.a for additional discussion regarding the Company's equity method investee.

h. Oil and natural gas properties

The Company uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration and development costs, including certain related employee costs incurred for the purpose of exploring for or developing oil, NGL and natural gas properties, are capitalized and depleted on a composite unit-of-production method based on proved oil, NGL and natural gas reserves. Such amounts include the cost of drilling and equipping productive wells, dry hole costs, lease acquisition costs, delay rentals and other costs related to such activities. Costs, including related employee costs, associated with production and general corporate activities are expensed in the period incurred. Sales of oil and natural gas properties, whether or not being depleted currently, are accounted for as adjustments of capitalized costs, with no gain or loss recognized, unless such adjustments would significantly alter the relationship between capitalized costs and proved reserves of oil, NGL and natural gas.

The Company computes the provision for depletion of oil and natural gas properties using the unit-of-production method based upon production and estimates of proved reserve quantities. Unevaluated costs and related carrying costs are excluded from the depletion base until the properties associated with these costs are evaluated. Approximately $175.9 million and $221.3 million of such costs were excluded from the depletion base as of December 31, 2017 and 2016, respectively. The depletion base includes estimated future development costs and dismantlement, restoration and abandonment costs, net of estimated salvage values. Total accumulated depletion and impairment for oil and natural gas properties was $4.7 billion and $4.5 billion for the years ended December 31, 2017 and 2016, respectively. Depletion expense for oil and natural gas properties was $143.6 million, $134.1 million, and $263.7 million for the years ended December 31, 2017, 2016 and 2015, respectively. Depletion per barrel of oil equivalent for the Company's oil and natural gas properties was $6.75, $7.39 and $16.13 for the years ended

December 31, 2017, 2016 and 2015, respectively.

The following table presents capitalized employee-related costs for the periods presented:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Capitalized employee-related costs	$25,553	$19,222	$10,688

The Company excludes the costs directly associated with acquisition and evaluation of unevaluated properties from the depletion calculation until it is determined whether or not proved reserves can be assigned to the properties. The Company capitalizes a portion of its interest costs to its unevaluated properties. Capitalized interest becomes a part of the cost of the unevaluated properties and is subject to depletion when proved reserves can be assigned to the associated properties. All items classified as unevaluated property are assessed on a quarterly basis for possible impairment. See Note 18.b for further information regarding unevaluated property costs. The assessment includes consideration of the following factors, among others: intent to drill, remaining lease term, geological and geophysical evaluations, drilling results and activity, the assignment of evaluated reserves and the economic viability of development if proved reserves are assigned. During any period in which these factors indicate an impairment, the cumulative drilling costs incurred to date for such property and all or a portion of the associated leasehold costs are transferred to the full cost pool and are then subject to depletion.

The full cost ceiling is based principally on the estimated future net revenues from proved oil and natural gas properties discounted at 10%. The Securities and Exchange Commission ("SEC") guidelines require companies to use the unweighted arithmetic average first-day-of-the-month price for each month within the 12-month period prior to the end of the reporting period before differentials ("Benchmark Prices"). The Benchmark Prices are then adjusted for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead ("Realized Prices"). The Realized Prices are utilized to calculate the discounted future net revenues in the full cost ceiling calculation.

In the event the unamortized cost of evaluated oil and natural gas properties being depleted exceeds the full cost ceiling, as defined by the SEC, the excess is charged to expense in the period such excess occurs. Once incurred, a write-down of oil and natural gas properties is not reversible.

The following table presents the Benchmark Prices and Realized Prices as of the dates presented:

	December 31, 2017	December 31, 2016	December 31, 2015
Benchmark Prices:			
Oil ($/Bbl)	$ 47.79	$ 39.25	$ 46.79
NGL ($/Bbl)(1)	$ 26.13	$ 18.24	$ 18.75
Natural gas ($/MMBtu)	$ 2.63	$ 2.33	$ 2.47
Realized Prices:			
Oil ($/Bbl)	$ 46.34	$ 37.44	$ 45.58
NGL ($/Bbl)	$ 18.45	$ 11.72	$ 12.50
Natural gas ($/Mcf)	$ 2.06	$ 1.78	$ 1.89

(1) Based on the Company's average composite NGL barrel.

Full cost ceiling impairment expense for the years ended December 31, 2016 and 2015 in the consolidated statements of operations was $161.1 million and $2.4 billion, respectively. There were no full cost ceiling impairments recorded during the year ended December 31, 2017. These amounts are included in the "Impairment expense" line item in the consolidated statements of operations and in the financial information provided for the Company's exploration and production segment presented in Note 15.

i. Midstream service assets

Midstream service assets, which consist of oil and natural gas pipeline gathering assets, related equipment, oil delivery stations, water storage and treatment facilities and their related asset retirement cost, are recorded at cost, net of impairment. See Note 2.m for discussion regarding midstream service asset retirement cost. Depreciation of assets is

recorded using the straight-line method based on estimated useful lives of 10 to 20 years, as applicable. Expenditures for significant betterments or renewals, which extend the useful lives of existing fixed assets, are capitalized and depreciated. Upon retirement or disposition, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized in "Loss on

F-10

disposal of assets, net" in the consolidated statements of operations. Depreciation expense for midstream service assets was $8.9 million, $8.3 million and $7.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.
Midstream service assets consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Midstream service assets	$ 171,427	$ 150,629
Less accumulated depreciation and impairment	(33,102)	(24,389)
Total midstream service assets, net	$ 138,325	$ 126,240

Impairment losses are recorded on midstream service assets when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Impairment is measured based on the excess of the carrying amount over the fair value of the asset. For the year ended December 31, 2015, the Company recorded an impairment, based on an internally developed cash flow model, of $1.3 million related to its compressed natural gas station. This amount is included in the "Impairment expense" line item in the consolidated statements of operations and as "Impairment expense" for the Company's midstream and marketing segment presented in Note 15. There were no comparable midstream service asset impairments recorded during the years ended December 31, 2017 or 2016.

j. Other fixed assets

Other fixed assets are recorded at cost and are subject to depreciation and amortization. Land is recorded at cost and is not subject to depreciation. Depreciation and amortization of other fixed assets is provided using the straight-line method based on estimated useful lives of three to ten years, as applicable. Leasehold improvements are capitalized and amortized over the shorter of the estimated useful lives of the assets or the terms of the related leases. Expenditures for significant betterments or renewals, which extend the useful lives of existing fixed assets, are capitalized and depreciated. Upon retirement or disposition, the cost and related accumulated depreciation and amortization are removed from the accounts and any gain or loss is recognized in "Loss on disposal of assets, net" in the consolidated statements of operations. Depreciation and amortization expense for other fixed assets was $5.9 million, $5.9 million, and $6.5 million for the years ended December 31, 2017, 2016 and 2015, respectively.
Other fixed assets consisted of the following components as of the dates presented:

(in thousands)	December 31, 2017	December 31, 2016
Computer hardware and software	$ 11,696	$ 12,710
Vehicles	9,661	7,413
Real estate and buildings	7,618	7,618
Leasehold improvements	7,590	7,549
Aircraft	6,402	11,352
Other	5,990	5,849
Depreciable total	48,957	52,491
Less accumulated depreciation and amortization	(23,150)	(22,632)
Depreciable total, net	25,807	29,859
Land	14,914	14,914
Total other fixed assets, net	$ 40,721	$ 44,773

k. Inventory

The Company has the following types of inventory: (i) materials and supplies inventory used in production activities of oil and natural gas properties and midstream service assets, (ii) frac pit water inventory used in developing oil and natural gas properties and (iii) line-fill in third-party pipelines, which is the minimum volume of product in a pipeline system that enables the system to operate, and is generally not available to be withdrawn from the pipeline until the expiration of the transportation contract. All inventory is carried at the lower of cost or net realizable value ("NRV"), with cost determined using the weighted-average cost method, and is included in each of the "Other current assets" and "Other noncurrent assets, net" line items on the consolidated balance sheets. The NRV for materials and supplies

inventory and frac pit water inventory is determined utilizing a replacement cost approach (Level 2). The NRV for line-fill in third-party pipelines is determined utilizing a quoted market price adjusted for regional price differentials (Level 2).

The following table presents inventory impairments recorded:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Materials and supplies[1]	$ —	$ 963	$ 2,819
Line-fill[2]	—	—	1,314
Total inventory impairments	$ —	$ 963	$ 4,133

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(1) Included in the "Impairment expense" line item in the consolidated statements of operations and in "Impairment expense" for the Company's exploration and production segment presented in Note 15.

(2) Included in the "Impairment expense" line item in the consolidated statements of operations and in "Impairment expense" for the Company's midstream and marketing segment presented in Note 15.

l. Debt issuance costs

Debt issuance fees, which are recorded at cost, net of amortization, are amortized over the life of the respective debt agreements utilizing the effective interest and straight-line methods. The Company capitalized $4.7 million of debt issuance costs during the year ended December 31, 2017 as a result of entering into the Fifth Amended and Restated Credit Agreement (as amended, the "Senior Secured Credit Facility"). The Company capitalized $6.8 million of debt issuance costs during the year ended December 31, 2015 mainly as a result of the issuance of the March 2023 Notes (as defined below). No debt issuance costs were capitalized during the year ended December 31, 2016.

The Company wrote-off $5.3 million of debt issuance costs during the year ended December 31, 2017 as a result of the early redemption of the May 2022 Notes (as defined below), which are included in the "Loss on early redemption of debt" line item in the consolidated statements of operations. The Company wrote-off $0.8 million of debt issuance costs during the year ended December 31, 2016 as a result of changes in the borrowing base and aggregate elected commitment of the Senior Secured Credit Facility, which are included in the "Write-off of debt issuance costs" line item in the consolidated statements of operations. The Company wrote-off $6.6 million debt issuance costs during the year ended December 31, 2015 as a result of the early redemption of the January 2019 Notes (as defined below), which are included in the "Loss on early redemption of debt" line item in the consolidated statements of operations.

The Company had total debt issuance costs of $14.2 million and $18.8 million, net of accumulated amortization of $20.8 million and $21.3 million, as of December 31, 2017 and 2016, respectively. Debt issuance costs related to the Company's senior unsecured notes are included in the "Long-term debt, net" line item on the consolidated balance sheets. Debt issuance costs related to the Senior Secured Credit Facility are included in the "Other noncurrent assets, net" line item on the consolidated balance sheets. See Note 5.h for additional discussion of debt issuance costs.

The following table presents future amortization expense of debt issuance costs:

(in thousands)	December 31, 2017
2018	$ 3,173
2019	3,173
2020	3,173
2021	3,173
2022	1,350
Thereafter	134
Total	$ 14,176

m. Asset retirement obligations

Asset retirement obligations associated with the retirement of tangible long-lived assets are recognized as a liability in the period in which they are incurred and become determinable. The associated asset retirement costs are part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost included in the carrying amount of the related long-lived asset is charged to expense through depletion, or for midstream service assets through depreciation,

of the associated asset. Changes in the liability due to the passage of time are recognized as an increase in the carrying amount of the liability and as corresponding accretion expense.

The fair value of additions to the asset retirement obligation liability is measured using valuation techniques consistent with the income approach, which converts future cash flows into a single discounted amount. Significant inputs to the valuation include: (i) estimated plug and abandonment cost per well based on Company experience, (ii) estimated remaining life per well, (iii) estimated removal and/or remediation costs for midstream service assets, (iv) estimated remaining life of midstream service assets, (v) future inflation factors and (vi) the Company's average credit-adjusted risk-free rate. Inherent in the fair value calculation of asset retirement obligations are numerous assumptions and judgments including, in addition to those noted above, the ultimate settlement of these amounts, the ultimate timing of such settlement and changes in legal, regulatory, environmental and political environments. To the extent future revisions to these assumptions impact the fair value of the existing asset retirement obligation liability, a corresponding adjustment will be made to the asset balance.

The Company is obligated by contractual and regulatory requirements to remove certain pipeline and gathering assets and perform other remediation of the sites where such pipeline and gathering assets are located upon the retirement of those assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminate. The Company will record an asset retirement obligation for pipeline and gathering assets in the periods in which settlement dates are reasonably determinable.

The following table reconciles the asset retirement obligation liability:

	For the years ended December 31,	
(in thousands)	2017	2016
Liability at beginning of year	$52,207	$46,306
Liabilities added due to acquisitions, drilling, midstream service asset construction and other	616	1,528
Accretion expense	3,791	3,483
Liabilities settled upon plugging and abandonment	(408)	(1,242)
Liabilities removed due to sale of property	(871)	—
Revision of estimates	171	2,132
Liability at end of year	$55,506	$52,207

n. Fair value measurements

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, accounts payable, undistributed revenue and royalties, accrued capital expenditures and other accrued assets and liabilities approximate their fair values. See Note 5.g for fair value disclosures related to the Company's debt obligations. The Company carries its derivatives at fair value. See Note 10.a for details regarding the fair value of the Company's derivatives.

o. Treasury stock

Laredo's employees may elect to have the Company withhold shares of stock to satisfy their tax withholding obligations that arise upon the lapse of restrictions on their stock awards. Such treasury stock is recorded at cost and retired upon acquisition.

p. Revenue recognition

Oil, NGL and natural gas revenues are recorded using the sales method. Under this method, the Company recognizes revenues based on actual volumes of oil, NGL and natural gas sold to purchasers. For natural gas sales, the Company and other joint interest owners may sell more or less than their entitlement share of the volumes produced. Under the sales method, when a working interest owner has overproduced in excess of its share of remaining estimated reserves, the overproduced party recognizes the excessive imbalance as a liability. If the underproduced working interest owner determines that an overproduced owner's share of remaining net reserves is insufficient to settle the imbalance, the underproduced owner recognizes a receivable, net of any allowance from the overproduced working interest owner. The Company is also subject to natural gas pipeline imbalances, which are recorded as accounts receivable or payable at values consistent with contractual arrangements with the owner of the pipeline. The Company did not have any producer or pipeline imbalance positions as of December 31, 2017 or 2016.

Midstream service revenues are recorded at the time products are sold or services are provided to third parties at a fixed or determinable price, delivery or performance has occurred, title has transferred and collectability of the revenue is probable. Revenues and expenses attributable to oil purchases and sales are reported on a gross basis when the Company takes title to the products and has risks and rewards of ownership.

See Note 3.a for discussion of the expected effects on the Company's consolidated financial statements upon the adoption of new revenue recognition guidance subsequent to December 31, 2017.

q. Fees received for the operation of jointly-owned oil and natural gas properties

The Company receives fees for the operation of jointly-owned oil and natural gas properties and records such reimbursements as a reduction of general and administrative expenses.

The following table presents the fees received for the operation of jointly-owned oil and natural gas properties:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Fees received for the operation of jointly-owned oil and natural gas properties	$2,549	$2,477	$3,125

r. Compensation awards

Stock-based compensation expense, net of amounts capitalized, is included in the "General and administrative" line item in the Company's consolidated statements of operations over the awards' vesting periods and is based on the awards' grant date fair value. The Company utilizes the closing stock price on the grant date, less an expected forfeiture rate, to determine the fair values of service vesting restricted stock awards and a Black-Scholes pricing model to determine the fair values of service vesting restricted stock option awards. The Company utilizes a Monte Carlo simulation prepared by an independent third party to determine the fair values of the performance share awards and, in prior periods, the performance unit awards. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration and development of its oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included in the "Oil and natural gas properties" line item on the consolidated balance sheets. See Note 7 for further discussion regarding the restricted stock awards, stock option awards, performance share awards and performance unit awards.

s. 2015 restructuring

On January 20, 2015, following the fourth-quarter 2014 drop in oil prices and, in an effort to reduce costs and to better position the Company for ongoing efficient growth, the Company executed a company-wide restructuring and reduction in force (the "RIF") that included (i) the relocation of certain employees from the Company's Dallas, Texas area office to the Company's other existing offices in Tulsa, Oklahoma and Midland, Texas; (ii) closing the Company's Dallas, Texas area office; (iii) a workforce reduction of approximately 75 employees and (iv) the release of 24 contract personnel. The RIF was communicated to employees on January 20, 2015 and was generally effective immediately. The Company's compensation committee approved the RIF and the related severance packages. The Company incurred $6.0 million in expenses during the year ended December 31, 2015 related to the RIF. There were no comparative amounts recorded in the years ended December 31, 2017 or 2016.

t. Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating losses and tax credit carry-forwards. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income (loss) in the period that includes the enactment date.

The Company evaluates uncertain tax positions for recognition and measurement in the consolidated financial statements. To recognize a tax position, the Company determines whether it is more likely than not that the tax position will be sustained upon examination, including resolution of any related appeals or litigation, based on the technical merits of the position. A tax position that meets the more-likely-than-not threshold is measured to determine the amount of benefit to be recognized in the consolidated financial statements. The amount of tax benefit recognized with respect to any tax position is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. The Company has no unrecognized tax benefits related to uncertain tax positions in the consolidated financial statements at December 31, 2017 or 2016. See Note 11 for additional information regarding

the Company's income taxes.

u. Environmental

The Company is subject to extensive federal, state and local environmental laws and regulations. These laws, among other things, regulate the discharge of materials into the environment and may require the Company to remove or mitigate the environmental effects of the disposal or release of petroleum or chemical substances at various sites. Environmental

expenditures are expensed in the period incurred. Liabilities for expenditures of a non-capital nature are recorded when environmental assessment or remediation is probable and the costs can be reasonably estimated. Such liabilities are generally undiscounted unless the timing of cash payments is fixed and readily determinable. Management believes no materially significant liabilities of this nature existed as of December 31, 2017 or 2016.

v. Non-cash investing and supplemental cash flow information

The following table presents the non-cash investing and supplemental cash flow information:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Non-cash investing information:			
Change in accrued capital expenditures	$51,876	$(31,027)	$(86,369)
Change in accrued capital contribution to equity method investee(1)	$—	$(27,583)	$27,583
Capitalized asset retirement cost	$787	$3,660	$13,836
Supplemental cash flow information:			
Cash paid for interest, net of $1,152, $294 and $236 of capitalized interest, respectively(2)	$91,548	$89,432	$112,457
Cash paid for income taxes(3)	$5,500	$—	$—

(1) See Notes 4.a, 14.a and 17.a for additional discussion of the Company's equity method investee.

(2) See Note 5.a for additional discussion of the Company's interest expense.

(3) See Note 11 for additional discussion of the Company's income taxes.

Note 3—Recently issued or adopted accounting pronouncements

The Company considers the applicability and impact of all accounting standard updates ("ASU") issued by the Financial Accounting Standards Board ("FASB"). The discussion of the ASUs listed below were determined to be meaningful to the Company's consolidated financial statements and/or footnotes during the year ended December 31, 2017.

a. Revenue recognition

In May 2014, the FASB issued a comprehensive new revenue recognition standard in Topic 606, Revenue from Contracts with Customers, that 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. The core principle of the new guidance is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for transferring those goods or services. The new standard also requires significantly expanded disclosure regarding the qualitative and quantitative information of an entity's nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of a contract and all relevant facts and circumstances. The standard allows for several transition methods: (i) a full retrospective adoption in which the standard is applied to all of the periods presented, or (ii) a modified retrospective adoption in which the standard is applied only to the most current period presented in the financial statements, including additional disclosures of the standard's application impact to individual financial statement line items. In March, April, May and December 2016, the FASB issued new guidance in Topic 606, Revenue from Contracts with Customers, to address the following potential implementation issues of the new revenue standard: (i) to clarify the implementation guidance on principal versus agent considerations, (ii) to clarify the identification of performance obligations and the licensing implementation guidance and (iii) to address certain issues in the guidance on assessing collectability, presentation of sales taxes, noncash consideration and completed contracts and contract modifications at transition.

The Company has substantially completed its evaluation of the impact of the new standard. This process included a review of significant and representative contracts across both its exploration and production and midstream and marketing segments, application of the accounting standards codification ("ASC") 606 framework and documentation of conclusions thereof. The Company is currently evaluating disclosure requirements, finalizing accounting policies and implementing changes to the relevant business processes and the control activities as a result of this standard. The Company follows the sales method of accounting for oil, NGL and natural gas production, which is generally consistent with the revenue recognition provision of

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the new standard. Based upon its evaluation to date, the Company anticipates no impact to the timing or amounts of revenue recognition for its existing contracts upon implementation in 2018 of the new standard. The Company expects to present enhanced disclosures upon implementation and will reclassify deficiency payments, which were $1.1 million, $2.2 million and $5.2 million for the years ended December 31, 2017, 2016 and 2015, respectively, that are currently included in the "other operating expenses" line item in the consolidated statement of operations, to net with the revenue stream from which they derive. The Company adopted this standard on January 1, 2018 and will apply this guidance on a modified retrospective approach to adoption in its quarterly report on Form 10-Q for the three-month period ended March 31, 2018.

On October 30, 2017, the Company sold its interest in Medallion (defined in Note 4.a below). At December 31, 2017, the transaction was accounted for under the real estate guidance in ASC 360-20, Property, Plant, and Equipment and a portion of the gain on the sale had been deferred and would have been amortized over the TA's (defined in Note 4.a below) firm commitment transportation term through 2024 had the Company not adopted ASC 606 on January 1, 2018. Upon the adoption of ASC 606, the guidance in ASC 360-20 was superseded by ASC 860, Transfers and Servicing. Therefore utilizing the modified retrospective approach of adoption, this deferred gain of $141.1 million will be recognized in the beginning balance of retained earnings.

b. Leases

In February 2016, the FASB issued new guidance in Topic 842, Leases. The core principle of the new guidance is that a lessee should recognize the assets and liabilities that arise from leases in the statement of financial position. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee (and a lessor) should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option. Reasonably certain is a high threshold that is consistent with and intended to be applied in the same way as the reasonably assured threshold in the previous lease guidance. In addition, also consistent with the previous lease guidance, a lessee (and a lessor) should exclude most variable lease payments in measuring lease assets and lease liabilities, other than those that depend on an index or a rate or are in substance fixed payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. There continues to be a differentiation between finance leases and operating leases. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. These practical expedients relate to the identification and classification of leases that commenced before the effective date, initial direct costs for leases that commenced before the effective date and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that commence before the effective date in accordance with previous GAAP unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application of the amendments in this ASU is permitted. The Company does not expect to early-adopt this guidance and is in the process of evaluating the potential impact upon adoption. The primary effect will be to record assets and obligations for contracts currently recognized as operating leases with a term greater than 12 months and evaluate operating leases with a term less than or equal to 12 months for election.

c. Business combinations

In January 2017, the FASB issued new guidance in Topic 805, Business Combinations, to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs, for example, by integrating the acquired set with their own inputs and processes. The amendments in this ASU provide a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a

business. This screen reduces the number of transactions that need to be further evaluated. If the screen is not met, the amendments in this ASU (i) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create an output and (ii) remove the evaluation of whether a market participant could replace missing elements. The amendments provide a framework to assist entities in evaluating whether both an input and a substantive process are present. The framework includes two sets of criteria to consider that depend on whether a set has outputs. Although outputs are not required for a set to be a business, outputs generally are a key element of a business; therefore, the FASB has developed more stringent criteria for sets without outputs. Lastly, the amendments in this ASU narrow the definition of the term output so that the term is consistent with how outputs are described in Topic 606. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those periods. The amendments in this ASU should be applied prospectively on or after the effective date. The Company adopted this standard on January 1, 2018 and will apply this guidance to its next business combination.

Note 4—Divestitures and acquisitions

a. 2017 Medallion sale

Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, which, together with its wholly-owned subsidiaries (collectively, "Medallion"), was established for the purpose of developing midstream solutions and providing midstream infrastructure to bring oil to market in the Midland Basin. Prior to the Medallion Sale (defined below), LMS held 49% of Medallion's ownership units. LMS and the third-party 51% interest-holder agreed that the voting rights of Medallion, the profit and loss sharing and the additional capital contribution requirements would be equal to the ownership unit percentage held. Additionally, Medallion required a super-majority vote of 75% for many key operating and business decisions. The Company determined that Medallion was a variable interest entity ("VIE"). However, LMS was not considered to be the primary beneficiary of the VIE because LMS did not have the power to direct the activities that most significantly affected Medallion's economic performance. As such, prior to the Medallion Sale, Medallion was accounted for under the equity method of accounting. The Company's proportionate share of Medallion's net income is reflected in the consolidated statements of operations on the "Income from equity method investee" line item and the carrying amount is reflected in the consolidated balance sheets on the "Investment in equity method investee" line item. The Company elected to classify distributions received from Medallion using the cumulative earnings approach. No such distributions were received through December 31, 2017.

LMS contributed $31.8 million and $69.6 million to Medallion during the years ended December 31, 2017 and 2016, respectively. Medallion continued expansion activities on existing portions of its pipeline infrastructure in order to gather and transport additional third-party oil production during each of the years ended December 31, 2017 and 2016. During the year ended December 31, 2015, Medallion began recognizing revenue due to its pipeline, located in the Midland Basin, becoming fully operational.

During the year ended December 31, 2015, the Company negotiated a buyout of a minimum volume commitment to Medallion, which was related to natural gas gathering infrastructure Medallion constructed on acreage that the Company does not plan to develop. The portion of the buyout that was related to the Company's minimum volume commitment for future periods was $3.0 million and is included in the consolidated statements of operations in the line item "Other operating expenses" for the period in which the buyout was settled. See Note 14.a for discussion of items included in the Company's consolidated financial statements related to Medallion.

On October 30, 2017, LMS, together with Medallion Midstream Holdings, LLC ("MMH"), which is owned and controlled by an affiliate of the third-party interest-holder, The Energy & Minerals Group ("EMG"), completed the sale of 100% of the ownership interests in Medallion to an affiliate of Global Infrastructure Partners ("GIP"), for cash consideration of $1.825 billion (the "Medallion Sale"). LMS' net cash proceeds for its 49% ownership interest in Medallion in 2017 were $829.6 million, before post-closing adjustments and taxes, but after deduction of its proportionate share of fees and other expenses associated with the Medallion Sale. On February 1, 2018, closing adjustments were finalized and LMS received additional net cash of $1.7 million for total net cash proceeds before taxes of $831.3 million. The proceeds were used to pay in-full borrowings on the Senior Secured Credit Facility, to

redeem the May 2022 Notes (defined below) and for working capital purposes. The Medallion Sale closed pursuant to the membership interest purchase and sale agreement, which provides for potential post-closing additional cash consideration that is structured based on GIP's realized profit at exit. There can be no assurance as to when and whether the additional consideration will be paid. The Company recorded an estimated post-closing final adjustment receivable amount of $1.7 million as of December 31, 2017, which is included in the consolidated balance sheets in the "Accounts Receivable, net" line item and is included in the consolidated statements of operations in the "Gain on sale of investment in equity method investee" line item. See Note 17.a for additional discussion of the Medallion Sale post-closing subsequent to December 31, 2017. The Medallion Sale does not represent a strategic shift and will not have a major effect on the Company's future operations or financial results.

LMS has a Transportation Services Agreement (the "TA") with a wholly-owned subsidiary of Medallion, under which LMS receives firm transportation of the Company's crude oil production from Reagan and Glasscock County, Texas to Colorado City, Texas that continues to be in effect after the Medallion Sale. Historically, the Company's crude oil purchasers have fulfilled the commitment by transporting crude oil, purchased from the Company, under the TA, as agent. As of December 31, 2017, the Company's maximum exposure to loss associated with future commitments under the TA is $141.1 million that is not recorded in the Company's consolidated balance sheets. As a result of the Company's continuing involvement with Medallion by guaranteeing cash flows under the TA, the Company recorded a deferred gain in the amount of its maximum exposure to loss related to such guarantees that would have been amortized over the TA's firm commitment transportation term through 2024 had the Company not adopted new revenue recognition guidance on January 1, 2018. Upon adoption of the new revenue recognition guidance, utilizing the modified retrospective approach, this deferred gain will be recognized into the beginning balance of retained earnings. See Note 3.a for further discussion of the future impact to the Company upon the adoption of the new revenue recognition rules. See Note 2.g for the amounts of deferred gain on sale of equity method investment that is included in the consolidated balance sheets in each of the "Other current liabilities" and "Other noncurrent liabilities" line items.

b. 2017 divestiture of evaluated and unevaluated oil and natural gas properties

In January 2017, the Company completed the sale of 2,900 net acres and working interests in 16 producing vertical wells in the Midland Basin to a third-party buyer for a purchase price of $59.7 million. After transaction costs reflecting an economic effective date of October 1, 2016, the proceeds were $59.5 million, net of working capital and post-closing adjustments. The Company completed the post-closing for this divestiture in May 2017. A significant portion of these proceeds was used to pay down borrowings on the Senior Secured Credit Facility. The purchase price was recorded as an adjustment to oil and natural gas properties pursuant to the rules governing full cost accounting. Effective at closing, the operations and cash flows of these properties were eliminated from the ongoing operations of the Company, and the Company has no continuing involvement in the properties. This divestiture does not represent a strategic shift and will not have a major effect on the Company's future operations or financial results.

c. 2016 acquisitions of evaluated and unevaluated oil and natural gas properties

The Company accounts for acquisitions of evaluated and unevaluated oil and natural gas properties under the acquisition method of accounting. Accordingly, the Company conducts assessments of net assets acquired and recognizes amounts for identifiable assets acquired and liabilities assumed at the estimated acquisition date fair values, while transaction costs associated with the acquisitions are expensed as incurred.

The Company makes various assumptions in estimating the fair values of assets acquired and liabilities assumed. The most significant assumptions relate to the estimated fair value of evaluated and unevaluated oil and natural gas properties. The fair value of these properties are measured using a discounted cash flow model that converts future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) forecasted oil, NGL and natural gas reserve quantities; (ii) future commodity strip prices as of the closing dates adjusted for transportation and regional price differentials; (iii) forecasted ad valorem taxes, production taxes, income taxes, general and administrative expenses, operating expenses and development costs; and (iv) a peer group weighted-average cost of capital rate subject to additional project-specific risk factors. To compensate for the inherent risk of estimating the value of the unevaluated properties, the discounted future net revenues of proved undeveloped and probable reserves are reduced by additional reserve adjustment factors. These assumptions represent Level 3 inputs under the fair value hierarchy, as described in Note 10.

During the year ended December 31, 2016, the Company acquired 9,200 net acres of additional leasehold interests and working interests in 81 producing vertical wells in western Glasscock and Reagan counties (which included production of approximately 300 net BOE/D) within the Company's core development area for an aggregate purchase price of $124.7 million subject to customary closing adjustments.

The following table reflects an aggregate of the final estimate of the fair values of the assets and liabilities acquired during the year ended December 31, 2016:

(in thousands)	Fair value of acquisitions
Fair value of net assets:	
Evaluated oil and natural gas properties	$ 4,800
Unevaluated oil and natural gas properties	119,923
Asset retirement cost	1,105
Total assets acquired	125,828
Asset retirement obligations	(1,105)
Net assets acquired	$ 124,723
Fair value of consideration paid for net assets:	
Cash consideration	$ 124,723

d. 2015 divestiture of non-strategic assets

On September 15, 2015, the Company completed the sale of non-strategic and primarily non-operated properties and associated production totaling 6,060 net acres and 123 producing wells in the Midland Basin to a third-party buyer for a purchase price of $65.5 million. After transaction costs reflecting an economic effective date of July 1, 2015, the net proceeds were $64.8 million, net of working capital adjustments and post-closing adjustments. The purchase price, excluding post-closing adjustments, was allocated to oil and natural gas properties pursuant to the rules governing full cost accounting.

Effective at closing, the operations and cash flows of these properties were eliminated from the ongoing operations of the Company, and the Company has no continuing involvement in the properties. This divestiture does not represent a strategic shift and will not have a major effect on the Company's operations or financial results.

The following table presents revenues and expenses of the oil and natural gas properties sold included in the accompanying consolidated statements of operations for the year ended December 31:

(in thousands)	2015
Oil, NGL and natural gas sales	$5,138
Expenses[1]	$5,791

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(1) Expenses include (i) lease operating expense, (ii) production and ad valorem tax expense, (iii) accretion expense and (iv) depletion expense.

e. Exchange of unevaluated oil and natural gas properties

From time to time, the Company exchanges undeveloped acreage with third parties, with no gain or loss recognized pursuant to the rules governing full cost accounting.

Note 5—Debt

a. Interest expense

The following table presents amounts that have been incurred and charged to interest expense:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Cash payments for interest	$92,700	$89,726	$112,693
Amortization of debt issuance costs and other adjustments	3,968	3,922	4,243
Change in accrued interest	(6,139)	(56)	(13,481)
Interest costs incurred	90,529	93,592	103,455
Less capitalized interest	(1,152)	(294)	(236)
Total interest expense	$89,377	$93,298	$103,219

b. March 2023 Notes

On March 18, 2015, the Company completed an offering of $350.0 million in aggregate principal amount of 6 1/4% senior unsecured notes due 2023 (the "March 2023 Notes"), and entered into an Indenture (the "Base Indenture"), as supplemented by the Supplemental Indenture (the "Supplemental Indenture" and, together with the Base Indenture, the "Indenture"), among Laredo, LMS and GCM, as guarantors, and Wells Fargo Bank, National Association, as trustee. The March 2023 Notes will mature on March 15, 2023 and bear an interest rate of 6 1/4% per annum, payable semi-annually, in cash in arrears on March 15 and September 15 of each year, commencing September 15, 2015. The March 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors and certain of the Company's future restricted subsidiaries, subject to certain automatic customary releases, including the sale, disposition or transfer of all of the capital stock or of all or substantially all of the assets of a subsidiary guarantor to one or more persons that are not the Company or a restricted subsidiary, exercise of legal defeasance or covenant defeasance options or satisfaction and discharge of the Indenture, designation of a subsidiary guarantor as a non-guarantor restricted subsidiary or as an unrestricted subsidiary in accordance with the Indenture, release from guarantee under the Senior Secured Credit Facility, or liquidation or dissolution (collectively, the "Releases").

The March 2023 Notes were offered and sold pursuant to a prospectus supplement dated March 4, 2015 and the base prospectus dated March 22, 2013, relating to the Company's effective shelf registration statement on Form S-3 (File No. 333-187479). The Company received net proceeds of $343.6 million from the offering, after deducting the underwriters' discount and the estimated outstanding offering expenses. In April 2015, the Company used the proceeds of the offering to fund a portion of the Company's redemption of the January 2019 Notes (as defined below). See Note 5.e for additional discussion of this early redemption.

The Company may redeem, at its option, all or part of the March 2023 Notes at any time on or after March 15, 2018, at a price of 104.688% of face value with call premiums declining annually to 100% of face value on March 15, 2021 and thereafter plus accrued and unpaid interest to, but not including, the date of redemption. Further, before March 15, 2018, the Company may on one or more occasions redeem up to 35% of the aggregate principal amount of the March 2023 Notes in an amount not exceeding the net proceeds from one or more private or public equity offerings at a redemption price of 106.25% of the principal amount of the March 2023 Notes, plus accrued and unpaid interest to the date of redemption, if at least 65% of the aggregate principal amount of the March 2023 Notes remains outstanding immediately after such redemption and the redemption occurs within 180 days of the closing date of each such equity offering.

c. January 2022 Notes

On January 23, 2014, the Company completed an offering of $450.0 million in aggregate principal amount of 5 5/8% senior unsecured notes due 2022 (the "January 2022 Notes"), and entered into an Indenture (the "2014 Indenture") among Laredo, LMS as guarantor and Wells Fargo Bank, National Association, as trustee. The January 2022 Notes will mature on January 15, 2022 and bear an interest rate of 5 5/8% per annum, payable semi-annually, in cash in arrears on January 15 and July 15 of each year, commencing July 15, 2014. The January 2022 Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors and certain of the Company's future restricted subsidiaries, subject to certain Releases.

The January 2022 Notes were issued pursuant to the 2014 Indenture in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The January 2022 Notes were offered and sold only to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to persons outside the United States pursuant to Regulation S under the Securities Act. The Company received net proceeds of $442.2 million from the offering, after deducting the initial purchasers' discount and the estimated outstanding offering expenses. The Company used the net proceeds of the offering for general working capital purposes.

The January 2022 Notes became callable by the Company on January 15, 2017. The Company may redeem, at its option, all or part of the January 2022 Notes at any time on and after January 15, 2018, at a price of 102.813% of face value with call premiums declining annually to 100% of face value on January 15, 2020 and thereafter plus accrued and unpaid interest to the date of redemption.

d. May 2022 Notes

On April 27, 2012, the Company completed an offering of $500.0 million in aggregate principal amount of 7 3/8% senior unsecured notes due 2022 (the "May 2022 Notes"). The May 2022 Notes were due to mature on May 1, 2022 and bore an interest rate of 7 3/8% per annum, payable semi-annually, in cash in arrears on May 1 and November 1 of each year, commencing November 1, 2012. The May 2022 Notes were fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors and certain of the Company's future restricted subsidiaries, subject to certain Releases.

The May 2022 Notes were issued under and were governed by an indenture and supplement thereto, each dated April 27, 2012 (collectively, and as further supplemented, the "2012 Indenture"), among Laredo Inc, Wells Fargo Bank, National Association, as trustee, and the guarantors named therein. The 2012 Indenture contained customary terms, events of default and covenants relating to, among other things, the incurrence of debt, the payment of dividends or similar restricted payments, entering into transactions with affiliates and limitations on asset sales.

On November 29, 2017 (the "May 2022 Notes Redemption Date"), utilizing a portion of the proceeds from the Medallion Sale, the entire $500.0 million outstanding principal amount of the May 2022 Notes was redeemed at a redemption price of 103.688% of the principal amount of the May 2022 Notes, plus accrued and unpaid interest up to, but not including, the May 2022 Notes Redemption Date. The Company recognized a loss on extinguishment of $23.8 million related to the difference between the redemption price and the net carrying amount of the extinguished May 2022 Notes.

e. January 2019 Notes

On January 20, 2011, the Company completed an offering of $350.0 million in aggregate principal amount of 9 1/2% senior unsecured notes due 2019 (the "January Notes") and on October 19, 2011, the Company completed an offering of an additional $200.0 million in aggregate principal amount of 9 1/2% senior unsecured notes due 2019 (the "October Notes" and together with the January Notes, the "January 2019 Notes"). The January 2019 Notes were due to mature on February 15, 2019 and bore an interest rate of 9 1/2% per annum, payable semi-annually, in cash in arrears on February 15 and August 15 of each year. The January 2019 Notes were fully and unconditionally guaranteed on a senior unsecured basis by the Guarantors and certain of the Company's future restricted subsidiaries, subject to certain Releases.

The January 2019 Notes were issued under and were governed by an indenture dated January 20, 2011 (as supplemented, the "2011 Indenture") among Laredo Inc, Wells Fargo Bank, National Association, as trustee, and the guarantors named therein. The Indenture contains customary terms, events of default and covenants relating to, among other things, the incurrence of debt, the payment of dividends or similar restricted payments, the undertaking of transactions with Laredo's unrestricted affiliates and limitations on asset sales.

On April 6, 2015 (the "January 2019 Notes Redemption Date"), utilizing a portion of the proceeds from the March 2015 Equity Offering and the March 2023 Notes offering, the entire $550.0 million outstanding principal amount of the January 2019 Notes was redeemed at a redemption price of 104.750% of the principal amount of the January 2019 Notes, plus accrued and unpaid interest up to, but not including, the January 2019 Notes Redemption Date. The Company recognized a loss on extinguishment of $31.5 million related to the difference between the redemption price and the net carrying amount of the extinguished January 2019 Notes.

f. Senior Secured Credit Facility

As of December 31, 2017, the Senior Secured Credit Facility, which matures on May 2, 2022 or October 17, 2021, if the January 2022 Notes have not been redeemed or refinanced by such date, had a maximum credit amount of $2.0 billion, a borrowing base and an aggregate elected commitment of $1.0 billion each, with no amounts outstanding. The borrowing base is subject to a semi-annual redetermination occurring by May 1 and November 1 of each year based on the lenders' evaluation of the Company's oil and natural gas reserves. As defined in the Senior Secured Credit Facility, (i) the Adjusted Base Rate advances under the facility bear interest payable quarterly at an Adjusted Base Rate plus applicable margin, which ranges from 1.0% to 2.0%, based on the ratio of outstanding revolving credit to the total commitment under the Senior Secured Credit Facility; and (ii) the Eurodollar advances under the facility bear interest, at the Company's election, at the end of one-month, two-month, three-month, six-month or, to the extent available, 12-month interest periods (and in the case of six-month and 12-month interest periods, every three months prior to the end of such interest period) at an Adjusted London Interbank Offered Rate plus an applicable margin, which ranges from 2.0% to 3.0%, based on the ratio of outstanding revolving credit to the total commitment under the Senior Secured Credit Facility. Laredo is required to pay an annual commitment fee on the unused portion of the financial institutions' commitment of 0.375% to 0.5%, based on the ratio of outstanding revolving credit to the total commitment under the Senior Secured Credit Facility.

The Senior Secured Credit Facility is secured by a first-priority lien on Laredo and the Guarantors' assets and stock, including oil, NGL and natural gas properties, constituting at least 85% of the present value of the Company's proved reserves. Further, the Company is subject to various financial and non-financial covenants on a consolidated basis, including a current ratio at the end of each calendar quarter, of not less than 1.00 to 1.00. As defined by the Senior Secured Credit Facility, the current ratio represents the ratio of current assets to current liabilities, inclusive of available capacity and exclusive of current balances associated with derivative positions. Additionally, commencing with the calendar quarter ended March 31, 2017, the Company must maintain as of the last day of each calendar quarter a ratio of (a) its total debt (excluding reimbursement obligations in respect of undrawn letters of credit, if no loans are outstanding under the Senior Secured Credit Facility) minus a maximum of $50 million of unrestricted and unencumbered cash and cash equivalents, to (b) "Consolidated EBITDAX," as

defined in the Senior Secured Credit Facility, for, prior to December 31, 2017, the period commencing on January 1, 2017 and ending on the last day of such applicable calendar quarter, and commencing on December 31, 2017, any period of four consecutive calendar quarters ending on the last day of such applicable calendar quarter of not greater than 4.25 to 1.00. Prior to the Company entering into the Fifth Amended and Restated Credit Agreement as of May 2, 2017, at the end of each calendar quarter, the Company was required to maintain a ratio of (I) its consolidated net income (loss) (a) plus each of the following; (i) any provision for (or less any benefit from) income or franchise taxes; (ii) consolidated net interest expense; (iii) depletion, depreciation and amortization expense; (iv) exploration expenses; and (v) other non-cash charges, and (b) minus other non-cash income ("EBITDAX"), as defined in the Senior Secured Credit Facility, to (II) the sum of consolidated net interest expense plus letter of credit fees of not less than 2.50 to 1.00, in each case for the four quarters then ending. The Company was in compliance with these covenants for all periods presented.

Additionally, the Senior Secured Credit Facility provides for the issuance of letters of credit, limited to the lesser of total capacity or $20.0 million. No letters of credit were outstanding as of December 31, 2017 or 2016.

g. Fair value of debt

The Company has not elected to account for its debt instruments at fair value. The following table presents the carrying amounts and fair values of the Company's debt:

(in thousands)	December 31, 2017		December 31, 2016	
	Long-term debt	Fair value	Long-term debt	Fair value
January 2022 Notes	$450,000	$454,500	$450,000	$456,382
May 2022 Notes	—	—	500,000	521,413
March 2023 Notes	350,000	364,105	350,000	365,649
Senior Secured Credit Facility	—	—	70,000	69,975
Total	$800,000	$818,605	$1,370,000	$1,413,419

The fair values of the debt outstanding on the January 2022 Notes, the May 2022 Notes and the March 2023 Notes were determined using the December 31, 2017 and 2016 quoted market price (Level 1) for each respective instrument. The fair value of the outstanding debt on the Senior Secured Credit Facility as of December 31, 2016 was estimated utilizing pricing models for similar instruments (Level 2). See Note 10.a for information about fair value hierarchy levels.

h. Long-term debt, net

The following table summarizes the net presentation of the Company's long-term debt and debt issuance costs on the consolidated balance sheets:

(in thousands)	December 31, 2017			December 31, 2016		
	Long-term debt	Debt issuance costs, net	Long-term debt, net	Long-term debt	Debt issuance costs, net	Long-term debt, net
January 2022 Notes	$450,000	$(3,987)	$446,013	$450,000	$(4,963)	$445,037
May 2022 Notes	—	—	—	500,000	(6,164)	493,836
March 2023 Notes	350,000	(4,158)	345,842	350,000	(4,964)	345,036
Senior Secured Credit Facility[(1)]	—	—	—	70,000	—	70,000
Total	$800,000	$(8,145)	$791,855	$1,370,000	$(16,091)	$1,353,909

(1) Debt issuance costs, net related to our Senior Secured Credit Facility of $6.0 million and $2.7 million as of December 31, 2017 and 2016, respectively, are included in "Other noncurrent assets, net" in the consolidated balance sheets.

Note 6—Equity offerings

a. July 2016 Equity Offering

On July 19, 2016, the Company completed the sale of 13,000,000 shares of Laredo's common stock (the "July 2016 Equity Offering") for net proceeds of $136.3 million, after underwriting discounts, commissions and offering expenses. On August 9, 2016, the underwriters exercised their option to purchase an additional 1,950,000 shares of Laredo's common stock,

which resulted in net proceeds to the Company of $20.5 million, after underwriting discounts, commissions and offering expenses.

b. May 2016 Equity Offering

On May 16, 2016, the Company completed the sale of 10,925,000 shares of Laredo's common stock (the "May 2016 Equity Offering") for net proceeds of $119.3 million, after underwriting discounts, commissions and offering expenses.

c. March 2015 Equity Offering

On March 5, 2015, the Company completed the sale of 69,000,000 shares of Laredo's common stock (the "March 2015 Equity Offering") for net proceeds of $754.2 million, after underwriting discounts, commissions and offering expenses. Entities affiliated with Warburg Pincus LLC purchased 29,800,000 shares in the March 2015 Equity Offering.

There were no comparative offerings of Laredo's stock during the year ended December 31, 2017.

Note 7—Employee compensation

The Company has a Long-Term Incentive Plan (the "LTIP"), which provides for the granting of incentive awards in the form of restricted stock awards, stock option awards, performance share awards, performance unit awards and other awards. The LTIP provides for the issuance of up to 24,350,000 shares.

The Company recognizes the fair value of stock-based compensation awards expected to vest over the requisite service period as a charge against earnings, net of amounts capitalized. The Company's stock-based compensation awards are accounted for as equity instruments and, in prior periods, its performance unit awards were accounted for as liability awards. Stock-based compensation is included in "General and administrative" in the consolidated statements of operations. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration or development of oil and natural gas properties into the full cost pool. Capitalized stock-based compensation is included as an addition to "Oil and natural gas properties" in the consolidated balance sheets.

a. Restricted stock awards

All service vesting restricted stock awards are treated as issued and outstanding in the accompanying consolidated financial statements. Per the award agreement terms, if an employee terminates employment prior to the restriction lapse date for reasons other than death or disability, the awarded shares are forfeited and canceled and are no longer considered issued and outstanding. If the employee's termination of employment is by reason of death or disability, all of the holder's restricted stock will automatically vest. Historically, restricted stock awards granted to officers and employees vest in a variety of vesting schedules including (i) 33%, 33% and 34% per year beginning on the first anniversary date of the grant, (ii) 50% in year two and 50% in year three and (iii) fully on the third anniversary of the grant date. Beginning August 2017, stock awards granted to non-employee directors vest immediately upon the grant date. Restricted stock awards granted to non-employee directors prior to August 2017 vest fully on the first anniversary of the grant date.

The following table reflects the restricted stock award activity for the years ended December 31, 2015, 2016 and 2017:

(in thousands, except for weighted-average grant date fair value)	Restricted stock awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2014	2,205	$ 22.63
Granted	1,902	$ 11.98
Forfeited	(553)	$ 20.48
Vested	(1,015)	$ 22.32
Outstanding as of December 31, 2015	2,539	$ 15.26
Granted	2,982	$ 12.28
Forfeited	(457)	$ 13.95
Vested	(1,186)	$ 16.07
Outstanding as of December 31, 2016	3,878	$ 12.88
Granted	1,237	$ 13.87
Forfeited	(302)	$ 12.87
Vested[1]	(1,644)	$ 13.75
Outstanding as of December 31, 2017	3,169	$ 12.81

(1) The total intrinsic value of vested restricted stock awards for the year ended December 31, 2017 was $22.8 million.

The Company utilizes the closing stock price on the grant date to determine the fair value of service vesting restricted stock awards. As of December 31, 2017, unrecognized stock-based compensation related to the restricted stock awards expected to vest was $21.6 million. Such cost is expected to be recognized over a weighted-average period of 1.58 years.

b. Stock option awards

Stock option awards granted under the LTIP vest and are exercisable in four equal installments on each of the four anniversaries of the grant date. The following table reflects the stock option award activity for the years ended December 31, 2015, 2016 and 2017:

(in thousands, except for weighted-average exercise price and weighted-average remaining contractual term)	Stock option awards	Weighted-average exercise price (per award)	Weighted-average remaining contractual term (years)
Outstanding as of December 31, 2014	1,367	$ 20.76	8.17
Granted	632	$ 11.93	
Exercised	—	$ —	
Expired or canceled	(82)	$ 19.92	
Forfeited	(139)	$ 18.17	
Outstanding as of December 31, 2015	1,778	$ 17.86	7.91
Granted	1,016	$ 4.18	
Exercised	(17)	$ 11.93	
Expired or canceled	(109)	$ 21.71	
Forfeited	(298)	$ 12.49	
Outstanding as of December 31, 2016	2,370	$ 12.54	7.71
Granted	391	$ 14.12	
Exercised[(1)]	(54)	$ 7.43	
Expired or canceled	(60)	$ 20.41	
Outstanding as of December 31, 2017	2,647	$ 12.70	7.12
Vested and exercisable as of December 31, 2017[(2)]	1,260	$ 16.47	5.97
Expected to vest as of December 31, 2017[(3)]	1,387	$ 9.27	8.17

(1) The total intrinsic value of exercised stock option awards for the year ended December 31, 2017 was $0.3 million.

(2) The vested and exercisable stock option awards as of December 31, 2017 had an aggregate intrinsic value of $1.3 million.

(3) The stock option awards expected to vest as of December 31, 2017 had an aggregate intrinsic value of $4.5 million.

The Company utilizes the Black-Scholes option pricing model to determine the fair value of stock option awards and recognizes the associated expense on a straight-line basis over the four-year requisite service period of the awards. Determining the fair value of equity-based awards requires judgment, including estimating the expected term that stock option awards will be outstanding prior to exercise and the associated volatility. As of December 31, 2017, unrecognized stock-based compensation related to stock option awards expected to vest was $8.3 million. Such cost is expected to be recognized over a weighted-average period of 2.34 years.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

The assumptions used to estimate the fair value of stock option awards granted as of the dates presented are as follows:

	February 17, 2017	May 25, 2016	April 1, 2016	February 27, 2015
Risk-free interest rate[1]	2.14 %	1.58 %	1.44 %	1.70 %
Expected option life[2]	6.25 years	6.25 years	6.25 years	6.25 years
Expected volatility[3]	60.84 %	61.94 %	61.34 %	52.59 %
Fair value per stock option award	$ 8.22	$ 9.75	$ 4.44	$ 6.15

(1) U.S. Treasury yields as of the grant date were utilized for the risk-free interest rate assumption, correlating the treasury yield terms to the expected life of the stock option award.

(2) As the Company had limited or no exercise history at the time of valuation relating to terminations and modifications, expected stock option award life assumptions were developed using the simplified method in accordance with GAAP.

(3) The Company utilized its own volatility in order to develop the expected volatility.

In accordance with the LTIP and stock option agreement, the stock option awards granted will become exercisable in accordance with the following schedule based upon the number of full years of the optionee's continuous employment or service with the Company, following the date of grant:

Full years of continuous employment	Incremental percentage of option exercisable	Cumulative percentage of option exercisable
Less than one	— %	— %
One	25 %	25 %
Two	25 %	50 %
Three	25 %	75 %
Four	25 %	100 %

No shares of common stock may be purchased unless the optionee has remained in continuous employment with the Company for one year from the grant date. Unless terminated sooner, the stock option award will expire if and to the extent it is not exercised within 10 years from the grant date. The unvested portion of a stock option award shall expire upon termination of employment, and the vested portion of a stock option award shall remain exercisable for (i) one year following termination of employment by reason of the holder's death or disability, but not later than the expiration of the option period, or (ii) 90 days following termination of employment for any reason other than the holder's death or disability, and other than the holder's termination of employment for cause. Both the unvested and the vested but unexercised portion of a stock option award shall expire upon the termination of the option holder's employment or service by the Company for cause.

c. Performance share awards

Performance share awards granted to management are subject to a combination of market and service vesting criteria. A Monte Carlo simulation prepared by an independent third party is utilized to determine the grant date fair value of these awards. The Company has determined these awards are equity awards and recognizes the associated expense on a straight-line basis over the three-year requisite service period of the awards. Any shares earned under such awards are expected to be issued in the first quarter following the completion of the requisite service period based on the achievement of certain performance criteria. The 454,164 outstanding 2015 performance share awards had a performance period of January 1, 2015 to December 31, 2017 and, as their performance criteria were not satisfied, these awards will not be converted into shares of common stock during the first quarter of 2018.

F-26

The following table reflects the performance share award activity for the years ended December 31, 2015, 2016 and 2017:

(in thousands, except for weighted-average grant date fair value)	Performance share awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2014	272	$ 28.56
Granted	602	$ 16.23
Forfeited	—	$ —
Vested	—	$ —
Outstanding as of December 31, 2015	874	$ 20.06
Granted	1,801	$ 17.71
Forfeited	(350)	$ 19.34
Vested	—	$ —
Outstanding as of December 31, 2016	2,325	$ 18.35
Granted	696	$ 18.96
Forfeited	(76)	$ 18.12
Vested[(1)]	(200)	$ 28.56
Outstanding as of December 31, 2017	2,745	$ 17.77

(1) These performance share awards had a performance period of January 1, 2014 to December 31, 2016 and, as their vesting and performance criteria were satisfied, each award converted into 0.75 shares representing 150,388 shares of common stock issued during the first quarter of 2017.

As of December 31, 2017, unrecognized stock-based compensation related to the performance share awards expected to vest was $20.9 million. Such cost is expected to be recognized over a weighted-average period of 1.57 years.

The assumptions used to estimate the fair value of the performance share awards granted as of the dates presented are as follows:

	February 17, 2017	May 25, 2016	April 1, 2016	February 27, 2015
Risk-free interest rate[(1)]	1.44 %	1.02 %	0.87 %	0.95 %
Dividend yield	— %	— %	— %	— %
Expected volatility[(2)]	74.00 %	74.73 %	71.54 %	53.78 %
Laredo stock closing price on grant date	$14.12	$12.36	$7.71	$11.93
Fair value per performance share award	$18.96	$17.86	$9.83	$16.23

(1) The risk-free interest rate was derived using a term-matched zero-coupon yield derived from the U.S. Treasury constant maturities yield curve on the grant date.

(2) The Company utilized its own historical volatility in order to develop the expected volatility.

d. Stock-based compensation expense

The following has been recorded to stock-based compensation expense for the periods presented:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Restricted stock award compensation	$22,223	$21,609	$17,534
Stock option award compensation	4,762	4,519	4,074
Performance share award compensation	16,312	9,112	5,222
Total stock-based compensation, gross	43,297	35,240	26,830

Less amounts capitalized in oil and natural gas properties	(7,563)	(6,011)	(2,321)
Total stock-based compensation, net of amounts capitalized	$35,734	$29,229	$24,509

e. Performance unit awards

The performance unit awards issued to management in prior years were subject to a combination of market and service vesting criteria. These awards were accounted for as liability awards as they were settled in cash at the end of the requisite service period based on the achievement of certain performance criteria. A Monte Carlo simulation prepared by an independent third party was utilized to determine the fair values of these awards at the grant date and to re-measure the fair values at the end of each reporting period until settlement in accordance with GAAP. The volatility criteria utilized in the Monte Carlo simulation was based on the volatility of the Company's stock price and the stock price volatilities of a group of peer companies defined in each respective award agreement. The liability and related compensation expense of these awards for each period was recognized by dividing the fair value of the total liability by the requisite service period and recording the pro rata share for the period for which service had already been provided.

The 44,481 settled 2013 performance unit awards had a performance period of January 1, 2013 to December 31, 2015 and, as their performance criteria were satisfied, they were paid at $143.75 per unit during the first quarter of 2016. The 27,381 settled 2012 performance unit awards had a performance period of January 1, 2012 to December 31, 2014 and, as their performance criteria were satisfied, they were paid at $100.00 per unit during the first quarter of 2015. For the year ended December 31, 2015, compensation expense for the performance unit awards of $4.1 million is included in "General and administrative" line item in the Company's consolidated statements of operations.

f. Defined contribution plan

The Company sponsors a 401(k) defined contribution plan for the benefit of substantially all employees at the date of hire. The plan allows eligible employees to make pre-tax and after-tax contributions up to 100% of their annual compensation, not to exceed annual limits established by the federal government. The Company makes matching contributions of up to 6% of an employee's compensation and may make additional discretionary contributions for eligible employees. Employees are 100% vested in the employer contributions upon receipt.

The following table presents the cost recognized for the Company's defined contribution plan for the periods presented:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Contributions	$1,929	$1,789	$1,847

Note 8—Net income (loss) per common share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share reflects the potential dilution of non-vested restricted stock awards, outstanding stock option awards and non-vested performance share awards. For the years ended December 31, 2016 and 2015 all of these potentially dilutive items were anti-dilutive due to the Company's net loss and, therefore, excluded from the calculation of diluted net loss per common share.

The following table reflects the calculation of basic and diluted weighted-average common shares outstanding and net income (loss) per common share for the periods presented:

	For the years ended December 31,		
(in thousands, except for per share data)	2017	2016	2015
Net income (loss) (numerator):			
Net income (loss)—basic and diluted	$548,974	$(260,739)	$(2,209,936)
Weighted-average common shares outstanding (denominator):			
Basic[(1)]	239,096	225,512	199,158
Non-vested restricted stock awards[(2)]	880	—	—
Outstanding stock option awards[(3)]	122	—	—
Non-vested performance share awards[(4)]	24	—	—
Diluted	240,122	225,512	199,158
Net income (loss) per common share:			
Basic	$2.30	$(1.16)	$(11.10)
Diluted	$2.29	$(1.16)	$(11.10)

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(1) Weighted-average common shares outstanding used in the computation of basic and diluted net income (loss) per common share was computed taking into account equity offerings that occurred during the years ended December 31, 2016 and 2015. There were no comparable equity offerings during the year ended December 31, 2017. See Note 6 for additional discussion of the Company's equity offerings.

(2) The dilutive effect of the non-vested restricted stock awards was calculated utilizing the treasury stock method. See Note 7.a for additional discussion of the Company's restricted stock awards.

(3) The dilutive effect of the outstanding stock option awards was calculated utilizing the treasury stock method. The effect of the outstanding stock option awards, with the exception of the options granted in 2016, was excluded from the calculation of diluted net income per common share for the year ended December 31, 2017. The inclusion of these outstanding stock option awards would be anti-dilutive due to the following: (i) utilizing the treasury stock method, the sum of the assumed proceeds exceeded the average stock price during the period for the options granted in 2015 and (ii) the exercise prices were greater than the average stock prices during the period for the options granted in 2012, 2013, 2014 and 2017. See Note 7.b for additional discussion of the Company's stock option awards.

(4) The dilutive effect of the non-vested performance share awards was calculated utilizing the Company's total shareholder return ("TSR") from the beginning of each performance share awards' respective performance period to the end of the respective period presented in comparison to the TSR of the peers specified in each performance share award's respective agreement. For the year ended December 31, 2017, the TSRs for the performance share awards granted in 2015, 2016 and 2017 were below their agreement's payout threshold and, therefore, these awards were excluded from the calculation of diluted net income per share. See Note 7.c for additional discussion of the Company's performance share awards.

Note 9—Derivatives

a. Derivatives

The Company engages in derivative transactions such as puts, swaps, collars, basis swaps and, in the past, call spreads to hedge price risks due to unfavorable changes in oil, NGL and natural gas prices related to its production. As of December 31, 2017, the Company had 39 open derivative contracts with financial institutions that extend from January 2018 to December 2020. None of these contracts were designated as hedges for accounting purposes. The contracts are recorded at fair value on the consolidated balance sheets and gains and losses are recognized in earnings. Gains and losses on derivatives are reported in the consolidated statements of operations in the "Gain (loss) on derivatives, net" line item.

Each put transaction has an established floor price. The Company pays its counterparty a premium, which can be paid at inception or deferred until settlement, to enter into the put transaction. When the settlement price is below the floor

price, the counterparty pays the Company an amount equal to the difference between the settlement price and the floor price multiplied by the hedged contract volume. When the settlement price is at or above the floor price in an individual month in the contract period, the put option expires with no settlement for that particular month, except with regard to the deferred premium, if any.

Each swap transaction has an established fixed price. When the settlement price is below the fixed price, the counterparty pays the Company an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume. When the settlement price is above the fixed price, the Company pays its counterparty an amount equal to the difference between the settlement price and the fixed price multiplied by the hedged contract volume.

Each collar transaction has an established price floor and ceiling. Depending on the terms, the Company may pay its counterparty a premium, which can be paid at inception or deferred until settlement. When the settlement price is below the price floor established by these collars, the counterparty pays the Company an amount equal to the difference between the settlement price and the price floor multiplied by the hedged contract volume. When the settlement price is above the price ceiling established by these collars, the Company pays its counterparty an amount equal to the difference between the settlement price and the price ceiling multiplied by the hedged contract volume. When the settlement price is between the price floor and price ceiling established by these collars in an individual month in the contract period, the collar expires with no settlement paid by either the Company or the counterparty for that particular month, except with regard to the deferred premium, if any.

Each basis swap transaction has an established fixed basis differential corresponding to two floating index prices. Depending on the difference of the two floating index prices in relationship to the fixed basis differential, the Company either receives an amount from its counterparty, or pays an amount to its counterparty, equal to the difference multiplied by the hedged contract volume.

Each call spread transaction has an established short call price and long call price. Depending on the terms, the counterparty may pay a premium to the Company to enter into the transaction. When the settlement price is above the short call price up to the long call price, the Company pays its counterparty an amount equal to the difference between the settlement price and the short call price multiplied by the hedged contract volume. When the settlement price is above the long call price, the Company pays the counterparty an amount equal to the difference between the long call price and the short call price multiplied by the hedged contract volume. When the settlement price is at or below the short call price in an individual month in the contract period, the call option expires with no settlement paid by either the Company or the counterparty for that particular month, except with regard to the deferred premium, if any.

Other than the oil basis swaps, the Company's oil derivatives are settled based on the month's average daily NYMEX index price for the first nearby month of the West Texas Intermediate Light Sweet Crude Oil Futures Contract. The oil basis swaps are settled based on the swaps' differential between the Argus Americas Crude West Texas Intermediate ("WTI") index prices for WTI Midland-weighted average and WTI Cushing-WTI formula basis price less the differential price for the trade month. The Company's NGL derivatives are settled based on the month's average daily OPIS index price for Mont Belvieu Purity Ethane and TET Propane. Other than the natural gas basis swaps, the Company's natural gas derivatives are settled based on the Inside FERC index price for West Texas WAHA for the calculation period. The natural gas basis swaps are settled based on the swaps' differential between the Inside FERC index price for West Texas WAHA and the NYMEX Henry Hub index price less the differential price for the calculation period.

During the year ended December 31, 2017, the Company completed a hedge restructuring by early terminating a swap that resulted in a termination amount to the Company of $4.2 million that was settled in full by applying the proceeds to pay the premium on one new collar entered into during the hedge restructuring. The following details the derivative that was terminated:

	Aggregate volumes (Bbl)	Floor price ($/Bbl)	Ceiling price ($/Bbl)	Contract period
Oil swap	1,095,000	$ 52.12	$ 52.12	January 2018 - December 2018

During the year ended December 31, 2016, the Company completed a hedge restructuring by early terminating the floors of certain derivative contract collars that resulted in a termination amount to the Company of $80.0 million, which was settled in full by applying the proceeds to pay the premiums on two new derivatives entered into during the hedge restructuring.

F-30

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

During the year ended December 31, 2017, the following derivatives were entered into:

	Aggregate volumes[1]	Floor price[2]	Ceiling price[2]	Short call price[2]	Long call price[2]	Differential price[2]	Contract period
Oil[3]:							
Call spread[4]	1,140,800	$—	$—	$60.00	$100.00	$ —	July 2017 - December 2017
Call spread[5]	184,000	$—	$—	$60.00	$80.00	$ —	July 2017 - December 2017
Put[6]	4,378,000	$50.00	$—	$—	$—	$ —	January 2018 - December 2018
Collar[7]	3,504,000	$40.00	$60.00	$—	$—	$ —	January 2018 - December 2018
Collar	584,000	$50.00	$60.00	$—	$—	$ —	January 2018 - December 2018
Basis swap	1,825,000	$—	$—	$—	$—	$ (0.59)	January 2018 - December 2018
Basis swap	730,000	$—	$—	$—	$—	$ (0.52)	January 2018 - December 2018
Basis swap	730,000	$—	$—	$—	$—	$ (0.49)	January 2018 - December 2018
Basis swap	365,000	$—	$—	$—	$—	$ (0.58)	January 2018 - December 2018
Put[8]	3,285,000	$45.00	$—	$—	$—	$ —	January 2019 - December 2019
Put	1,387,000	$50.00	$—	$—	$—	$ —	January 2019 - December 2019
Swap	365,000	$53.45	$53.45	$—	$—	$ —	January 2019 - December 2019
Swap	292,000	$53.46	$53.46	$—	$—	$ —	January 2019 - December 2019
Put[9]	366,000	$45.00	$—	$—	$—	$ —	January 2020 - December 2020
Swap	695,400	$52.18	$52.18	$—	$—	$ —	January 2020 - December 2020
Natural gas:							
Collar[10]	10,950,000	$2.50	$3.25	$—	$—	$ —	January 2018 - December 2018
Basis swap	9,125,000	$—	$—	$—	$—	$ (0.62)	January 2018 - December 2018
Basis swap	9,125,000	$—	$—	$—	$—	$ (0.70)	January 2019 - December 2019

(1) Oil is in Bbl and natural gas is in MMBtu.
(2) Oil is in $/Bbl and natural gas is in $/MMBtu.
(3) There are $25.7 million in deferred premiums associated with these contracts.
(4) A premium of $0.5 million was settled in full at inception and the proceeds were applied to pay the premiums on a put entered into simultaneously.
(5) A premium of $0.1 million was settled in full at inception and the proceeds were applied to pay the premiums on a put entered into simultaneously.
(6) Premiums of $4.9 million were paid at inception, of which $0.6 million were settled in full at inception by applying the proceeds of the call spreads entered into simultaneously.
(7) A premium of $4.2 million was settled in full at inception as part of the Company's 2017 hedge restructuring by applying the proceeds of the terminated swap.
(8) Premiums of $9.3 million were paid at inception.
(9) A premium of $1.6 million was paid at inception.
(10) There are $0.9 million in deferred premiums associated with these contracts.

See Note 17.d for discussion of additional hedges entered into subsequent to December 31, 2017.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

The following represents cash settlements received for derivatives, net for the periods presented:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Cash settlements received for matured derivatives, net[1]	$37,583	$195,281	$255,281
Cash settlements received for early terminations of derivatives, net[2]	4,234	80,000	—
Cash settlements received for derivatives, net	$41,817	$275,281	$255,281

(1) The settlement amounts do not include premiums paid attributable to contracts that matured during the respective period.

(2) The settlement amount for the year ended December 31, 2016 includes $4.0 million in deferred premiums that were settled net with the early terminated contracts from which they originated.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

The following table summarizes open positions as of December 31, 2017, and represents, as of such date, derivatives in place through December 2020 on annual production volumes:

	Year 2018	Year 2019	Year 2020
Oil positions:			
Puts:			
Hedged volume (Bbl)	5,427,375	4,672,000	366,000
Weighted-average floor price ($/Bbl)	$ 51.93	$ 46.48	$ 45.00
Swaps:			
Hedged volume (Bbl)	—	657,000	695,400
Weighted-average price ($/Bbl)	$ —	$ 53.45	$ 52.18
Collars:			
Hedged volume (Bbl)	4,088,000	—	—
Weighted-average floor price ($/Bbl)	$ 41.43	$ —	$ —
Weighted-average ceiling price ($/Bbl)	$ 60.00	$ —	$ —
Totals:			
Total volume hedged with floor price (Bbl)	9,515,375	5,329,000	1,061,400
Weighted-average floor price ($/Bbl)	$ 47.42	$ 47.34	$ 49.70
Total volume hedged with ceiling price (Bbl)	4,088,000	657,000	695,400
Weighted-average ceiling price ($/Bbl)	$ 60.00	$ 53.45	$ 52.18
Basis Swaps:			
Hedged volume (Bbl)	3,650,000	—	—
Weighted-average price ($/Bbl)	$ (0.56)	$ —	$ —
Natural gas positions:			
Puts:			
Hedged volume (MMBtu)	8,220,000	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —
Collars:			
Hedged volume (MMBtu)	15,585,500	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —
Weighted-average ceiling price ($/MMBtu)	$ 3.35	$ —	$ —
Totals:			
Total volumed hedged with floor price (MMBtu)	23,805,500	—	—
Weighted-average floor price ($/MMBtu)	$ 2.50	$ —	$ —
Total volume hedged with ceiling price (MMBtu)	15,585,500	—	—
Weighted-average ceiling price ($/MMBtu)	$ 3.35	$ —	$ —
Basis Swaps:			
Hedged volume (MMBtu)	9,125,000	9,125,000	—
Weighted-average price ($/MMBtu)	$ (0.62)	$ (0.70)	$ —

b. Balance sheet presentation

In accordance with the Company's standard practice, its derivatives are subject to counterparty netting under their governing agreements. The Company's oil, NGL and natural gas derivatives are presented on a net basis as "Derivatives" on the consolidated balance sheets. See Note 10.a for a summary of the fair value of derivatives on a gross basis.

By using derivatives to hedge exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. For the Company, market risk is the exposure to changes in the market price of oil, NGL and natural gas, which are subject to fluctuations from a variety of factors, including changes in supply and demand. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a

derivative contract is positive, the

F-33

counterparty owes the Company, thereby creating credit risk. The Company's counterparties are participants in the Senior Secured Credit Facility, which is secured by the Company's oil, NGL and natural gas reserves; therefore, the Company is not required to post any collateral. The Company does not require collateral from its derivative counterparties. The Company minimizes the credit risk in derivatives by: (i) limiting its exposure to any single counterparty, (ii) entering into derivatives only with counterparties that meet the Company's minimum credit quality standard or have a guarantee from an affiliate that meets the Company's minimum credit quality standard and (iii) monitoring the creditworthiness of the Company's counterparties on an ongoing basis.

Note 10—Fair value measurements

The Company accounts for its oil, NGL and natural gas derivatives at fair value. The fair value of derivatives is determined utilizing pricing models for similar instruments. The models use a variety of techniques to arrive at fair value, including quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

The Company has categorized its assets and liabilities measured at fair value, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

Assets and liabilities recorded at fair value on the consolidated balance sheets are categorized based on inputs to the valuation techniques as follows:

Level 1—	Assets and liabilities recorded at fair value for which values are based on unadjusted quoted prices for identical assets or liabilities in an active market that management has the ability to access. Active markets are considered to be those in which transactions for the assets or liabilities occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
Level 2—	Assets and liabilities recorded at fair value for which values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the assets or liabilities. Substantially all of these inputs are observable in the marketplace throughout the full term of the price risk management instrument and can be derived from observable data or supported by observable levels at which transactions are executed in the marketplace.
Level 3—	Assets and liabilities recorded at fair value for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Unobservable inputs are not corroborated by market data. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When the inputs used to measure fair value fall within different levels of the hierarchy in a liquid environment, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company conducts a review of fair value hierarchy classifications on an annual basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Transfers between fair value hierarchy levels are recognized and reported in the period in which the transfer occurred. No transfers between fair value hierarchy levels occurred during the years ended December 31, 2017, 2016 or 2015.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

a. Fair value measurement on a recurring basis

The following tables summarize the Company's fair value hierarchy by commodity on a gross basis and the net presentation on the consolidated balance sheets for derivative assets and liabilities measured at fair value on a recurring basis as of the dates presented:

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the consolidated balance sheets
As of December 31, 2017:						
Assets						
Current:						
Oil derivatives	$ —	$7,427	$—	$7,427	$(3,721)	$ 3,706
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	10,546	—	10,546	(4,817)	5,729
Oil deferred premiums	—	—	—	—	(87)	(87)
Natural gas deferred premiums	—	—	—	—	(2,456)	(2,456)
Noncurrent:						
Oil derivatives	$ —	$11,613	$—	$11,613	$(6,087)	$ 5,526
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	934	—	934	(934)	—
Oil deferred premiums	—	—	—	—	(2,113)	(2,113)
Natural gas deferred premiums	—	—	—	—	—	—
Liabilities						
Current:						
Oil derivatives	$ —	$(12,477)	$—	$(12,477)	$3,721	$ (8,756)
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	—	—	—	4,817	4,817
Oil deferred premiums	—	—	(18,202)	(18,202)	87	(18,115)
Natural gas deferred premiums	—	—	(3,352)	(3,352)	2,456	(896)
Noncurrent:						
Oil derivatives	$ —	$(2,389)	$—	$(2,389)	$6,087	$ 3,698
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	—	—	—	934	934
Oil deferred premiums	—	—	(7,129)	(7,129)	2,113	(5,016)
Natural gas deferred premiums	—	—	—	—	—	—
Net derivative position	$ —	$15,654	$(28,683)	$(13,029)	$—	$ (13,029)

F-35

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the consolidated balance sheets
As of December 31, 2016:						
Assets						
Current:						
Oil derivatives	$ —	$22,527	$—	$22,527	$ —	$ 22,527
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	270	—	270	(270)	—
Oil deferred premiums	—	—	—	—	(1,580)	(1,580)
Natural gas deferred premiums	—	—	—	—	—	—
Noncurrent:						
Oil derivatives	$ —	$8,718	$—	$8,718	$ —	$ 8,718
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	1,377	—	1,377	(1,377)	—
Oil deferred premiums	—	—	—	—	—	—
Natural gas deferred premiums	—	—	—	—	—	—
Liabilities						
Current:						
Oil derivatives	$ —	$(9,789)	$—	$(9,789)	$ —	$ (9,789)
NGL derivatives	—	(2,803)	—	(2,803)	—	(2,803)
Natural gas derivatives	—	(3,639)	—	(3,639)	270	(3,369)
Oil deferred premiums	—	—	(3,569)	(3,569)	1,580	(1,989)
Natural gas deferred premiums	—	—	(3,043)	(3,043)	—	(3,043)
Noncurrent:						
Oil derivatives	$ —	$(4,552)	$—	$(4,552)	$ —	$ (4,552)
NGL derivatives	—	—	—	—	—	—
Natural gas derivatives	—	(133)	—	(133)	1,377	1,244
Oil deferred premiums	—	—	—	—	—	—
Natural gas deferred premiums	—	—	(2,386)	(2,386)	—	(2,386)
Net derivative position	$ —	$11,976	$(8,998)	$2,978	$ —	$ 2,978

These items are included as "Derivatives" on the consolidated balance sheets. Significant Level 2 assumptions associated with the calculation of discounted cash flows used in the mark-to-market analysis of derivatives include each derivative contract's corresponding commodity index price, appropriate risk-adjusted discount rates and other relevant data.

The Company's deferred premiums associated with its derivative contracts are categorized as Level 3, as the Company utilizes a net present value calculation to determine the valuation. They are considered to be measured on a recurring basis as the derivative contracts they derive from are measured on a recurring basis. As derivative contracts containing deferred premiums are entered into, the Company discounts the associated deferred premium to its net present value at the contract trade date, using the Senior Secured Credit Facility rate at the trade date (historical input rates range from 1.69% to 3.56%), and then records the change in net present value to interest expense over the period from trade until the final settlement date at the end of the contract. After this initial valuation, the net present value of each deferred premium is not adjusted; therefore, significant increases (decreases) in the Senior Secured Credit Facility rate would result in a significantly lower (higher) fair value measurement for each new contract entered into that contained a

deferred premium; however, the valuation for the deferred premiums already recorded would remain unaffected. While the Company believes the sources utilized to arrive at the fair value estimates are reliable, different sources or methods could have yielded different fair value estimates; therefore, on a quarterly basis, the valuation is compared to counterparty valuations and a third-party valuation of the deferred premiums for reasonableness.

The following table presents cash payments required for deferred premiums as of December 31, 2017 for the calendar years presented:

(in thousands)	December 31, 2017
2018	$ 20,335
2019	8,376
2020	633
Total	$ 29,344

A summary of the changes in net assets classified as Level 3 measurements for the periods presented are as follows:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Balance of Level 3 at beginning of year	$(8,998)	$(14,619)	$(9,285)
Change in net present value of derivative deferred premiums	(394)	(232)	(203)
Total purchases and settlements:			
Purchases	(25,733)	(7,715)	(10,298)
Settlements[(1)]	6,442	13,568	5,167
Balance of Level 3 at end of year	$(28,683)	$(8,998)	$(14,619)

(1) The amount for the year ended December 31, 2016 includes $3.9 million that represents the present value of deferred premiums settled in the Company's hedge restructuring upon their early termination.

b. Fair value measurement on a nonrecurring basis

The Company accounts for the impairment of long-lived assets, if any, at fair value on a nonrecurring basis. For purposes of fair value measurement, it was determined that the impairment of long-lived assets is classified as Level 3, based on the use of internally developed cash flow models. No impairments of long-lived assets were recorded during the year ended December 31, 2017 or 2016. See Note 2.k for discussion regarding the Company's impairment of long-lived assets for the year ended December 31, 2015.

The Company accounts for the impairment of inventory, if any, at lower of cost or NRV on a nonrecurring basis. For purposes of fair value measurement, it was determined that the impairment of inventory is classified as Level 2, based on the use of a replacement cost approach. See Note 2.k for discussion of the Company's inventory impairments recorded during the years ended December 31, 2016 and 2015. No impairment of inventory was recorded during the year ended December 31, 2017.

The accounting policies for impairment of oil and natural gas properties and the prices used in the calculation of discounted cash flows are discussed in Note 2.h. Significant inputs included in the calculation of discounted cash flows used in the impairment analysis include the Company's estimate of operating and development costs, anticipated production of evaluated reserves and other relevant data. See Note 2.h for discussion of the Company's full cost ceiling impairments recorded during the years ended December 31, 2016 and 2015. There was no full cost ceiling impairment recorded during the year ended December 31, 2017.

The Company accounts for acquisitions of evaluated and unevaluated oil and natural gas properties under the acquisition method of accounting. Accordingly, the Company conducts assessments of net assets acquired and recognizes amounts for identifiable assets acquired and liabilities assumed at the estimated acquisition date fair values, while transaction costs associated with the acquisitions are expensed as incurred. The Company makes various assumptions in estimating the fair values of assets acquired and liabilities assumed. The most significant assumptions relate to the estimated fair value of evaluated and unevaluated oil and natural gas properties. The fair value of these properties is measured using a discounted cash flow model that converts future cash flows to a single discounted amount. These assumptions represent Level 3 inputs under the fair value hierarchy. See Note 4.c for additional discussion of the Company's acquisitions of evaluated and unevaluated oil and natural gas properties during the year ended December 31, 2016 and discussion of the significant inputs to the valuations. There were no acquisitions during

the years ended December 31, 2017 or 2015.

Note 11—Income taxes

On December 22, 2017, the President signed into law Public Law No. 115-97, a comprehensive tax reform bill commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act, among other things, (i) permanently reduces the U.S. corporate income tax rate, (ii) repeals the corporate alternative minimum tax, (iii) imposes new limitations on the utilization of net operating losses and (iv) provides for more general changes to the taxation of corporations, including changes to cost recovery rules and to the deductibility of interest expense. The Company recognizes the effects of changes in tax laws and rates on deferred tax assets and liabilities and the retroactive effects of changes in tax laws in the period in which the new legislation is enacted. The enactment date in the U.S. is the date the bill becomes law, which is when the President signs the bill. Specific effects of the Tax Act are discussed below.

The Company is subject to federal and state income taxes and the Texas franchise tax. Income tax (expense) benefit for the periods presented consisted of the following:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Current taxes:			
Federal	$—	$ —	$—
State	(1,800)	—	—
Deferred taxes:			
Federal	—	—	152,590
State	—	—	24,355
Income tax (expense) benefit	$(1,800)	$ —	$176,945

Current tax expense recorded of $1.8 million is comprised of Texas franchise tax, mainly as a result of the Medallion Sale. Additionally, the Company paid Alternative Minimum Tax ("AMT") related to the Medallion Sale. The payment of AMT creates an AMT credit carryforward. Due to changes in the Tax Act, AMT credit carryforwards do not expire and are now refundable over the next five years, and therefore, a receivable has been recorded in the amount of $5.0 million which is included in the "Other noncurrent assets, net" line item on the consolidated balance sheets. If the actual amount of tax due and paid on the 2017 tax return differs, the associated AMT credit carryforward receivable will also change.

The following table presents the expected years in which the Company's AMT credit carryforward will be refunded:

(in thousands)	December 31, 2017
2019	$ 2,513
2020	1,257
2021	628
2022	628
AMT credit carryforward	$ 5,026

Income tax (expense) benefit differed from amounts computed by applying the applicable federal income tax rate of 35% for the years ended December 31, 2017, 2016 and 2015 to pre-tax earnings as a result of the following:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Income tax (expense) benefit computed by applying the statutory rate	$(192,141)	$91,259	$835,408
Decrease (increase) in deferred tax valuation allowance	417,518	(86,569)	(668,702)
Change in tax rate applicable to net deferred tax assets	(226,263)	—	—
State income tax and change in valuation allowance	696	(370)	13,975
Stock-based compensation tax deficiency	(64)	(4,144)	(3,274)
Non-deductible stock-based compensation	—	—	(256)
Other items	(1,546)	(176)	(206)

Income tax (expense) benefit	$(1,800)	$—	$176,945

The effective tax rates for the Company's operations were 0% for each of the years ended December 31, 2017 and 2016, and 7% for the year ended December 31, 2015. The Company's effective tax rate is affected by changes in tax rates, valuation allowances, recurring permanent differences and by discrete items that may occur in any given year, but are not consistent from year to year. Based on the reduction in the federal corporate tax rate from 35% to 21% effective on January 1, 2018, the Company currently expects that its effective tax rate will not be impacted because of the valuation allowance against its net deferred tax assets. The Company's effective tax rate is expected to remain at 0%.

A valuation allowance is established to reduce deferred tax assets if it is determined that it is more likely than not that the related tax benefit will not be realized. On a quarterly basis, management evaluates the need for and adequacy of valuation allowances based on the expected realizability of the deferred tax assets and adjusts the amount of such allowances, if necessary. During the year ended December 31, 2017, in evaluating whether it was more likely than not that the Company's net deferred tax assets were realizable through future net income, management considered all available positive and negative evidence, including (i) its earnings history, (ii) its ability to recover net operating loss carry-forwards, (iii) the existence of significant proved oil, NGL and natural gas reserves, (iv) its ability to use tax planning strategies, (v) its current price protection utilizing oil, NGL and natural gas hedges, (vi) its future revenue and operating cost projections and (vii) the current market prices for oil, NGL and natural gas. Based on all the evidence available, during the year ended December 31, 2017, management determined it was more likely than not that the net deferred tax assets were not realizable. The Company maintains a valuation allowance to reduce certain deferred tax assets to amounts that are more likely than not to be realized.

As of December 31, 2016, a total valuation allowance of $764.8 million had been recorded against the deferred tax asset. The Company revalued its deferred tax assets and liabilities as of December 31, 2017, at the new rate of 21%. Based upon preliminary analysis of the changes in the Tax Act, the Company decreased its net deferred tax assets by approximately $226.0 million in the fourth quarter of 2017. A corresponding adjustment to the Company's valuation allowance was also recorded of approximately $226.0 million. Due to the full valuation allowance, no related deferred income tax expense was recorded. The Company's actual write-down may vary materially from the estimated amount due to a number of uncertainties and factors, including the completion of the analysis of all impacts of the Tax Act. An additional adjustment of $197.4 million was made to the valuation allowance due to the reduction of net deferred tax assets in the normal course of business, resulting in a total adjustment to the valuation allowance of $423.4 million during the year ended December 31, 2017.

The following table presents significant components of the Company's net deferred tax asset as of December 31:

(in thousands)	2017	2016
Net operating loss carryforward	$355,100	$573,521
Oil and natural gas properties, midstream service assets and other fixed assets	(80,153)	186,473
Gain on sale of assets	40,177	—
Equity method investee	—	(24,293)
Stock-based compensation	14,025	15,639
Accrued bonus	4,343	8,834
Derivatives	3,788	150
Materials and supplies impairment	1,206	1,982
Capitalized interest	721	1,767
Other	2,195	743
Net deferred tax asset before valuation allowance(1)	341,402	764,816
Valuation allowance	(341,402)	(764,816)
Net deferred tax asset	$—	$—

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(1) The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the Tax Act to finalize the impact of the Tax Act on a company's financial statements. The Company has substantially completed the analysis of the Tax Act and does not expect a material change due to the transition

impacts. Any changes that do arise due to changes in interpretations of the Tax Act, legislative action to address questions that arise because of the Tax Act, changes in accounting standards for income taxes or related interpretations in response to the Tax Act, or any updates or changes to estimates the Company has utilized to calculate the transition impacts will be disclosed in future periods as they arise.

The following presents the Company's federal net operating loss carryforwards and their applicable expiration dates as of the period presented:

(in thousands)	December 31, 2017
2026	$2,741
2027	38,651
2028	228,661
2029	101,932
2030	80,963
Thereafter	1,228,819
Total	$1,681,767

The Company had federal net operating loss carry-forwards totaling $1.7 billion and state of Oklahoma net operating loss carryforwards totaling $40.7 million as of December 31, 2017, which begin expiring in 2026 and 2032, respectively. As of December 31, 2017, the Company believes a portion of the net operating loss carry-forwards are not fully realizable. The Company considered all available evidence, both positive and negative, in determining whether, based on the weight of that evidence, a valuation allowance was needed. Such consideration included projected future cash flows from its oil, NGL and natural gas reserves (including the timing of those cash flows), the reversal of deferred tax liabilities recorded as of December 31, 2017, the Company's ability to capitalize intangible drilling costs, rather than expensing these costs in order to prevent an operating loss carry-forward from expiring unused, and future projections of Oklahoma sourced income.

The Company files a single return. The Company's income tax returns for the years 2014 through 2017 remain open and subject to examination by federal tax authorities and/or the tax authorities in Oklahoma and Texas, which are the jurisdictions where the Company has or had operations. Additionally, the statute of limitations for examination of federal net operating loss carryforwards typically does not begin to run until the year the attribute is utilized in a tax return. See Note 2.t for further discussion of accounting policies regarding income taxes.

Note 12—Credit risk

The Company's oil, NGL and natural gas sales are made to a variety of purchasers, including intrastate and interstate pipelines or their marketing affiliates and independent marketing companies. The Company's joint operations accounts receivable are from a number of oil and natural gas companies, partnerships, individuals and others who own interests in the oil and natural gas properties operated by the Company. The Company's sales of purchased oil are generally made to one customer. Management believes that any credit risk imposed by a concentration in the oil and natural gas industry is offset by the creditworthiness of the Company's customer base and industry partners. The Company routinely assesses the recoverability of all material trade and other receivables to determine collectability.

The Company uses derivatives to hedge its exposure to oil, NGL and natural gas price volatility. These transactions expose the Company to potential credit risk from its counterparties. In accordance with the Company's standard practice, its derivatives are subject to counterparty netting under agreements governing such derivatives; therefore, the credit risk associated with its derivative counterparties is somewhat mitigated. See Notes 2.f, 9, 10.a and 17.d for additional information regarding the Company's derivatives.

The Company had four customers that accounted for (i) 39.3%, 26.1%, 17.4% and 12.6% of total oil, NGL and natural gas sales for the year ended December 31, 2017, and (ii) 34.6%, 27.3%, 15.6% and 15.4% of oil, NGL and natural gas sales accounts receivable as of December 31, 2017. The Company had three customers that accounted for (i) 48.5%, 23.0% and 17.0% of total oil, NGL and natural gas sales for the year ended December 31, 2016, and (ii) 45.7%, 24.7% and 22.6% of oil, NGL and natural gas sales accounts receivable as of December 31, 2016. The Company had two customers that accounted for 37.5% and 20.3% of total oil, NGL and natural gas sales for the year ended December 31, 2015. These customers and percentages reported are related to the Company's exploration and production segment, see Note 15.

The Company had one partner whose joint operations accounts receivable accounted for 21.4% of the Company's total joint operations accounts receivable as of December 31, 2017. The Company had one partner whose joint operations

accounts receivable accounted for 19.3% of the Company's total joint operations accounts receivable as of December 31, 2016. These partners and percentages reported are related to the Company's exploration and production segment, see Note 15.
The Company had one customer that accounted for 97.5% of total sales of purchased oil for the year ended December 31, 2017, with the same customer accounting for 99.7% of purchased oil and other product sales receivable as of

December 31, 2017. The Company had one customer that accounted for 100.0% of total sales of purchased oil for the year ended December 31, 2016, with the same customer accounting for 99.7% of purchased oil and other product sales receivable as of December 31, 2016. The Company had one customer that accounted for 100.0% of total sales of purchased oil for the year ended December 31, 2015. The customer and percentages reported relate to the Company's midstream and marketing segment, see Note 15.

The Company's cash balances that are insured by the FDIC up to $250,000 per bank did not exceed this amount as of December 31, 2017. The Company had $117.8 million in cash balances on deposit with two banks as of December 31, 2017 that were not insured by the FDIC. Management believes that the risk of loss is mitigated by the banks' reputation and financial position.

Note 13—Commitments and contingencies

a. Lease commitments

The Company leases office space under operating leases expiring on various dates through 2027. The following table presents future minimum rental payments required:

(in thousands)	December 31, 2017
2018	$ 3,177
2019	3,255
2020	2,031
2021	1,826
2022	1,220
Thereafter	5,802
Total future minimum rental payments required	$ 17,311

The Company subleases office space under an operating lease with $2.4 million total future minimum rentals to be received as of December 31, 2017.

The following table presents rent expense:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Rent expense	$2,696	$2,664	$2,880

Rent income for the year ended December 31, 2017 totaled a de minimis amount. No such amounts were included for the years ended December 31, 2016 and December 31, 2015.

The Company's office space lease agreements contain scheduled escalation in lease payments during the term of the lease. In accordance with GAAP, the Company records rent expense and rent income on a straight-line basis and a deferred lease liability and deferred lease asset, respectively, for the difference between the straight-line amount and the actual amounts of the lease payments and lease receipts. Deferred lease liability, net is included in the "Other noncurrent liabilities" line item on the consolidated balance sheets. Rent expense and rent income are included in the "General and administrative" line item and "Interest and other income" line item, respectively, in the consolidated statements of operations.

b. Litigation

From time to time the Company is involved in legal proceedings and/or may be subject to industry rulings that could bring rise to claims in the ordinary course of business. In the case of a known contingency, the Company accrues a liability when the loss is probable and the amount is reasonably estimable. Except with regard to the specific litigation noted below, the Company has concluded that the likelihood is remote that the ultimate resolution of any such pending litigation or pending claims will be material or have a material adverse effect on the Company's business, financial position, results of operations or liquidity.

On May 3, 2017, Shell Trading (US) Company ("Shell") filed an Original Petition and Request for Disclosure in the District Court of Harris County, Texas, alleging that the crude oil purchase agreement entered into between Shell and Laredo effective October 1, 2016 does not accurately reflect the compensation to be paid to Shell under certain

circumstances due to a drafting mistake. Shell seeks reformation of one clause of the crude oil purchase agreement on the grounds of alleged mutual

F-41

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mistake or, in the alternative, unilateral mistake, an award of the amounts Shell alleges it should have been or should be paid under the agreement, court costs and attorneys' fees. The Company does not believe there was a drafting mistake made in the crude oil purchase agreement. On December 11, 2017, Shell filed its First Amended Petition, in which it asserted nine causes of action including multiple new claims for breach of contract and fraud. The Company believes it has substantive defenses and intends to vigorously defend its position. The Company is unable to determine a probability of the outcome of this litigation at this time. As of December 31, 2017, the Company has estimated an amount of $17.1 million related to this litigation that is not recorded in the accompanying consolidated balance sheets. Under the current pricing election, which elections are made for six-month periods, this estimate of the unrecorded amount will increase through the life of the contract. The Company has accounted for the costs (and resulting increased crude oil price realization) as reflected in the terms of the crude oil purchase agreement.

c. Drilling contracts

The Company has committed to several drilling contracts with a third party to facilitate the Company's drilling plans. Two of these contracts are for a term of multiple months and contain an early termination clause that requires the Company to potentially pay a penalty to the third party should the Company cease drilling efforts. This penalty would negatively impact the Company's financial statements upon early contract termination. There were no penalties incurred for early contract termination for the years ended December 31, 2017, 2016 or 2015. Future commitments of $3.5 million as of December 31, 2017 are not recorded in the accompanying consolidated balance sheets. Management does not currently anticipate the early termination of the Company's two contracts in 2018.

d. Firm sale and transportation commitments

The Company has committed to deliver for sale or transportation fixed volumes of product under certain contractual arrangements that specify the delivery of a fixed and determinable quantity. If not fulfilled, the Company is subject to deficiency payments. These commitments are normal and customary for the Company's business. In certain instances, the Company has used spot market purchases to meet its commitments in certain locations or due to favorable pricing. Management anticipates continuing this practice in the future. The Company incurred deficiency payments of $1.1 million, $2.2 million and $5.2 million during the years ended December 31, 2017, 2016 and 2015, respectively, which are included in the "Other operating expenses" line item in the consolidated statements of operations. During the year ended December 31, 2015, $3.0 million of the deficiency payments was a result of a negotiated buyout of a minimum volume commitment for future periods to Medallion. See Notes 4.a, 14.a and 17.a for additional discussion regarding Medallion, the Company's equity method investment. Future commitments of $357.0 million as of December 31, 2017 are not recorded in the accompanying consolidated balance sheets. For information regarding the TA related to Medallion, see Note 4.a.

e. Federal and state regulations

Oil and natural gas exploration, production and related operations are subject to extensive federal and state laws, rules and regulations. Failure to comply with these laws, rules and regulations can result in substantial penalties. The regulatory burden on the oil and natural gas industry increases the cost of doing business and affects profitability. The Company believes that it is in compliance with currently applicable federal and state regulations related to oil and natural gas exploration and production, and that compliance with the current regulations will not have a material adverse impact on the financial position or results of operations of the Company. These rules and regulations are frequently amended or reinterpreted; therefore, the Company is unable to predict the future cost or impact of complying with these regulations.

Note 14—Related parties

a. Medallion

Medallion was a related party until the Medallion Sale in October 2017. The following table presents items included in the consolidated balance sheets related to Medallion:

(in thousands)	December 31, 2016
Accounts payable and accrued liabilities	$ 118
Accrued capital expenditures	$ 586

F-42

 Laredo Petroleum, Inc.
Notes to the consolidated financial statements

The following table presents items included in the consolidated statements of operations related to Medallion:

(in thousands)	For the years ended December 31, 2017	2016	2015
Midstream service revenues	$—	$ —	$487
Other operating expenses[(1)]	$—	$ —	$5,235
Interest and other income	$—	$ —	$158
Loss on disposal of assets, net	$(70)	$ —	$—

(1) Amounts included in "Other operating expenses" above represent minimum volume commitments for the year ended December 31, 2015.

See Note 4.a for discussion of the Medallion Sale and the TA between LMS and a wholly-owned subsidiary of Medallion.
See Notes 4.a and 17.a for additional discussion regarding the Company's equity method investee.

b. Archrock Partners, L.P.

The Company has a compression arrangement with affiliates of Archrock Partners, L.P., formerly Exterran Partners L.P., ("Archrock"). One of Laredo's directors is on the board of directors of Archrock GP LLC, an affiliate of Archrock.
As of December 31, 2016, amounts included in accounts payable from Archrock in the consolidated balance sheets totaled $0.2 million. A de minimis amount was included as of December 31, 2017.
The following table presents the lease operating expenses related to Archrock included in the consolidated statements of operations:

(in thousands)	For the years ended December 31, 2017	2016	2015
Lease operating expenses	$826	$1,975	$1,477

For the year ended December 31, 2015, amounts included in capital expenditures for midstream service assets from Archrock in the consolidated statements of cash flows totaled $0.1 million. For the year ended December 31, 2016, amounts included in capital expenditures for midstream service assets from Archrock in the consolidated statements of cash flows totaled a de minimis amount. No such amounts were included for the year ended December 31, 2017.

c. Helmerich & Payne, Inc.

The Company has had drilling contracts with Helmerich & Payne, Inc. ("H&P"). Laredo's Chairman and Chief Executive Officer is on the board of directors of H&P.
The following table presents the capitalized oil and natural gas properties related to H&P and included in the consolidated statements of cash flows:

(in thousands)	For the years ended December 31, 2017	2016	2015
Capital expenditures:			
Oil and natural gas properties	$—	$ —	$2,434

Note 15—Segments

The Company operates in two business segments: (i) exploration and production and (ii) midstream and marketing. The exploration and production segment is engaged in the acquisition, exploration and development of oil and natural gas properties. The midstream and marketing segment provides Laredo's exploration and production segment and third parties with products and services that need to be delivered by midstream infrastructure, including oil and liquids-rich natural gas gathering services as well as rig fuel, natural gas lift and water delivery and takeaway. As a result of the Medallion Sale, we currently anticipate that in 2018 and thereafter we will no longer present more than one reportable

segment.

The following table presents selected financial information, for the periods presented, regarding the Company's operating segments on a stand-alone basis and the consolidation and elimination entries necessary to arrive at the information for the Company on a consolidated basis:

(in thousands)	Exploration and production	Midstream and marketing	Eliminations	Consolidated company
Year ended December 31, 2017				
Revenues:				
Oil, NGL and natural gas sales	$623,401	$3,301	$(5,195)	$621,507
Midstream service revenues	—	72,643	(62,126)	10,517
Sales of purchased oil	—	190,138	—	190,138
Total revenues	623,401	266,082	(67,321)	822,162
Costs and expenses:				
Lease operating expenses, including production and ad valorem tax	126,779	—	(13,928)	112,851
Midstream service expenses	—	49,017	(44,918)	4,099
Costs of purchased oil	—	195,908	—	195,908
General and administrative[1]	88,113	8,199	—	96,312
Depletion, depreciation and amortization[2]	148,828	9,561	—	158,389
Other operating expenses[3]	4,707	224	—	4,931
Operating income	$254,974	$3,173	$(8,475)	$249,672
Other financial information:				
Income from equity method investee[4]	$—	$8,485	$—	$8,485
Interest expense[5]	$(83,758)	$(5,619)	$—	$(89,377)
Loss on early redemption of debt[6]	$(22,225)	$(1,536)	$—	$(23,761)
Gain on sale of investment in equity method investee[4]	$—	$405,906	$—	$405,906
Capital expenditures	$(543,027)	$(20,887)	$—	$(563,914)
Gross property and equipment[7]	$6,321,725	$177,093	$(16,715)	$6,482,103
Year ended December 31, 2016				
Revenues:				
Oil, NGL and natural gas sales	$427,231	$1,141	$(1,887)	$426,485
Midstream service revenues	—	49,971	(41,629)	8,342
Sales of purchased oil	—	162,551	—	162,551
Total revenues	427,231	213,663	(43,516)	597,378
Costs and expenses:				
Lease operating expenses, including production and ad valorem tax	115,496	—	(11,583)	103,913
Midstream service expenses	—	29,693	(25,616)	4,077
Costs of purchased oil	—	169,536	—	169,536
General and administrative[1]	83,901	7,855	—	91,756
Depletion, depreciation and amortization[2]	139,407	8,932	—	148,339
Impairment expense	162,027	—	—	162,027
Other operating expenses[3]	5,483	209	—	5,692
Operating loss	$(79,083)	$(2,562)	$(6,317)	$(87,962)
Other financial information:				
Income from equity method investee[4]	$—	$9,403	$—	$9,403
Interest expense[5]	$(87,485)	$(5,813)	$—	$(93,298)
Capital expenditures[8]	$(368,290)	$(5,240)	$—	$(373,530)

Gross property and equipment[7]	$5,780,137	$400,127	$ (8,240)	$6,172,024
Year ended December 31, 2015				
Revenues:				
Oil, NGL and natural gas sales	$432,711	$1,692	$ (2,669)	$431,734
Midstream service revenues	—	27,965	(21,417)	6,548
Sales of purchased oil	—	168,358	—	168,358
Total revenues	432,711	198,015	(24,086)	606,640
Costs and expenses:				
Lease operating expenses, including production and ad valorem tax	151,918	—	(10,685)	141,233
Midstream service expenses	—	17,557	(11,711)	5,846
Costs of purchased oil	—	174,338	—	174,338
General and administrative[1]	82,251	8,174	—	90,425
Depletion, depreciation and amortization[2]	269,631	8,093	—	277,724
Impairment expense	2,372,296	2,592	—	2,374,888
Other operating expenses[3]	12,522	1,178	—	13,700
Operating loss	$(2,455,907)	$(13,917)	$ (1,690)	$(2,471,514)

TABLE CONTINUES ON NEXT PAGE

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

Other financial information:				
Income from equity method investee[4]	$—	$6,799	$—	$6,799
Interest expense[5]	$(98,040)	$(5,179)	$—	$(103,219)
Loss on early redemption of debt[6]	$(30,056)	$(1,481)	$—	$(31,537)
Capital expenditures	$(597,086)	$(35,515)	$—	$(632,601)
Gross property and equipment[7]	$5,302,716	$345,183	$(1,923)	$5,645,976

(1) General and administrative expenses were allocated based on the number of employees in the respective segment during the years ended December 31, 2017, 2016 and 2015. Certain components of general and administrative expenses, primarily payroll, deferred compensation and vehicle expenses, were not allocated but were actual expenses for each segment. Land and geology expenses were not allocated to the midstream and marketing segment.

(2) Depletion, depreciation and amortization were actual expenses for each segment with the exception of the allocation of depreciation of other fixed assets, which was based on the number of employees in the respective segment during the years ended December 31, 2017, 2016 and 2015. Certain components of depreciation and amortization of other fixed assets, primarily vehicles, were not allocated but were actual expenses for each segment.

(3) Other operating expenses consist of (i) minimum volume commitments and accretion expense for the years ended December 31, 2017 and 2016, and (ii) minimum volume commitments, restructuring expense and accretion expense for the year ended December 31, 2015. These are actual costs and expenses and were not allocated.

(4) See Note 4.a for additional discussion of the Medallion Sale.

(5) Interest expense was allocated to the exploration and production segment based on gross property and equipment during the years ended December 31, 2017, 2016 and 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee during the years ended December 31, 2017, 2016 and 2015. Certain components of other fixed assets, primarily vehicles, were not allocated but were actual assets for each segment.

(6) Loss on early redemption of debt was allocated to the exploration and production segment based on gross property and equipment as of December 31, 2017 and 2015 and allocated to the midstream and marketing segment based on gross property and equipment and life-to-date contributions to the Company's equity method investee as of December 31, 2017 and 2015. Certain components of other fixed assets, primarily vehicles, were not allocated but were actual assets for each segment.

(7) Gross property and equipment for the midstream and marketing segment includes investment in equity method investee totaling $244.0 million and $192.5 million as of December 31, 2016 and 2015, respectively. Other fixed assets were allocated based on the number of employees in the respective segment as of December 31, 2017, 2016 and 2015. Certain components of other fixed assets, primarily vehicles, were not allocated but were actual assets for each segment.

(8) Capital expenditures exclude acquisition of oil and natural gas properties for the years ended December 31, 2016.

Note 16—Subsidiary guarantors

The Guarantors have fully and unconditionally guaranteed the January 2022 Notes, the March 2023 Notes and the Senior Secured Credit Facility (and had guaranteed the January 2019 Notes until the January 2019 Notes Redemption Date and the May 2022 Notes until the May 2022 Notes Redemption Date), subject to the Releases. In accordance with practices accepted by the SEC, Laredo has prepared condensed consolidating financial statements to quantify the balance sheets, results of operations and cash flows of such subsidiaries as subsidiary guarantors. The following condensed consolidating balance sheets as of December 31, 2017 and 2016 and condensed consolidating statements of operations and condensed consolidating statements of cash flows each for the years ended December 31, 2017, 2016 and 2015 present financial information for Laredo on a stand-alone basis (carrying any investment in subsidiaries under the equity method), financial information for the subsidiary guarantors on a stand-alone basis (carrying any investment in subsidiaries under the equity method), and the consolidation and elimination entries necessary to arrive

at the information for the Company on a condensed consolidated basis. Income taxes for LMS and for GCM are recorded on Laredo's balance sheets, statements of operations and statements of cash flows as they are disregarded entities for income tax purposes. Laredo and the Guarantors are not restricted from making intercompany distributions to each other. During the year ended December 31, 2016, certain assets were transferred from Laredo to LMS and from LMS to Laredo at historical cost. No such transfers occurred during the years ended December 31, 2017 and 2015.

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

Condensed consolidating balance sheet
December 31, 2017

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	$79,413	$21,232	$ —	$ 100,645
Other current assets	132,219	2,518	—	134,737
Oil and natural gas properties, net	1,596,834	9,220	(16,715)	1,589,339
Midstream service assets, net	—	138,325	—	138,325
Other fixed assets, net	40,344	377	—	40,721
Investment in subsidiaries	(7,566)	—	7,566	—
Other noncurrent assets	15,526	3,996	—	19,522
Total assets	$1,856,770	$175,668	$ (9,149)	$ 2,023,289
Accounts payable and accrued liabilities	$34,550	$23,791	$ —	$ 58,341
Other current liabilities	193,104	25,974	—	219,078
Long-term debt, net	791,855	—	—	791,855
Other noncurrent liabilities	54,967	133,469	—	188,436
Stockholders' equity	782,294	(7,566)	(9,149)	765,579
Total liabilities and stockholders' equity	$1,856,770	$175,668	$ (9,149)	$ 2,023,289

Condensed consolidating balance sheet
December 31, 2016

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Accounts receivable, net	$70,570	$ 16,297	$ —	$ 86,867
Other current assets	65,884	2,026	—	67,910
Oil and natural gas properties, net	1,194,801	9,293	(8,240)	1,195,854
Midstream service assets, net	—	126,240	—	126,240
Other fixed assets, net	44,221	552	—	44,773
Investment in subsidiaries	376,028	243,953	(376,028)	243,953
Other noncurrent assets	13,065	3,684	—	16,749
Total assets	$1,764,569	$ 402,045	$ (384,268)	$ 1,782,346
Accounts payable and accrued liabilities	$30,903	$ 21,301	$ —	$ 52,204
Other current liabilities	134,055	1,686	—	135,741
Long-term debt, net	1,353,909	—	—	1,353,909
Other noncurrent liabilities	56,889	3,030	—	59,919
Stockholders' equity	188,813	376,028	(384,268)	180,573
Total liabilities and stockholders' equity	$1,764,569	$ 402,045	$ (384,268)	$ 1,782,346

Condensed consolidating statement of operations
For the year ended December 31, 2017

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$623,028	$266,455	$(67,321)	$822,162
Total costs and expenses	376,938	254,398	(58,846)	572,490
Operating income	246,090	12,057	(8,475)	249,672
Interest expense	(89,377)	—	—	(89,377)
Gain on sale of investment in equity method investee (see Note 4.a)	—	405,906	—	405,906
Other non-operating income (expense), net	402,536	8,083	(426,046)	(15,427)
Income before income tax	559,249	426,046	(434,521)	550,774
Current income tax expense	(1,800)	—	—	(1,800)
Net income	$557,449	$426,046	$(434,521)	$548,974

Condensed consolidating statement of operations
For the year ended December 31, 2016

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$427,028	$213,866	$(43,516)	$597,378
Total costs and expenses	514,483	208,056	(37,199)	685,340
Operating income (loss)	(87,455)	5,810	(6,317)	(87,962)
Interest expense	(93,298)	—	—	(93,298)
Other non-operating income (expense), net	(73,669)	9,381	(15,191)	(79,479)
Income (loss) before income tax	(254,422)	15,191	(21,508)	(260,739)
Income tax	—	—	—	—
Net income (loss)	$(254,422)	$15,191	$(21,508)	$(260,739)

Condensed consolidating statement of operations
For the year ended December 31, 2015

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Total revenues	$432,478	$198,248	$(24,086)	$606,640
Total costs and expenses	2,897,272	203,278	(22,396)	3,078,154
Operating loss	(2,464,794)	(5,030)	(1,690)	(2,471,514)
Interest expense	(103,219)	—	—	(103,219)
Other non-operating income, net	182,822	6,708	(1,678)	187,852
Income (loss) before income tax	(2,385,191)	1,678	(3,368)	(2,386,881)
Income tax benefit	176,945	—	—	176,945
Net income (loss)	$(2,208,246)	$1,678	$(3,368)	$(2,209,936)

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

Condensed consolidating statement of cash flows
For the year ended December 31, 2017

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash flows provided by operating activities	$778,851	$ 32,109	$ (426,046)	$ 384,914
Change in investments between affiliates	383,613	(809,659)	426,046	—
Capital expenditures and other	(482,500)	(52,065)	—	(534,565)
Proceeds from disposition of equity method investee, net of selling costs (see Note 4.a)	—	829,615	—	829,615
Net cash flows used in financing activities	(600,477)	—	—	(600,477)
Net increase in cash and cash equivalents	79,487	—	—	79,487
Cash and cash equivalents, beginning of period	32,671	1	—	32,672
Cash and cash equivalents, end of period	$112,158	$ 1	$ —	$ 112,159

Condensed consolidating statement of cash flows
For the year ended December 31, 2016

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash flows provided by operating activities	$355,458	$ 16,028	$ (15,191)	$ 356,295
Change in investments between affiliates	(73,988)	58,797	15,191	—
Capital expenditures and other	(489,577)	(74,825)	—	(564,402)
Net cash flows provided by financing activities	209,625	—	—	209,625
Net increase in cash and cash equivalents	1,518	—	—	1,518
Cash and cash equivalents, beginning of period	31,153	1	—	31,154
Cash and cash equivalents, end of period	$32,671	$ 1	$ —	$ 32,672

Condensed consolidating statement of cash flows
For the year ended December 31, 2015

(in thousands)	Laredo	Subsidiary Guarantors	Intercompany eliminations	Consolidated company
Net cash flows provided by operating activities	$316,838	$ 787	$ (1,678)	$ 315,947
Change in investments between affiliates	(136,252)	134,574	1,678	—
Capital expenditures and other	(532,146)	(135,361)	—	(667,507)
Net cash flows provided by financing activities	353,393	—	—	353,393
Net increase in cash and cash equivalents	1,833	—	—	1,833
Cash and cash equivalents, beginning of period	29,320	1	—	29,321
Cash and cash equivalents, end of period	$31,153	$ 1	$ —	$ 31,154

Note 17—Subsequent events

a. Medallion Sale post-close

On February 1, 2018, the Medallion Sale closing adjustments were finalized and LMS received additional net cash of $1.7 million for total net cash proceeds before taxes of $831.3 million.

b. Share repurchase program

In February 2018, the Company's board of directors authorized a $200 million share repurchase program commencing in February 2018. The repurchase program expires in February 2020. Share repurchases under the share repurchase program may be made through a variety of methods, which may include open market purchases, privately negotiated transactions and block trades. The timing and actual number of shares repurchased, if any, will depend upon several factors, including market conditions, business conditions, the trading price of our common stock and the nature of other investment opportunities available to the Company.

F-48

c. Senior Secured Credit Facility

On February 14, 2018, the Company entered into the Second Amendment (the "Second Amendment") to the Senior Secured Credit Facility. The Second Amendment, allows the Company, on or prior to February 14, 2020, to pay up to $200 million to repurchase its common stock provided that (i) no Default or Event of Default exists or results therefrom, (ii) immediately after giving effect to any such repurchase, undrawn Commitments are greater than or equal to 20% of the Borrowing Base in effect at such time, (iii) immediately after giving effect to any such repurchase, (a) the Company will be in pro forma compliance with all financial covenants (current ratio and Consolidated Total Leverage Ratio) in the Senior Secured Credit Facility, and (b) the Consolidated Total Leverage Ratio on a pro forma basis is not greater than 2.75 to 1.00, in the case of both (a) and (b), for purposes of determining the Consolidated Total Leverage Ratio, Net Debt or Total Debt, as applicable, shall be as of the date of determination, and Consolidated EBTIDAX shall be determined as of the last day of the most recent calendar quarter for which financial statements have been provided to the Administrative Agent; and provided further that any such Equity so repurchased shall be contemporaneously canceled by the Company. All capitalized terms in this Note 17.c., other than "Company" and "Senior Secured Credit Facility," have the meanings ascribed to them in the Second Amendment.

d. New derivative contracts

The following table presents new derivatives that were entered into subsequent to December 31, 2017:

	Aggregate volumes (Bbl)	Floor price ($/Bbl)	Ceiling price ($/Bbl)	Contract period
Oil[1]:				
Put[2]	1,277,500	$ 55.00	$ —	January 2019 - December 2019
NGL:				
Swap - Purity Ethane[1]	567,800	$ 11.66	$ 11.66	February 2018 - December 2018
Swap - Propane (Non-TET)[3]	467,600	$ 33.92	$ 33.92	February 2018 - December 2018
Swap - Normal Butane (Non-TET)[3]	167,000	$ 38.22	$ 38.22	February 2018 - December 2018
Swap - Isobutane (Non-TET)[3]	66,800	$ 38.33	$ 38.33	February 2018 - December 2018
Swap - Natural Gasoline (Non-TET)[3]	167,000	$ 57.02	$ 57.02	February 2018 - December 2018

(1) See Note 9.a for information regarding the Company's derivative settlement indices for oil and purity ethane.
(2) There are $5.6 million in deferred premiums associated with these contracts.
(3) These NGL derivatives are settled based on the month's average daily OPIS index price for each Mont Belvieu Non-TET Propane, Non-TET N. Butane, Non-TET Isobutane and Non-TET N. Gasoline.

Note 18—Supplemental oil, NGL and natural gas disclosures (unaudited)

a. Costs incurred in oil and natural gas property acquisition, exploration and development activities

The following table presents the costs incurred in the acquisition, exploration and development of oil, NGL and natural gas assets:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Property acquisition costs:			
Evaluated[1]	$—	$ 5,905	$—
Unevaluated	—	119,923	—
Exploration costs	36,257	41,333	20,697
Development costs[2]	560,919	298,942	500,577
Total costs incurred	$ 597,176	$ 466,103	$ 521,274

(1) Evaluated property acquisition costs include $1.1 million in asset retirement obligations for the year ended December 31, 2016. See Note 4.c for additional discussion.

(2) Development costs include $0.7 million, $2.5 million and $13.4 million in asset retirement obligations for the years ended December 31, 2017, 2016 and 2015, respectively.

b. Aggregate capitalized oil, NGL and natural gas costs

The following table presents the aggregate capitalized costs related to oil, NGL and natural gas production activities with applicable accumulated depletion and impairment:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Gross capitalized costs:			
Evaluated properties	$6,070,940	$5,488,756	$5,103,635
Unevaluated properties not being depleted	175,865	221,281	140,299
Total gross capitalized costs	6,246,805	5,710,037	5,243,934
Less accumulated depletion and impairment	(4,657,466)	(4,514,183)	(4,218,942)
Net capitalized costs	$1,589,339	$1,195,854	$1,024,992

The following table presents a summary of the unevaluated property costs not being depleted as of December 31, 2017, by year in which such costs were incurred:

(in thousands)	2017	2016	2015	2014 and prior	Total
Unevaluated properties not being depleted	$31,259	$93,099	$324	$51,183	$175,865

Unevaluated properties, which are not subject to depletion, are not individually significant and consist of costs for acquiring oil, NGL and natural gas leaseholds where no evaluated reserves have been identified, including costs of wells being evaluated. The evaluation process associated with these properties has not been completed and therefore, the Company is unable to estimate when these costs will be included in the depletion calculation.

c. Results of operations of oil, NGL and natural gas producing activities

The following table presents the results of operations of oil, NGL and natural gas producing activities (excluding corporate overhead and interest costs):

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Revenues:			
Oil, NGL and natural gas sales	$621,507	$426,485	$431,734
Production costs:			
Lease operating expenses	75,049	75,327	108,341
Production and ad valorem taxes	37,802	28,586	32,892
Total production costs	112,851	103,913	141,233
Other costs:			
Depletion	143,592	134,105	263,666
Accretion of asset retirement obligations	3,567	3,274	2,236
Impairment expense	—	161,064	2,369,477
Income tax benefit[1]	—	—	(164,141)
Total other costs	147,159	298,443	2,471,238
Results of operations	$361,497	$24,129	$(2,180,737)

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(1) During each of the years ended December 31, 2017, 2016 and 2015, the Company recorded valuation allowances against its deferred tax assets related to its oil, NGL and natural gas producing activities. Accordingly, the income tax benefit was computed utilizing the Company's effective rate of 0% for each of the years ended December 31, 2017 and 2016 and 7% for the year ended December 31, 2015, which reflects tax deductions and tax credits and allowances relating to the oil, NGL and natural gas producing activities that are reflected in the Company's consolidated income tax benefit for the period.

d. Net proved oil, NGL and natural gas reserves

Ryder Scott Company, L.P. ("Ryder Scott"), the Company's independent reserve engineers, estimated 100% of the Company's proved reserves as of December 31, 2017, 2016 and 2015. In accordance with SEC regulations, reserves as of December 31, 2017, 2016 and 2015 were estimated using the Realized Prices (which are the Benchmark Prices adjusted for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead). See Note 2.h for additional discussion. The Company's reserves as of December 31, 2017, 2016 and 2015 are reported in three streams: oil, NGL and natural gas. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries are more imprecise than those of producing oil, NGL and natural gas properties. Accordingly, the estimates may change as future information becomes available.

The following tables provide an analysis of the changes in estimated reserve quantities of oil, NGL and natural gas for the years ended December 31, 2017, 2016 and 2015, all of which are located within the U.S.

	Year ended December 31, 2017			
	Oil (MBbl)	NGL (MBbl)	Gas (MMcf)	MBOE
Proved developed and undeveloped reserves:				
Beginning of year	63,940	50,350	316,857	167,100
Revisions of previous estimates	9,818	13,158	74,247	35,351
Extensions, discoveries and other additions	15,250	9,711	59,759	34,921
Sales of reserves in place	(120)	(48)	(299)	(218)
Production	(9,475)	(5,800)	(35,972)	(21,270)
End of year	79,413	67,371	414,592	215,883
Proved developed reserves:				
Beginning of year	53,156	42,950	270,291	141,155
End of year	68,877	60,441	371,946	191,309
Proved undeveloped reserves:				
Beginning of year	10,784	7,400	46,566	25,945
End of year	10,536	6,930	42,646	24,574

	Year ended December 31, 2016			
	Oil (MBbl)	NGL (MBbl)	Gas (MMcf)	MBOE
Proved developed and undeveloped reserves:				
Beginning of year	52,639	36,067	221,952	125,698
Revisions of previous estimates	8,726	12,021	80,004	34,082
Extensions, discoveries and other additions	10,741	6,930	43,614	24,940
Purchases of reserves in place	276	116	822	529
Production	(8,442)	(4,784)	(29,535)	(18,149)
End of year	63,940	50,350	316,857	167,100
Proved developed reserves:				
Beginning of year	40,944	29,349	180,613	100,395
End of year	53,156	42,950	270,291	141,155
Proved undeveloped reserves:				
Beginning of year	11,695	6,718	41,339	25,303
End of year	10,784	7,400	46,566	25,945

Table of Contents Laredo Petroleum, Inc.
Notes to the consolidated financial statements

	Year ended December 31, 2015			
	Oil (MBbl)	NGL (MBbl)	Gas (MMcf)	MBOE
Proved developed and undeveloped reserves:				
Beginning of year	140,190	—	642,794	247,322
Revisions of previous estimates[1]	(88,900)	35,477	(424,546)	(124,180)
Extensions, discoveries and other additions	10,511	5,865	36,074	22,388
Sales of reserves in place	(1,552)	(1,008)	(5,554)	(3,486)
Production	(7,610)	(4,267)	(26,816)	(16,346)
End of year	52,639	36,067	221,952	125,698
Proved developed reserves:				
Beginning of year	56,975	—	291,493	105,557
End of year	40,944	29,349	180,613	100,395
Proved undeveloped reserves:				
Beginning of year	83,215	—	351,301	141,765
End of year	11,695	6,718	41,339	25,303

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(1) The positive NGL revisions of previous estimates and the negative natural gas revisions of previous estimates include the impact of the Company's conversion to three-stream reporting as of January 1, 2015.

For the year ended December 31, 2017, the Company's positive revision of 35,351 MBOE of previously estimated quantities consisted of (i) 16,916 MBOE from positive performance, price increases and other changes to proved developed producing wells and (ii) 18,435 MBOE of revisions due to proved undeveloped locations that were removed from the development plan in prior years, 10 of these locations were drilled in 2017 and eight are scheduled to be drilled in 2018. Extensions, discoveries and other additions of 34,921 MBOE during the year ended December 31, 2017 consisted of (i) 18,985 MBOE that resulted from new wells drilled during the year and (ii) 15,936 MBOE that resulted from new horizontal proved undeveloped locations added during the year.

For the year ended December 31, 2016, the Company's positive revision of 34,082 MBOE of previously estimated quantities is primarily attributable to the combination of positive performance, lower operating costs and other changes to proved developed producing wells. 26,049 MBOE is due to a combination of positive performance, reduction in operating costs and other factors. Previously estimated quantities of 2,292 MBOE were removed due to derecognizing certain proved undeveloped locations and proved developed non-producing targets due to changes in development and drilling plans. In addition, 10,325 MBOE of revisions is due to proved undeveloped locations that were removed from the development plan in prior years, four of these locations were drilled in 2016 and seven are scheduled to be drilled in 2017. Extensions, discoveries and other additions of 24,940 MBOE during the year ended December 31, 2016 consisted of 13,302 MBOE that resulted from new wells drilled during the year and 11,638 MBOE that resulted from new horizontal proved undeveloped locations added during the year.

For the year ended December 31, 2015, the Company's negative revision of 124,180 MBOE of previously estimated quantities is primarily attributable to the removal of 106,883 MBOE due to the combined effect of the removal of 378 proved undeveloped locations and the net effect of reinterpreting 34 undeveloped locations. The 378 locations that were removed were comprised of 182 vertical Wolfberry wells due to lower commodity prices and 196 horizontal wells to better align the timing of their development with the Company's future drilling plans. The remaining 17,297 MBOE of negative revisions is due to a combination of pricing, performance and other changes to the proved developed producing and proved developed non-producing wells. Extensions, discoveries and other additions of 22,388 MBOE during the year ended December 31, 2015, consisted of 19,719 MBOE primarily from the drilling of new wells during the year and 2,669 MBOE from four new horizontal Middle Wolfcamp proved undeveloped locations added during the year.

e. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows does not purport to be, nor should it be interpreted to present, the fair value of the oil, NGL and natural gas reserves of the property. An estimate of fair value would take into account, among other things, the recovery of reserves not presently classified as proved, the value of proved properties and consideration of expected future economic and operating conditions.

The estimates of future cash flows and future production and development costs as of December 31, 2017, 2016 and 2015 are based on the Realized Prices, which reflect adjustments to the Benchmark Prices for quality, transportation fees, geographical differentials, marketing bonuses or deductions and other factors affecting the price received at the wellhead. All Realized Prices are held flat over the forecast period for all reserve categories in calculating the discounted future net revenues. Any effect from the Company's commodity hedges is excluded. In accordance with SEC regulations, the proved reserves were anticipated to be economically producible from the "as of date" forward based on existing economic conditions, including prices and costs at which economic producibility from a reservoir was determined. These costs, held flat over the forecast period, include development costs, operating costs, ad valorem and production taxes and abandonment costs after salvage. Future income tax expenses are computed using the appropriate year-end statutory tax rates applied to the future pretax net cash flows from proved oil, NGL and natural gas reserves, less the tax basis of the Company's oil, NGL and natural gas properties. The estimated future net cash flows are then discounted at a rate of 10%. The Company's net book value of evaluated oil, NGL and natural gas properties exceeded the full cost ceiling amount as of March 31, 2016 and each of the quarterly periods in 2015, but did not for the year ended December 31, 2017. See Note 2.h for discussion of the Benchmark Prices, Realized Prices and the corresponding non-cash full cost ceiling impairments recorded.

The following table presents the standardized measure of discounted future net cash flows relating to proved oil, NGL and natural gas reserves:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Future cash inflows	$5,777,533	$3,548,567	$3,269,184
Future production costs	(1,675,837)	(1,238,369)	(1,321,471)
Future development costs	(307,689)	(290,505)	(376,701)
Future income tax expenses	(237,153)	—	—
Future net cash flows	3,556,854	2,019,693	1,571,012
10% discount for estimated timing of cash flows	(1,786,533)	(1,041,199)	(740,265)
Standardized measure of discounted future net cash flows	$1,770,321	$978,494	$830,747

It is not intended that the FASB's standardized measure of discounted future net cash flows represent the fair market value of the Company's proved reserves. The Company cautions that the disclosures shown are based on estimates of proved reserve quantities and future production schedules which are inherently imprecise and subject to revision, and the 10% discount rate is arbitrary. In addition, prices and costs as of the measurement date are used in the determinations, and no value may be assigned to probable or possible reserves.

The following table presents the changes in the standardized measure of discounted future net cash flows relating to proved oil, NGL and natural gas reserves:

	For the years ended December 31,		
(in thousands)	2017	2016	2015
Standardized measure of discounted future net cash flows, beginning of year	$978,494	$830,747	$3,246,728
Changes in the year resulting from:			
Sales, less production costs	(508,656)	(322,573)	(290,501)
Revisions of previous quantity estimates	289,150	179,297	(2,444,322)
Extensions, discoveries and other additions	296,129	133,472	192,979
Net change in prices and production costs	474,831	(80,102)	(1,495,144)
Changes in estimated future development costs	10,989	22,153	(2,974)
Previously estimated development costs incurred during the period	192,332	189,085	162,237
Purchases of reserves in place	—	3,422	—
Divestitures of reserves in place	(793)	—	(29,149)
Accretion of discount	97,849	83,075	424,453
Net change in income taxes	(46,610)	—	997,805
Timing differences and other	(13,394)	(60,082)	68,635

Standardized measure of discounted future net cash flows, end of year	$1,770,321	$978,494	$830,747

Estimates of economically recoverable oil, NGL and natural gas reserves and of future net revenues are based upon a number of variable factors and assumptions, all of which are, to some degree, subjective and may vary considerably from actual results. Therefore, actual production, revenues, development and operating expenditures may not occur as estimated. The reserve data are estimates only, are subject to many uncertainties and are based on data gained from production histories and on assumptions as to geologic formations and other matters. Actual quantities of oil, NGL and natural gas may differ materially from the amounts estimated.

Note 19—Supplemental quarterly financial data (unaudited)

The Company's results by quarter for the periods presented are as follows:

	Year ended December 31, 2017			
(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$189,006	$187,001	$205,818	$240,337
Operating income	51,326	52,061	60,452	85,833
Net income	68,276	61,110	11,027	408,561
Net income per common share:				
Basic	$0.29	$0.26	$0.05	$1.71
Diluted	$0.28	$0.25	$0.05	$1.70

	Year ended December 31, 2016			
(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	$106,557	$146,773	$159,734	$184,314
Operating income (loss)	(176,788)	17,874	25,492	45,460
Net income (loss)	(180,371)	(71,432)	9,485	(18,421)
Net income (loss) per common share:				
Basic	$(0.85)	$(0.33)	$0.04	$(0.08)
Diluted	$(0.85)	$(0.33)	$0.04	$(0.08)