Laredo Petroleum, Inc.
Form 10-Q
May 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 001-35380
Laredo Petroleum, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	45-3007926
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

15 W. Sixth Street, Suite 900	
Tulsa, Oklahoma	74119
(Address of Principal Executive Offices)	(Zip code)

(918) 513-4570
(Registrant's Telephone Number, Including Area Code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý
Number of shares of registrant's common stock outstanding as of May 2, 2016: 213,406,700

TABLE OF CONTENTS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Various statements contained in or incorporated by reference into this Quarterly Report on Form 10-Q (this "Quarterly Report") are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements include statements, projections and estimates concerning our operations, performance, business strategy, oil and natural gas reserves, drilling program capital expenditures, liquidity and capital resources, the timing and success of specific projects, outcomes and effects of litigation, claims and disputes, derivative activities and potential financing. Forward-looking statements are generally accompanied by words such as "estimate," "project," "predict," "believe," "expect," "anticipate," "potential," "could," "may," "will," "foresee," "plan," "goal," "should," "intend," "pursue," "target," "continue," "suggest" or the negative thereof or other variations thereof or other words that convey the uncertainty of future events or outcomes. Forward-looking statements are not guarantees of performance. These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Among the factors that significantly impact our business and could impact our business in the future are:

- the volatility of, and substantial decline in, oil, natural gas liquids ("NGL") and natural gas prices, which remain at low levels;
- revisions to our reserve estimates as a result of changes in commodity prices and uncertainties;
- impacts to our financial statements as a result of impairment write-downs;
- our ability to discover, estimate, develop and replace oil, NGL and natural gas reserves;
- uncertainties about the estimates of our oil, NGL and natural gas reserves;
- changes in domestic and global production, supply and demand for oil, NGL and natural gas;
- the ongoing instability and uncertainty in the U.S. and international financial and consumer markets that could adversely affect the liquidity available to us and our customers and the demand for commodities, including oil, NGL and natural gas;
- capital requirements for our operations and projects;
- our ability to maintain the borrowing capacity under our Senior Secured Credit Facility (as defined below) or access other means of obtaining capital and liquidity, especially during periods of sustained low commodity prices;
- restrictions contained in our debt agreements, including our Senior Secured Credit Facility and the indentures governing our senior unsecured notes, as well as debt that could be incurred in the future;
- our ability to generate sufficient cash to service our indebtedness, fund our capital requirements and generate future profits;
- the potentially insufficient refining capacity in the U.S. Gulf Coast to refine all of the light sweet crude oil being produced in the U.S., which could result in widening price discounts to world crude prices and potential shut-in of production due to lack of sufficient markets;
- regulations that prohibit or restrict our ability to apply hydraulic fracturing to our oil and natural gas wells and to access and dispose of water used in these operations;
- legislation or regulations that prohibit or restrict our ability to drill new allocation wells;
- our ability to execute our strategies, including but not limited to our hedging strategies;
- competition in the oil and natural gas industry;
- changes in the regulatory environment and changes in international, legal, political, administrative or economic conditions;
- drilling and operating risks, including risks related to hydraulic fracturing activities;
- risks related to the geographic concentration of our assets;
- the availability and costs of drilling and production equipment, labor and oil and natural gas processing and other services;
- the availability of sufficient pipeline and transportation facilities and gathering and processing capacity;
- our ability to comply with federal, state and local regulatory requirements; and
- our ability to recruit and retain the qualified personnel necessary to operate our business.

These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various factors, including those set forth under "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report, under "Part I, Item 1A. Risk Factors" and "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 (the "2015 Annual Report"), and those set forth from time to time in our other filings with the Securities and Exchange Commission (the "SEC"). These documents are available through our website or through the SEC's Electronic Data Gathering and Analysis Retrieval system at http://www.sec.gov. In light of such risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report, or if earlier, as of the date they were made. We do not intend to, and disclaim any obligation to, update or revise any forward-looking statements unless required by securities law.

PART I

Item 1. Consolidated Financial Statements (Unaudited)

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$12,095	$31,154
Accounts receivable, net	85,173	87,699
Derivatives	166,794	198,805
Other current assets	16,796	14,574
Total current assets	280,858	332,232
Property and equipment:		
Oil and natural gas properties, full cost method:		
Evaluated properties	5,216,178	5,103,635
Unevaluated properties not being depleted	116,905	140,299
Less accumulated depletion and impairment	(4,417,833)	(4,218,942)
Oil and natural gas properties, net	915,250	1,024,992
Midstream service assets, net	130,007	131,725
Other fixed assets, net	42,476	43,538
Property and equipment, net	1,087,733	1,200,255
Derivatives	63,414	77,443
Investment in equity method investee	194,822	192,524
Other assets, net	10,337	10,833
Total assets	$1,637,164	$1,813,287
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	$23,382	$14,181
Undistributed revenue and royalties	26,282	34,540
Accrued capital expenditures	43,657	61,872
Other current liabilities	62,753	106,222
Total current liabilities	156,074	216,815
Long-term debt, net	1,476,890	1,416,226
Derivatives	234	—
Asset retirement obligations	45,711	44,759
Other noncurrent liabilities	3,971	4,040
Total liabilities	1,682,880	1,681,840
Commitments and contingencies		
Stockholders' (deficit) equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized and zero issued as of March 31, 2016 and December 31, 2015	—	—
Common stock, $0.01 par value, 450,000,000 shares authorized and 213,447,648 and 213,808,003 issued and outstanding as of March 31, 2016 and December 31, 2015, respectively	2,134	2,138

Additional paid-in capital	2,089,864	2,086,652
Accumulated deficit	(2,137,714)	(1,957,343)
Total stockholders' (deficit) equity	(45,716)	131,447
Total liabilities and stockholders' (deficit) equity	$1,637,164	$1,813,287

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

1

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

	Three months ended March 31, 2016	2015
Revenues:		
Oil, NGL and natural gas sales	$73,142	$118,118
Midstream service revenues	1,801	1,309
Sales of purchased oil	31,614	31,267
Total revenues	106,557	150,694
Costs and expenses:		
Lease operating expenses	20,518	32,380
Production and ad valorem taxes	6,435	9,086
Midstream service expenses	609	1,574
Minimum volume commitments	—	1,656
Costs of purchased oil	32,946	31,200
General and administrative	19,451	21,855
Restructuring expenses	—	6,042
Accretion of asset retirement obligations	844	579
Depletion, depreciation and amortization	41,478	71,942
Impairment expense	161,064	878
Total costs and expenses	283,345	177,192
Operating loss	(176,788)	(26,498)
Non-operating income (expense):		
Gain on derivatives, net	17,885	63,155
Income (loss) from equity method investee	2,298	(433)
Interest expense	(23,705)	(32,414)
Interest and other income	99	123
Loss on disposal of assets, net	(160)	(762)
Non-operating income (expense), net	(3,583)	29,669
Income (loss) before income taxes	(180,371)	3,171
Income tax expense:		
Deferred	—	(3,643)
Total income tax expense	—	(3,643)
Net loss	$(180,371)	$(472)
Net loss per common share:		
Basic	$(0.85)	$—
Diluted	$(0.85)	$—
Weighted-average common shares outstanding:		
Basic	211,560	162,426
Diluted	211,560	162,426

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

Laredo Petroleum, Inc.
Consolidated statement of stockholders' equity (deficit)
(in thousands)
(Unaudited)

	Common Stock		Additional paid-in capital	Treasury Stock (at cost)		Accumulated deficit	Total
	Shares	Amount		Shares	Amount		
Balance, December 31, 2015	213,808	$2,138	$2,086,652	—	$ —	$(1,957,343)	$131,447
Restricted stock awards	24	—	—	—	—	—	—
Restricted stock forfeitures	(108)	(1)	1	—	—	—	—
Vested restricted stock exchanged for tax withholding	—	—	—	276	(1,412)	—	(1,412)
Retirement of treasury stock	(276)	(3)	(1,409)	(276)	1,412	—	—
Stock-based compensation	—	—	4,620	—	—	—	4,620
Net loss	—	—	—	—	—	(180,371)	(180,371)
Balance, March 31, 2016	213,448	$2,134	$2,089,864	—	$ —	$(2,137,714)	$(45,716)

The accompanying notes are an integral part of this unaudited consolidated financial statement.

3

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

	Three months ended March 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(180,371)	$(472)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income tax expense	—	3,643
Depletion, depreciation and amortization	41,478	71,942
Impairment expense	161,064	878
Non-cash stock-based compensation, net of amounts capitalized	3,838	4,788
Mark-to-market on derivatives:		
Gain on derivatives, net	(17,885)	(63,155)
Cash settlements received for matured derivatives, net	65,937	63,141
Cash settlements received for early terminations of derivatives, net	80,000	—
Change in net present value of deferred premiums paid for derivatives	72	43
Cash premiums paid for derivatives	(81,850)	(1,421)
Amortization of debt issuance costs	1,120	1,377
Cash settlement of performance unit awards	(6,394)	(2,738)
Other, net	(1,292)	1,742
Decrease in accounts receivable	2,526	16,926
Increase in other assets	(2,186)	(14,478)
Increase (decrease) in accounts payable	9,201	(8,598)
Decrease in undistributed revenues and royalties	(8,258)	(19,222)
Decrease in other accrued liabilities	(10,414)	(28,714)
(Decrease) increase in other noncurrent liabilities	(69)	187
Increase in fair value of performance unit awards	—	996
Net cash provided by operating activities	56,517	26,865
Cash flows from investing activities:		
Capital expenditures:		
Oil and natural gas properties	(105,155)	(243,733)
Midstream service assets	(1,937)	(20,434)
Other fixed assets	(630)	(3,919)
Investment in equity method investee	(26,660)	(14,495)
Proceeds from dispositions of capital assets, net of costs	218	35
Net cash used in investing activities	(134,164)	(282,546)
Cash flows from financing activities:		
Borrowings on Senior Secured Credit Facility	85,000	175,000
Payments on Senior Secured Credit Facility	(25,000)	(475,000)
Issuance of March 2023 Notes	—	350,000
Proceeds from issuance of common stock, net of offering costs	—	754,163
Purchase of treasury stock	(1,412)	(2,283)
Payments for debt issuance costs	—	(6,427)
Net cash provided by financing activities	58,588	795,453
Net (decrease) increase in cash and cash equivalents	(19,059)	539,772
Cash and cash equivalents, beginning of period	31,154	29,321

Cash and cash equivalents, end of period	$12,095	$569,093

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

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Note 1—Organization

Laredo Petroleum, Inc. ("Laredo"), together with its 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 unaudited consolidated financial statements and the related notes are rounded and therefore approximate.

The Company operates in two business segments, which are (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 primarily in the Permian Basin in West Texas. 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 natural gas gathering services as well as rig fuel, natural gas lift and water in and around Laredo's primary production corridors.

Note 2—Basis of presentation and significant accounting policies

a. Basis of presentation

The accompanying unaudited 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 unaudited 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 unaudited consolidated statements of operations. See Note 14 for additional discussion of the Company's equity method investment.

The accompanying consolidated financial statements have not been audited by the Company's independent registered public accounting firm, except that the consolidated balance sheet as of December 31, 2015 is derived from audited consolidated financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all necessary adjustments to present fairly the Company's financial position as of March 31, 2016, results of operations for the three months ended March 31, 2016 and 2015 and cash flows for the three months ended March 31, 2016 and 2015.

Certain disclosures have been condensed or omitted from these unaudited consolidated financial statements. Accordingly, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the 2015 Annual Report.

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

The preparation of the accompanying unaudited 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. The interim results reflected in the unaudited consolidated financial statements are not necessarily indicative of the results that may be expected for other interim periods or for the full year.

Significant estimates include, but are not limited to, (i) estimates of the Company's reserves of oil, NGL and natural gas, (ii) future cash flows from oil and natural gas properties, (iii) depletion, depreciation and amortization, (iv) asset retirement obligations, (v) stock-based compensation, (vi) deferred income taxes, (vii) fair value of assets acquired and liabilities assumed in an acquisition and (viii) fair values of derivatives, deferred premiums and performance unit awards. 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

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

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 unaudited consolidated financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact to previously reported net loss, stockholders' equity or cash flows.

d. Accounts receivable

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

Joint interest operations amounts are considered past due after 30 days. The Company determines joint interest operations accounts receivable allowances based on management's assessment of the creditworthiness of the joint interest owners. Additionally, as the operator of the majority of its wells, the Company has the ability to realize some or all of the receivables through netting of anticipated future production revenues. 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 over 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 for the periods presented:

(in thousands)	March 31, 2016	December 31, 2015
Oil, NGL and natural gas sales	$31,060	$ 25,582
Joint operations, net[(1)]	23,027	21,375
Matured derivatives	18,084	27,469
Sales of purchased oil and other products	12,324	11,775
Other	678	1,498
Total	$85,173	$ 87,699

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(1) Accounts receivable for joint operations are presented net of an allowance for doubtful accounts of $0.2 million as of both March 31, 2016 and December 31, 2015.

e. Derivatives

The Company uses derivatives to reduce exposure to fluctuations in the prices of oil 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 and, in prior periods, basis swaps.

Derivatives are recorded at fair value and are presented on a net basis on the unaudited consolidated balance sheets as assets 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 9 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 unaudited consolidated statements of operations in the period of change. Gains and losses on derivatives are included in cash flows from operating activities. See Notes 8 and 9 for discussion regarding the Company's derivatives.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

f. Property and equipment

The following table sets forth the Company's property and equipment as of the periods presented:

(in thousands)	March 31, 2016	December 31, 2015
Evaluated oil and natural gas properties	$5,216,178	$5,103,635
Less accumulated depletion and impairment	(4,417,833)	(4,218,942)
Evaluated oil and natural gas properties, net	798,345	884,693
Unevaluated properties not being depleted	116,905	140,299
Midstream service assets	148,112	147,811
Less accumulated depreciation	(18,105)	(16,086)
Midstream service assets, net	130,007	131,725
Depreciable other fixed assets	46,748	46,799
Less accumulated depreciation and amortization	(19,186)	(18,169)
Depreciable other fixed assets, net	27,562	28,630
Land	14,914	14,908
Total property and equipment, net	$1,087,733	$1,200,255

For the three months ended March 31, 2016 and 2015, depletion expense was $9.00 per barrel of oil equivalent ("BOE") sold and $16.08 per BOE sold, respectively.

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 finding oil and natural gas 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 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 on 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 or reduction in value. 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%. Per the SEC guidelines, companies are required 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.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

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, Realized Prices and the corresponding non-cash full cost ceiling impairments recorded as of the periods presented:

	For the quarters ended				
	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015
Benchmark Prices					
Oil ($/Bbl)	$42.77	$46.79	$55.73	$68.17	$79.21
NGL ($/Bbl)	$17.51	$18.75	$21.87	$26.73	$31.25
Natural gas ($/MMBtu)	$2.31	$2.47	$2.89	$3.22	$3.73
Realized Prices					
Oil ($/Bbl)	$41.33	$45.58	$54.28	$66.68	$77.72
NGL ($/Bbl)	$11.25	$12.50	$15.25	$19.56	$23.75
Natural gas ($/Mcf)	$1.75	$1.89	$2.30	$2.62	$3.09
Non-cash full cost ceiling impairment (in thousands)	$161,064	$975,011	$906,420	$488,046	$—

Full cost ceiling impairment expense is included in the "Impairment expense" line item in the unaudited consolidated statements of operations and in the financial information provided for the Company's exploration and production segment presented in Note 16.
g. Long-lived assets and inventory
Impairment losses are recorded on property and equipment used in operations and other long-lived 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.
Materials and supplies inventory used in developing oil and natural gas properties and midstream service assets are carried at the lower of cost or market ("LCM") with cost determined using the weighted-average cost method and are included in "Other current assets" and "Other assets, net" on the unaudited consolidated balance sheets. The market price for materials and supplies is determined utilizing a replacement cost approach.
Beginning at March 31, 2016, frac pit water inventory used in developing oil and natural gas properties is carried at LCM with cost determined using the weighted-average cost method and is included in "Other current assets" on the unaudited consolidated balance sheets. The market price for frac pit water inventory is determined utilizing a replacement cost approach.
The minimum volume of product in a pipeline system that enables the system to operate is known as line-fill and is generally not available to be withdrawn from the pipeline system until the expiration of the transportation contract. The Company owns oil line-fill in third-party pipelines, which is accounted for at LCM with cost determined using the weighted-average cost method and is included in "Other assets, net" on the unaudited consolidated balance sheets. The LCM adjustment is determined utilizing a quoted market price adjusted for regional price differentials (Level 2).

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

The following table presents inventory impairments recorded as of the periods presented:

	Three months ended March 31,	
(in thousands)	2016	2015
Inventory impairments:		
Materials and supplies[1]	$—	$767
Line-fill[2]	—	111
Total inventory impairments	$—	$878

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(1) Included in "Impairment expense" in the unaudited consolidated statements of operations and in "Impairment expense" for the Company's exploration and production segment presented in Note 16.

(2) Included in "Impairment expense" in the unaudited consolidated statements of operations and in "Impairment expense" for the Company's midstream and marketing segment presented in Note 16.

h. 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 $6.4 million of debt issuance costs during the three months ended March 31, 2015 mainly as a result of the issuance of the March 2023 Notes (as defined below). No debt issuance costs were capitalized in the three months ended March 31, 2016. The Company had total debt issuance costs of $22.8 million and $23.9 million, net of accumulated amortization of $18.2 million and $17.0 million, as of March 31, 2016 and December 31, 2015, respectively.

No debt issuance costs were written off during the three months ended March 31, 2016 or 2015. Unamortized debt issuance costs related to the Company's senior unsecured notes are presented in "Long-term debt, net" on the Company's unaudited consolidated balance sheets. Unamortized debt issuance costs related to the Senior Secured Credit Facility are presented in "Other assets, net" on the Company's unaudited consolidated balance sheets. See Notes 5.a and 5.e for definitions of and information regarding the March 2023 Notes and the Senior Secured Credit Facility, respectively. See Note 5.g for additional discussion of debt issuance costs.

Future amortization expense of debt issuance costs as of the period presented is as follows:

(in thousands)	March 31, 2016
Remaining 2016	$3,383
2017	4,575
2018	4,349
2019	2,915
2020	3,005
Thereafter	4,585
Total	$22,812

i. Other current assets and liabilities

Other current assets consist of the following components for the periods presented:

(in thousands)	March 31, 2016	December 31, 2015
Inventory[1]	$8,538	$ 6,974
Prepaid expenses and other	8,258	7,600

Total other current assets	$16,796	$ 14,574

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

9

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Other current liabilities consist of the following components for the periods presented:

(in thousands)	March 31, 2016	December 31, 2015
Accrued interest payable	$21,663	$24,208
Costs of purchased oil payable	12,423	12,189
Lease operating expense payable	11,624	13,205
Accrued compensation and benefits	5,492	14,342
Capital contribution payable to equity method investee(1)	923	27,583
Other accrued liabilities	10,628	14,695
Total other current liabilities	$62,753	$106,222

(1) See Notes 14, 15 and 19.b for additional discussion regarding our equity method investee.

j. 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 asset retirement cost 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 gas gathering assets and perform other remediation of the sites where such pipeline and gas 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 gas gathering assets in the periods in which settlement dates become reasonably determinable.

The following reconciles the Company's asset retirement obligation liability for the periods presented:

(in thousands)	Three months ended March 31, 2016	Year ended December 31, 2015
Liability at beginning of period	$46,306	$32,198
Liabilities added due to acquisitions, drilling, midstream service asset construction and other	107	2,236
Accretion expense	844	2,423
Liabilities settled upon plugging and abandonment	(194)	(146)
Liabilities removed due to sale of property	—	(2,005)
Revision of estimates(1)	—	11,600

Liability at end of period	$47,063	$46,306

(1) The revision of estimates that occurred during the year ended December 31, 2015 is mainly related to a change in the estimated remaining life per well due to the decline in commodity prices.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

k. Fair value measurements
The carrying amounts reported in the unaudited 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.f for fair value disclosures related to the Company's debt obligations. The Company carries its derivatives at fair value. See Note 9 for details regarding the fair value of the Company's derivatives.
l. 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.
m. Compensation awards
Stock-based compensation expense, net of amounts capitalized, is included in "General and administrative" in the unaudited 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 value 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 gas properties into the full cost pool. Capitalized stock-based compensation is included as an addition to "Oil and natural gas properties" in the unaudited consolidated balance sheets. See Note 6 for further discussion regarding the restricted stock awards, restricted stock option awards, performance share awards and performance unit awards.
n. 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 March 31, 2016 or December 31, 2015.
o. Non-cash investing and supplemental cash flow information
The following presents the non-cash investing and supplemental cash flow information for the periods presented:

	Three months ended March 31,	
(in thousands)	2016	2015
Non-cash investing information:		
Change in accrued capital expenditures	$(18,215)	$(30,066)
Change in accrued capital contribution to equity method investee[(1)]	$(26,660)	$—
Capitalized asset retirement cost	$107	$515
Supplemental cash flow information:		
Capitalized interest	$39	$98

(1) See Notes 14, 15 and 19.b for additional discussion regarding our equity method investee.
Note 3—2015 Equity offering
On March 5, 2015, the Company completed the sale of 69,000,000 shares of Laredo's common stock at a price to the public of $11.05 per share (the "March 2015 Equity Offering"). The Company received net proceeds of $754.2

million, after underwriting discounts, commissions and offering expenses. Entities affiliated with Warburg Pincus LLC ("Warburg Pincus") purchased 29,800,000 shares in the March 2015 Equity Offering, following which Warburg Pincus owned 41.0% of Laredo's common stock. There were no comparative offerings of Laredo's common stock during the three months ended March 31, 2016.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Note 4—Divestiture
a. 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 properties 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 unaudited consolidated statements of operations for the period presented:

(in thousands)	Three months ended March 31, 2015
Oil, NGL and natural gas sales	$ 2,078
Expenses[(1)]	2,612

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

Note 5—Debt
a. 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"). 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 LMS, GCM 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 applicable indenture, designation of a subsidiary guarantor as a non-guarantor restricted subsidiary or as an unrestricted subsidiary in accordance with the applicable indenture, release from guarantee under the Senior Secured Credit Facility, or liquidation or dissolution (collectively, the "Releases").
b. 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"). 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 LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.
c. 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 will mature on May 1, 2022 and bear 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 are fully and unconditionally guaranteed on a senior unsecured basis by LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

d. January 2019 Notes

On January 20, 2011, the Company completed an offering of $350.0 million 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 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 LMS, GCM and certain of the Company's future restricted subsidiaries, subject to certain Releases.

On April 6, 2015 (the "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 the 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.

e. Senior Secured Credit Facility

As of March 31, 2016, the Fourth Amended and Restated Credit Agreement (as amended, the "Senior Secured Credit Facility"), which matures on November 4, 2018, had a maximum credit amount of $2.0 billion, a borrowing base of $1.15 billion and an aggregate elected commitment of $1.0 billion with $195.0 million outstanding and was subject to an interest rate of 1.94%. It contains both financial and non-financial covenants, all of which the Company was in compliance with as of March 31, 2016. 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. 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 March 31, 2016 or 2015.

See Note 19.a for discussion of additional borrowings on, and changes to the borrowing base and aggregate elected commitment under, the Senior Secured Credit Facility subsequent to March 31, 2016.

f. Fair value of debt

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

	March 31, 2016		December 31, 2015	
(in thousands)	Long-term debt	Fair value	Long-term debt	Fair value
January 2022 Notes	$450,000	$378,000	$450,000	$388,301
May 2022 Notes	500,000	432,500	500,000	460,000
March 2023 Notes	350,000	293,125	350,000	301,000
Senior Secured Credit Facility	195,000	194,946	135,000	134,993
Total value of debt	$1,495,000	$1,298,571	$1,435,000	$1,284,294

The fair values of the debt outstanding on the January 2022 Notes, May 2022 Notes and the March 2023 Notes were determined using the March 31, 2016 and December 31, 2015 quoted market price (Level 1) for each respective instrument. The fair values of the outstanding debt on the Senior Secured Credit Facility as of March 31, 2016 and December 31, 2015 were estimated utilizing pricing models for similar instruments (Level 2). See Note 9 for information about fair value hierarchy levels.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

g. Debt issuance costs

The following table summarizes the net presentation of the Company's long-term debt and debt issuance cost on the unaudited consolidated balance sheets for the periods presented:

	March 31, 2016			December 31, 2015		
(in thousands)	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	$(5,696)	$444,304	$450,000	$(5,939)	$444,061
May 2022 Notes	500,000	(6,847)	493,153	500,000	(7,066)	492,934
March 2023 Notes	350,000	(5,567)	344,433	350,000	(5,769)	344,231
Senior Secured Credit Facility[(1)]	195,000	—	195,000	135,000	—	135,000
Total	$1,495,000	$(18,110)	$1,476,890	$1,435,000	$(18,774)	$1,416,226

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(1) Debt issuance costs related to our Senior Secured Credit Facility are recorded in "Other assets, net" on the unaudited consolidated balance sheets.

Note 6—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, restricted stock option awards, performance share awards, performance unit awards and other awards. The LTIP provides for the issuance of 10.0 million shares. On March 30, 2016, the Company's compensation committee recommended, and the Company's board of directors adopted, subject to stockholder approval, an amendment to the LTIP to, among other things, increase the number of shares of common stock available for issuance under the LTIP by 14,350,000 shares (the "Amendment"), enabling the continued use of the LTIP for share-based awards. The Company is seeking stockholder approval of the Amendment in connection with its 2016 Annual Meeting of Stockholders on May 25, 2016.

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 unaudited consolidated statements of operations. The Company capitalizes a portion of stock-based compensation for employees who are directly involved in the acquisition, exploration and 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 unaudited consolidated balance sheets.

a. Restricted stock awards

All restricted stock awards are treated as issued and outstanding in the accompanying unaudited 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. 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, (iii) fully on the first anniversary of the grant date and (iv) fully on the third anniversary of the grant date. Restricted stock awards granted to non-employee directors vest fully on the first anniversary of the grant date.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

The following table reflects the outstanding restricted stock awards for the three months ended March 31, 2016:

(in thousands, except for weighted-average grant date fair values)	Restricted stock awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2015	2,539	$ 15.26
Granted	24	$ 5.45
Forfeited	(108)	$ 16.69
Vested[1]	(981)	$ 16.24
Outstanding as of March 31, 2016	1,474	$ 14.34

(1) The vesting of certain restricted stock awards could result in federal and state income tax expense or benefit related to the difference between the market price of the common stock at the date of vesting and the date of grant. See Note 7 for additional discussion regarding the tax impact of vested stock awards.

The Company utilizes the closing stock price on the grant date to determine the fair value of service vesting restricted stock awards. As of March 31, 2016, unrecognized stock-based compensation related to the restricted stock awards expected to vest was $16.6 million. Such cost is expected to be recognized over a weighted-average period of 1.60 years.

b. Restricted stock option awards

Restricted 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 three months ended March 31, 2016:

(in thousands, except for weighted-average price and contractual term)	Restricted stock option awards	Weighted-average price (per option)	Weighted-average remaining contractual term (years)
Outstanding as of December 31, 2015	1,778	$ 17.86	7.91
Granted	—	$ —	
Exercised	—	$ —	
Expired or canceled	(2)	$ 20.94	
Forfeited	(126)	$ 16.07	
Outstanding as of March 31, 2016	1,650	$ 18.00	7.46
Vested and exercisable at end of period[1]	955	$ 19.55	6.86
Expected to vest at end of period[2]	685	$ 15.76	8.31

(1) The vested and exercisable options as of March 31, 2016 had no aggregate intrinsic value.

(2) The restricted stock options expected to vest as of March 31, 2016 had no aggregate intrinsic value.

The Company utilizes the Black-Scholes option pricing model to determine the fair value of restricted 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 March 31, 2016, unrecognized stock-based compensation related to restricted stock option awards expected to vest was $5.4 million. Such cost is expected to be recognized over a weighted-average period of 2.14 years.

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 option 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.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

c. Performance share awards

The performance share awards granted to management on February 27, 2015 (the "2015 Performance Share Awards") and on February 27, 2014 (the "2014 Performance Share Awards") are subject to a combination of market and service vesting criteria. A Monte Carlo simulation prepared by an independent third party was 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. These awards will be settled, if at all, in stock at the end of the requisite service period based on the achievement of certain performance criteria.

The 520,896 outstanding 2015 Performance Share Awards have a performance period of January 1, 2015 to December 31, 2017, and any shares earned under such awards are expected to be issued in the first quarter of 2018 if the performance criteria are met. The 232,118 outstanding 2014 Performance Share Awards have a performance period of January 1, 2014 to December 31, 2016, and any shares earned under such awards are expected to be issued in the first quarter of 2017 if the performance criteria are met.

The following table reflects the performance share award activity for the three months ended March 31, 2016:

(in thousands, except for weighted-average grant date fair values)	Performance share awards	Weighted-average grant date fair value (per award)
Outstanding as of December 31, 2015	874	$ 20.06
Granted	—	$ —
Forfeited	(121)	$ 20.25
Vested	—	$ —
Outstanding as of March 31, 2016	753	$ 20.03

As of March 31, 2016, unrecognized stock-based compensation related to the 2015 Performance Share Awards and the 2014 Performance Share Awards was $7.3 million. Such cost is expected to be recognized over a weighted-average period of 1.63 years.

d. Stock-based compensation award expense

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

(in thousands)	Three months ended March 31, 2016	2015
Restricted stock award compensation, net of amounts capitalized	$3,192	$3,280
Restricted stock option award compensation, net of amounts capitalized	525	673
Restricted performance share award compensation, net of amounts capitalized	121	835
Total stock-based compensation, net of amounts capitalized	$3,838	$4,788

e. Performance unit awards

The performance unit awards issued to management on February 15, 2013 (the "2013 Performance Unit Awards") and on February 3, 2012 (the "2012 Performance Unit Awards") 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.

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 three months ended March 31, 2015, compensation expense for the 2013 Performance Unit Awards is included in "General and administrative" in the Company's unaudited consolidated statements of operations, and as of December 31, 2015, the corresponding liability is included in "Other current liabilities" on the unaudited consolidated balance sheets. Due to

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

the quarterly re-measurement of the fair value of the 2013 Performance Unit Awards as of March 31, 2015, compensation expense for the three months ended March 31, 2015 was $1.0 million.

f. 2016 contingent awards

On February 19, 2016, following the filing of the 2015 Annual Report, the Company's compensation committee approved contingent awards to employees for 2016. These contingent awards consist of restricted stock awards, stock option awards and performance share awards (payable in the Company's common stock), in the aggregate amounts identified in the schedule set forth below. All of these contingent awards are conditional and subject to stockholder approval of the Amendment. If such stockholder approval is not obtained, the following contingent awards will be canceled:

Contingent award type	Number of awards
Restricted stock(1)	2,771,474
Stock options(2)	994,022
Performance shares(3)	1,790,067
Total	5,555,563

(1) If stockholder approval of the Amendment is obtained, these restricted stock awards granted in 2016 will vest 33%, 33% and 34% per year beginning on February 19, 2017.

(2) If stockholder approval of the Amendment is obtained, these stock option awards will (i) have an exercise price of $4.10 per share, (ii) have an expiration date of February 19, 2026 and (iii) vest and become exercisable on a time basis in four equal installments on each of the first four anniversaries beginning February 19, 2017.

(3) If stockholder approval of the Amendment is obtained, these performance share awards will have a performance period of January 1, 2016 to December 31, 2018 and will be paid in the Company's common stock in the first quarter of 2019 if the performance criteria are met.

Note 7—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 unaudited 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 unaudited 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 unaudited consolidated financial statements as of March 31, 2016 or December 31, 2015.

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

	Three months ended March 31,	
(in thousands)	2016	2015

Current taxes	$—	$—
Deferred taxes	—	(3,643)
Income tax expense	$—	$(3,643)

17

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Income tax expense differed from amounts computed by applying the applicable federal income tax rate of 35% to pre-tax earnings as a result of the following:

	Three months ended March 31,	
(in thousands)	2016	2015
Income tax benefit (expense) computed by applying the statutory rate	$63,130	$(1,110)
State income tax and change in valuation allowance	728	91
Non-deductible stock-based compensation	—	(91)
Stock-based compensation tax deficiency	(3,822)	(2,457)
Increase in deferred tax valuation allowance	(59,895)	(5)
Other items	(141)	(71)
Income tax expense	$—	$(3,643)

For the three months ended March 31, 2016, the effective tax rate on loss before income taxes was not meaningful due to the valuation allowance recorded. For the three months ended March 31, 2015, the effective tax rate on income before income taxes was not meaningful due to the significant effect of discrete items on a relatively small amount of income. The Company's effective tax rate is affected by changes in valuation allowances, recurring permanent differences and by discrete items that may occur in any given year, but are not consistent from year to year.

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, 2015 and the three months ended March 31, 2016, in evaluating whether it was more likely than not that the Company's net deferred tax assets were realized 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 and natural gas reserves, (iv) its ability to use tax planning strategies, (v) its current price protection utilizing oil and natural gas hedges, (vi) its future revenue and operating cost projections and (vii) the current market prices for oil and natural gas. Based on all the evidence available, during the year ended December 31, 2015, management determined it was more likely than not that the net deferred tax assets were not realizable, and therefore recorded a valuation allowance of $676.0 million. During the three months ended March 31, 2016, an additional valuation allowance of $57.7 million was recorded.

The impact of significant discrete items is separately recognized in the quarter in which the discrete items occur. The vesting of certain restricted stock awards could result in federal and state income tax expense or benefits related to the difference between the market price of the common stock at the date of vesting and the grant date. The exercise of stock option awards could result in federal and state income tax expense or benefits related to the difference between the fair value of the stock option at the grant date and the intrinsic value of the stock option when exercised. The tax impact resulting from vestings of restricted stock awards and exercise of option awards are discrete items. During the three months ended March 31, 2016 and 2015, certain shares related to restricted stock awards vested at times when the Company's stock price was lower than the fair value of those shares at the time of the grant. As a result, the income tax deduction related to such shares is less than the expense previously recognized for book purposes. During the three months ended March 31, 2016 and 2015, no restricted stock options were exercised. In accordance with GAAP, such shortfalls reduce additional paid-in capital to the extent windfall tax benefits have been previously recognized. However, the Company has not previously recognized any windfall tax benefits. Therefore, such shortfalls are included in income tax expense.

The following table presents the tax impact of these shortfalls for the periods presented:

Three months
ended March 31,

(in thousands)	2016	2015
Vesting of restricted stock	$(3,875)	$(2,501)
Exercise of restricted stock options	—	—
Tax expense due to shortfalls	$(3,875)	$(2,501)

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Significant components of the Company's net deferred tax asset for the periods presented are as follows:

(in thousands)	March 31, 2016	December 31, 2015
Oil and natural gas properties, midstream service assets and other fixed assets	$324,601	$306,997
Net operating loss carry-forward	507,227	479,022
Derivatives	(82,908)	(98,675)
Stock-based compensation	7,530	11,597
Equity method investee	(27,728)	(31,711)
Accrued bonus	1,337	4,763
Capitalized interest	2,359	2,525
Other	2,593	2,820
Net deferred tax asset before valuation allowance	735,011	677,338
Valuation allowance	(735,011)	(677,338)
Net deferred tax asset	$—	$—

The Company had federal net operating loss carry-forwards totaling $1.4 billion and state of Oklahoma net operating loss carry-forwards totaling $40.9 million as of March 31, 2016. These carry-forwards begin expiring in 2026. Additionally, these carry-forwards include windfall tax deductions from vestings of certain restricted stock awards and stock option exercises that were not recorded in the Company's income tax provision. The amount of windfall tax benefit recognized in additional paid-in capital is limited to the amount of benefit realized currently in income taxes payable. As of March 31, 2016, the Company had suspended additional paid-in capital credits of $4.5 million related to windfall tax deductions. Upon realization of the net operating loss carry-forwards from such windfall tax deductions, the Company would record a benefit of up to $4.5 million in additional paid-in capital.

The Company's income tax returns for the years 2012 through 2015 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 carry-forwards typically does not begin to run until the year the attribute is utilized in a tax return.

Note 8—Derivatives

a. Derivatives

The Company engages in derivative transactions such as puts, swaps, collars and, in prior periods, basis swaps to hedge price risks due to unfavorable changes in oil and natural gas prices related to its production. As of March 31, 2016, the Company had 21 open derivative contracts with financial institutions that extend from April 2016 to December 2018. None of these contracts were designated as hedges for accounting purposes. The contracts are recorded at fair value on the unaudited consolidated balance sheets and gains and losses are recognized in current period earnings. Gains and losses on derivatives are reported on the unaudited consolidated statements of operations on the "Gain on derivatives, net" line item.

Each put transaction has an established floor price. The Company pays its counterparty a premium, which can be 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 fixed price multiplied by the hedged contract volume. When the settlement price is above the floor price, the put option expires.

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. When the settlement price is below the price floor established by these collars, the Company receives an amount from its counterparty 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.
In the prior year, the oil basis swap transactions had an established fixed basis differential. The Company's oil basis swaps' differential was between the West Texas Intermediate-Argus Americas Crude (Midland) ("WTI Midland") index crude

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

oil price and the West Texas Intermediate NYMEX ("WTI NYMEX") index crude oil price. When the WTI NYMEX price less the fixed basis differential was greater than the actual WTI Midland price, the difference multiplied by the hedged contract volume was paid to the Company by the counterparty. When the WTI NYMEX price less the fixed basis differential was less than the actual WTI Midland price, the difference multiplied by the hedged contract volume was paid by the Company to the counterparty.

During the three months ended March 31, 2016, the Company successfully completed a hedge restructuring by early terminating the floors of certain derivative contract collars that resulted in a termination amount of $80 million, which was settled in full by applying the proceeds to prepay the premiums on two new derivatives entered into during the restructuring.

During the three months ended March 31, 2016, the following derivatives were terminated:

	Aggregate volumes	Floor price	Contract period
Oil (volumes in Bbl):			
Put portion of the associated collars	2,263,000	$80.00	January 2017 - December 2017

During the three months ended March 31, 2016, the following derivatives were entered into:

	Aggregate volumes	Floor price	Contract period
Oil (volumes in Bbl):			
Put(1)	2,263,000	$60.00	January 2017 - December 2017
Put(2)	2,098,750	$60.00	January 2017 - December 2018
Natural gas (volumes in MMBtu):(3)			
Put	8,040,000	$2.50	January 2017 - December 2017
Put	8,220,000	$2.50	January 2018 - December 2018

(1) As part of the Company's hedge restructuring, this put replaced the early terminated put portion of the restructured derivative contract collars. A premium of $40.0 million was paid at contract inception.
(2) As part of the Company's hedge restructuring, a premium of $40.0 million was paid at contract inception.
(3) There are $4.3 million in deferred premiums associated with these contracts.

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

	Three months ended March 31,	
(in thousands)	2016	2015
Cash settlements received for matured derivatives, net	$65,937	$63,141
Cash settlements received for early terminations of derivatives, net(1)	80,000	—
Cash settlements received for derivatives, net	$145,937	$63,141

(1) The settlements amount for the three months ended March 31, 2016 includes $4.0 million in deferred premiums which were settled net with the early terminated contracts from which they derive.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

The following table summarizes open positions as of March 31, 2016, and represents, as of such date, derivatives in place through December 2018 on annual production volumes:

	Remaining Year 2016	Year 2017	Year 2018
Oil positions:[1]			
Puts:			
Hedged volume (Bbl)	972,000	1,049,375	1,049,375
Weighted-average price ($/Bbl)	$ 45.00	$ 60.00	$ 60.00
Swaps:			
Hedged volume (Bbl)	1,182,500	—	—
Weighted-average price ($/Bbl)	$ 84.82	$ —	$ —
Collars:			
Hedged volume (Bbl)	2,743,750	2,628,000	—
Weighted-average floor price ($/Bbl)	$ 73.99	$ 60.00	$ —
Weighted-average ceiling price ($/Bbl)	$ 89.63	$ 97.22	$ —
Totals:			
Total volume hedged with floor price (Bbl)	4,898,250	3,677,375	1,049,375
Weighted-average floor price ($/Bbl)	$ 70.85	$ 60.00	$ 60.00
Total volume hedged with ceiling price (Bbl)	3,926,250	2,628,000	—
Weighted-average ceiling price ($/Bbl)	$ 88.18	$ 97.22	$ —
Natural gas positions:[2]			
Puts:			
Hedged volume (MMBtu)	—	8,040,000	8,220,000
Weighted-average price ($/MMBtu)	$ —	$ 2.50	$ 2.50
Collars:			
Hedged volume (MMBtu)	14,025,000	5,475,000	—
Weighted-average floor price ($/MMBtu)	$ 3.00	$ 3.00	$ —
Weighted-average ceiling price ($/MMBtu)	$ 5.60	$ 4.00	$ —
Totals:			
Total volume hedged with floor price (MMBtu)	14,025,000	13,515,000	8,220,000
Weighted-average floor price ($/MMBtu)	$ 3.00	$ 2.70	$ 2.50
Total volume hedged with ceiling price (MMBtu)	14,025,000	5,475,000	—
Weighted-average ceiling price ($/MMBtu)	$ 5.60	$ 4.00	$ —

(1) Oil derivatives are settled based on the average of the daily settlement prices for the First Nearby Month of the WTI NYMEX Light Sweet Crude Oil Futures Contract for each NYMEX Trading Day during each month.

(2) Natural gas derivatives are settled based on the Inside FERC index price for West Texas Waha for the calculation period.

b. Balance sheet presentation

In accordance with the Company's standard practice, its derivatives are subject to counterparty netting under agreements governing such derivatives. The Company's oil and natural gas derivatives are presented on a net basis as "Derivatives" on the unaudited consolidated balance sheets. See Note 9.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 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

21

counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the 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 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 9—Fair value measurements

The Company accounts for its oil 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 unaudited 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 three months ended March 31, 2016 or 2015.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

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 unaudited consolidated balance sheets for derivative assets and liabilities measured at fair value on a recurring basis as of the periods presented:

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of March 31, 2016:						
Assets						
Current:						
Oil derivatives	$ —	$160,789	$—	$160,789	$ —	$ 160,789
Natural gas derivatives	—	14,401	—	14,401	—	14,401
Oil deferred premiums	—	—	—	—	(7,736)	(7,736)
Natural gas deferred premiums	—	—	—	—	(660)	(660)
Noncurrent:						
Oil derivatives	$ —	$62,443	$—	$62,443	$ —	$ 62,443
Natural gas derivatives	—	5,395	—	5,395	(3,345)	2,050
Oil deferred premiums	—	—	—	—	(747)	(747)
Natural gas deferred premiums	—	—	—	—	(332)	(332)
Liabilities						
Current:						
Oil derivatives	$ —	$—	$—	$—	$ —	$ —
Natural gas derivatives	—	—	—	—	—	—
Oil deferred premiums	—	—	(7,736)	(7,736)	7,736	—
Natural gas deferred premiums	—	—	(660)	(660)	660	—
Noncurrent:						
Oil derivatives	$ —	$—	$—	$—	$ —	$ —
Natural gas derivatives	—	—	—	—	3,345	3,345
Oil deferred premiums	—	—	(747)	(747)	747	—
Natural gas deferred premiums	—	—	(3,911)	(3,911)	332	(3,579)
Net derivative position	$ —	$243,028	$(13,054)	$229,974	$ —	$ 229,974

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

(in thousands)	Level 1	Level 2	Level 3	Total gross fair value	Amounts offset	Net fair value presented on the unaudited consolidated balance sheets
As of December 31, 2015:						
Assets						
Current:						
Oil derivatives	$ —	$194,940	$—	$194,940	$ —	$ 194,940
Natural gas derivatives	—	13,166	—	13,166	—	13,166
Oil deferred premiums	—	—	—	—	(9,301)	(9,301)
Natural gas deferred premiums	—	—	—	—	—	—
Noncurrent:						
Oil derivatives	$ —	$80,302	$—	$80,302	$ —	$ 80,302
Natural gas derivatives	—	2,459	—	2,459	—	2,459
Oil deferred premiums	—	—	—	—	(4,877)	(4,877)
Natural gas deferred premiums	—	—	—	—	(441)	(441)
Liabilities						
Current:						
Oil derivatives	$ —	$—	$—	$—	$ —	$ —
Natural gas derivatives	—	—	—	—	—	—
Oil deferred premiums	—	—	(9,301)	(9,301)	9,301	—
Natural gas deferred premiums	—	—	—	—	—	—
Noncurrent:						
Oil derivatives	$ —	$—	$—	$—	$ —	$ —
Natural gas derivatives	—	—	—	—	—	—
Oil deferred premiums	—	—	(4,877)	(4,877)	4,877	—
Natural gas deferred premiums	—	—	(441)	(441)	441	—
Net derivative position	$ —	$290,867	$(14,619)	$276,248	$ —	$ 276,248

These items are included as "Derivatives" on the unaudited 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.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

The following table presents actual cash payments required for deferred premiums for the calendar years presented:

(in thousands)	March 31, 2016
Remaining 2016	$6,779
2017	4,397
2018	2,100
Total	$13,276

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

	Three months ended March 31,	
(in thousands)	2016	2015
Balance of Level 3 at beginning of period	$(14,619)	$(9,285)
Change in net present value of deferred premiums for derivatives	(72)	(43)
Total purchases and settlements:		
Purchases	(4,112)	(975)
Settlements[(1)]	5,749	1,421
Balance of Level 3 at end of period	$(13,054)	$(8,882)

(1) The amount for the three months ended March 31, 2016 includes $3.9 million which represents the present value of deferred premiums settled in the Company's 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. See Note 2.g for discussion regarding the Company's impairments of materials and supplies and line-fill for the three months ended March 31, 2015.

The accounting policies for impairment of oil and natural gas properties are discussed in Note 2.f. 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.f for discussion regarding the prices used in the calculation of discounted cash flows and the Company's first-quarter 2016 full cost ceiling impairment.

Note 10—Net loss per share

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

The following is the calculation of basic and diluted weighted-average common shares outstanding and net loss per share for the periods presented:

	Three months ended March 31,	
(in thousands, except for per share data)	2016	2015
Net loss (numerator):		
Net loss—basic and diluted	$(180,371)	$(472)
Weighted-average common shares outstanding (denominator):		
Basic	211,560	162,426
Diluted	211,560	162,426

Net loss per share:		
Basic	$(0.85)	$—
Diluted	$(0.85)	$—

25

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Note 11—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 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 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.e, 8 and 9 for additional information regarding the Company's derivatives.

Note 12—Commitments and contingencies

a. 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. The Company has concluded that the likelihood is remote that the ultimate resolution of any 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.

b. Drilling contracts

The Company has committed to drilling contracts with various third parties to complete its various drilling projects. The contracts contain early termination clauses that require the Company to potentially pay penalties to third parties should the Company cease drilling efforts. These penalties would negatively impact the Company's financial statements upon early contract termination, especially if a significant number of such contracts were terminated early in their respective terms. Future commitments of $3.5 million as of March 31, 2016 are not recorded in the accompanying unaudited consolidated balance sheets. Management does not currently anticipate the early termination of any existing contracts in 2016 that would result in a substantial penalty.

c. 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 minimal volume penalties. These commitments are normal and customary for the Company's business. Future commitments of $411.8 million as of March 31, 2016 are not recorded in the accompanying unaudited consolidated balance sheets. The Company's production has been equivalent or greater than its delivery commitments during the most recent year, and management expects such production will continue to exceed the Company's future commitments. However, 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. Also, if production is not sufficient to satisfy the Company's delivery commitments, the Company can and may use spot market purchases to fulfill the commitments.

d. 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.

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

e. Other commitments

See Notes 2.i, 15.a and 19.b for the amount of and discussion regarding the commitments to the Company's non-consolidated variable interest entity ("VIE").

Note 13—2015 Restructuring

Following the fourth-quarter 2014 drop in oil prices, in an effort to reduce costs and to better position the Company for ongoing efficient growth, on January 20, 2015, 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 package. The Company incurred $6.0 million in expenses during the three months ended March 31, 2015 related to the RIF. There were no comparative amounts recorded in the three months ended March 31, 2016.

Note 14—Variable interest entity

An entity is referred to as a VIE pursuant to accounting guidance for consolidation if it possesses one of the following criteria: (i) it is thinly capitalized, (ii) the residual equity holders do not control the entity, (iii) the equity holders are shielded from the economic losses, (iv) the equity holders do not participate fully in the entity's residual economics, or (v) the entity was established with non-substantive voting interests. In order to determine if a VIE should be consolidated, an entity must determine if it is the primary beneficiary of the VIE. The primary beneficiary of a VIE is that variable interest-holder possessing a controlling financial interest through: (i) its power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) its obligation to absorb losses or its right to receive benefits from the VIE that could potentially be significant to the VIE. In order to determine whether the Company owns a variable interest in a VIE, a qualitative analysis is performed of the entity's design, organizational structure, primary decision makers and relevant agreements. The Company continually monitors its VIE exposure to determine if any events have occurred that could cause the primary beneficiary to change.

LMS contributed $26.7 million and $14.5 million during the three months ended March 31, 2016 and 2015, respectively, to Medallion Gathering & Processing, LLC, a Texas limited liability company formed on October 12, 2012, and its wholly-owned subsidiaries (together "Medallion"). See Note 19.b for discussion regarding a contribution made to Medallion subsequent to March 31, 2016. All LMS cash contributions made during the three months ended March 31, 2016 were for commitments that were fully accrued for in the Company's audited consolidated financial statements at December 31, 2015.

LMS holds 49% of Medallion's ownership units. Medallion was established for the purpose of developing midstream solutions and providing midstream infrastructure to bring oil, NGL and natural gas to market. LMS and the other 51% interest-holder have agreed that the voting rights of Medallion, the profit and loss sharing, and the additional capital contribution requirements shall be equal to the ownership unit percentage held. Additionally, Medallion requires a super-majority vote of 75% for all key operating and business decisions. The Company has determined that Medallion is a VIE. However, LMS is not considered to be the primary beneficiary of the VIE because LMS does not have the power to direct the activities that most significantly affect Medallion's economic performance. As such, Medallion is accounted for under the equity method of accounting with the Company's proportionate share of Medallion's net income (loss) reflected in the unaudited consolidated statements of operations as "Income (loss) from equity method investee" and the carrying amount reflected in the unaudited consolidated balance sheets as "Investment in equity method investee."

During the three months ended March 31, 2016, Medallion continued expansion activities on existing portions of its pipeline infrastructure in order to gather and transport additional third-party oil production. See Note 15.a for discussion of items included in the Company's unaudited consolidated financial statements related to Medallion.

27

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

Note 15—Related Parties

a. Medallion

The following table summarizes items included in the unaudited consolidated statements of operations related to Medallion for the periods presented:

(in thousands)	Three months ended March 31, 2016	2015
Midstream service revenues	$ —	$ 97
Minimum volume commitments	—	1,656
Interest and other income	—	108

The following table summarizes items included in the unaudited consolidated balance sheets related to Medallion as of the dates presented:

(in thousands)	March 31, 2016	December 31, 2015
Accounts receivable, net	$ —	$ 1,163
Other assets, net(1)	1,025	1,025
Other current liabilities(2)	923	27,583

(1) Amounts included in "Other assets, net" above represent LMS owned line-fill in Medallion's pipeline.
Amounts included in "Other current liabilities" above represent LMS' capital contribution payable to Medallion.
(2) See Note 14 for additional discussion of Medallion and Note 19.b for additional discussion of the subsequent payment to Medallion.

b. Targa Resources Corp.

The Company has a gathering and processing arrangement with affiliates of Targa Resources Corp. ("Targa"). One of Laredo's directors was on the board of directors of Targa until May 18, 2015.

The following table summarizes the oil, NGL and natural gas sales and midstream service revenues received from Targa included in the unaudited consolidated statements of operations for the periods presented:

(in thousands)	Three months ended March 31, 2016	2015
Oil, NGL and natural gas sales	$17,805	$19,631
Midstream service revenues	135	—

The following table summarizes the amounts included in accounts receivable, net from Targa in the unaudited consolidated balance sheets as of the dates presented:

(in thousands)	March 31, 2016	December 31, 2015
Accounts receivable, net	$7,877	$ 6,097

c. 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.

The following table summarizes the lease operating expenses related to Archrock included in the unaudited consolidated statements of operations for the periods presented:

(in thousands)	Three months ended March 31, 2016	2015
Lease operating expenses	$475	$385

28

Laredo Petroleum, Inc.
Condensed notes to the consolidated financial statements
(Unaudited)

The following table summarizes the capital expenditures related to Archrock included in the unaudited consolidated statements of cash flows for the periods presented:

(in thousands)	Three months ended March 31, 2016	2015
Capital expenditures:		
Midstream service assets	$ 20	$ 46

The following table summarizes the amounts included in accounts payable from Archrock in the unaudited consolidated balance sheets as of the dates presented:

(in thousands)	March 31, 2016	December 31, 2015
Accounts payable	$ 18	$ 13

d. 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 summarizes the capitalized oil and natural gas properties related to H&P included in the unaudited consolidated statements of cash flows for the periods presented:

(in thousands)	Three months ended March 31, 2016	2015
Capital expenditures:		
Oil and natural gas properties	$ —	$ 2,257