



# Third-Quarter 2021 Earnings Presentation



# Forward-Looking / Cautionary Statements

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This presentation, including any oral statements made regarding the contents of this presentation, contains forward-looking statements as defined under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, that address activities that Laredo Petroleum, Inc. (together with its subsidiaries, the “Company”, “Laredo” or “LPI”) assumes, plans, expects, believes, intends, projects, indicates, enables, transforms, estimates or anticipates (and other similar expressions) will, should or may occur in the future are forward-looking statements. The forward-looking statements are based on management’s current belief, based on currently available information, as to the outcome and timing of future events.

General risks relating to Laredo include, but are not limited to, the decline in prices of oil, natural gas liquids and natural gas and the related impact to financial statements as a result of asset impairments and revisions to reserve estimates, the ability of the Company to execute its strategies, including its ability to successfully identify and consummate strategic acquisitions at purchase prices that are accretive to its financial results and to successfully integrate acquired businesses, assets and properties, oil production quotas or other actions that might be imposed by the Organization of Petroleum Exporting Countries and other producing countries (“OPEC+”), the outbreak of disease, such as the coronavirus (“COVID-19”) pandemic, and any related government policies and actions, changes in domestic and global production, supply and demand for commodities, including as a result of the COVID-19 pandemic and actions by OPEC+, long-term performance of wells, drilling and operating risks, the increase in service and supply costs, tariffs on steel, pipeline transportation and storage constraints in the Permian Basin, the possibility of production curtailment, hedging activities, the impacts of severe weather, including the freezing of wells and pipelines in the Permian Basin due to cold weather, possible impacts of litigation and regulations, the impact of the Company’s transactions, if any, with its securities from time to time, the impact of new laws and regulations, including those regarding the use of hydraulic fracturing, the impact of new environmental, health and safety requirements applicable to the Company’s business activities, the possibility of the elimination of federal income tax deductions for oil and gas exploration and development and other factors, including those and other risks described in its Annual Report on Form 10-K for the year ended December 31, 2020, Current Report on Form 8-K, filed with the Securities and Exchange Commission (“SEC”) on May 11, 2021, and those set forth from time to time in other filings with the SEC. These documents are available through Laredo’s website at [www.laredopetro.com](http://www.laredopetro.com) under the tab “Investor Relations” or through the SEC’s Electronic Data Gathering and Analysis Retrieval System at [www.sec.gov](http://www.sec.gov). Any of these factors could cause Laredo’s actual results and plans to differ materially from those in the forward-looking statements. Therefore, Laredo can give no assurance that its future results will be as estimated. Any forward-looking statement speaks only as of the date on which such statement is made. Laredo does not intend to, and disclaims any obligation to, correct, update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

The SEC generally permits oil and natural gas companies, in filings made with the SEC, to disclose proved reserves, which are reserve estimates that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, and certain probable and possible reserves that meet the SEC’s definitions for such terms. In this presentation, the Company may use the terms “resource potential,” “resource play,” “estimated ultimate recovery,” or “EURs,” “type curve” and “standardized measure,” each of which the SEC guidelines restrict from being included in filings with the SEC without strict compliance with SEC definitions. These terms refer to the Company’s internal estimates of unbooked hydrocarbon quantities that may be potentially discovered through exploratory drilling or recovered with additional drilling or recovery techniques. “Resource potential” is used by the Company to refer to the estimated quantities of hydrocarbons that may be added to proved reserves, largely from a specified resource play potentially supporting numerous drilling locations. A “resource play” is a term used by the Company to describe an accumulation of hydrocarbons known to exist over a large areal expanse and/or thick vertical section potentially supporting numerous drilling locations, which, when compared to a conventional play, typically has a lower geological and/or commercial development risk. “EURs” are based on the Company’s previous operating experience in a given area and publicly available information relating to the operations of producers who are conducting operations in these areas. Unbooked resource potential and “EURs” do not constitute reserves within the meaning of the Society of Petroleum Engineer’s Petroleum Resource Management System or SEC rules and do not include any proved reserves. Actual quantities of reserves that may be ultimately recovered from the Company’s interests may differ substantially from those presented herein. Factors affecting ultimate recovery include the scope of the Company’s ongoing drilling program, which will be directly affected by the availability of capital, decreases in oil, natural gas liquids and natural gas prices, well spacing, drilling and production costs, availability and cost of drilling services and equipment, lease expirations, transportation constraints, regulatory approvals, negative revisions to reserve estimates and other factors, as well as actual drilling results, including geological and mechanical factors affecting recovery rates. “EURs” from reserves may change significantly as development of the Company’s core assets provides additional data. In addition, the Company’s production forecasts and expectations for future periods are dependent upon many assumptions, including estimates of production decline rates from existing wells and the undertaking and outcome of future drilling activity, which may be affected by significant commodity price declines or drilling cost increases. “Type curve” refers to a production profile of a well, or a particular category of wells, for a specific play and/or area. The “standardized measure” of discounted future new cash flows is calculated in accordance with SEC regulations and a discount rate of 10%. Actual results may vary considerably and should not be considered to represent the fair market value of the Company’s proved reserves.

This presentation includes financial measures that are not in accordance with generally accepted accounting principles (“GAAP”), such as Adjusted EBITDA, Cash Flow and Free Cash Flow. While management believes that such measures are useful for investors, they should not be used as a replacement for financial measures that are in accordance with GAAP. For definitions of such non-GAAP financial measures, please see the Appendix.

Unless otherwise specified, references to “average sales price” refer to average sales price excluding the effects of the Company’s derivative transactions. All amounts, dollars and percentages presented in this presentation are rounded and therefore approximate.



# Laredo Petroleum: Pure-Play Permian Energy Producer

Laredo Petroleum (NYSE: LPI)	
Market Capitalization (Shares Outstanding) <sup>1</sup>	\$1.29 Billion (17.1 Million Shares)
Enterprise Value <sup>1</sup>	\$2.70 Billion
Net Acres	~166,000
2021E Production <sup>2</sup>	~80.8 MBOE/d
2021E Oil Production <sup>2</sup>	~31.6 MBO/d

## Principles

### Expand High-Margin Inventory

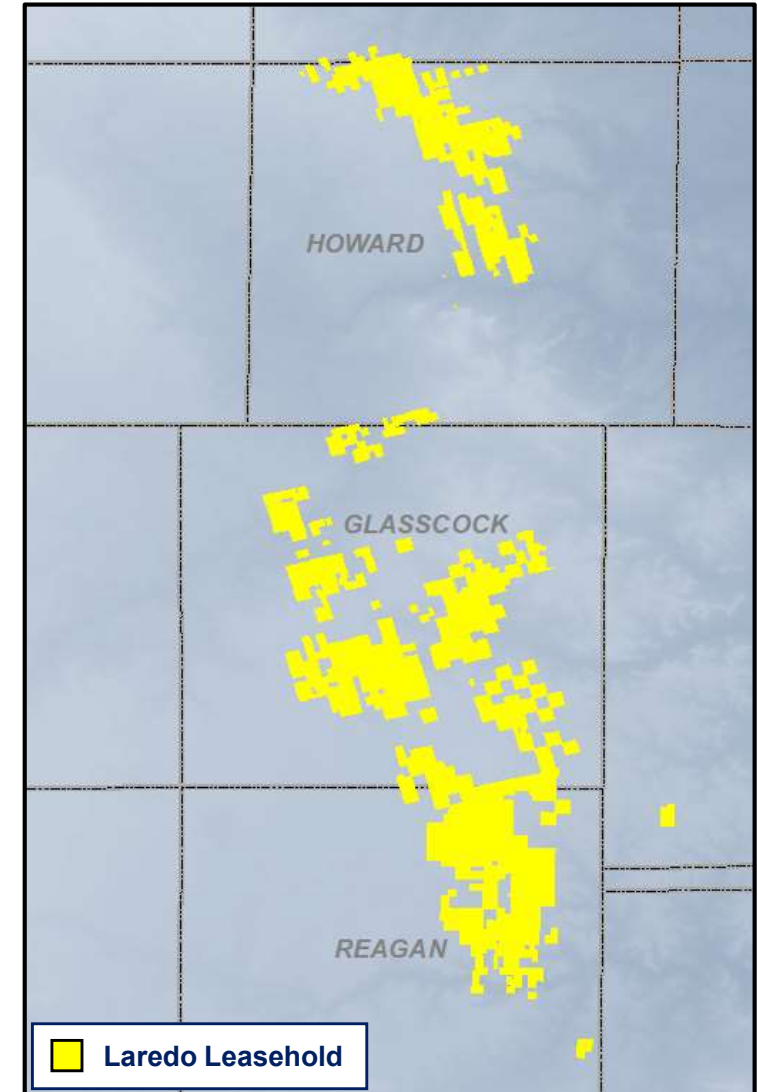
- Opportunistically acquire oil-weighted inventory
- High-grade development to maximize capital efficiency and increase oil cut

### Manage Risk

- Target Free Cash Flow<sup>3</sup> generation and debt reduction
- Manage balance sheet and liquidity to facilitate optimal transaction financing
- Maintain a consistent commodity hedging program

### Continuously Improve

- Focus on efficiencies and low-cost operations
- Reduce GHG emissions intensity and flaring



# Rapid Execution of Transformational Strategy



## Expand High-Margin Inventory

- Added ~55,000 net acres of oil-weighted leasehold in six separate transactions
- Divested ~94 million BOE of legacy low-margin, gas-weighted reserves
- Development focused on recently acquired oil-weighted inventory
- Oil cut expected to rise from 31% in 1Q-21 to ~50% by YE-22

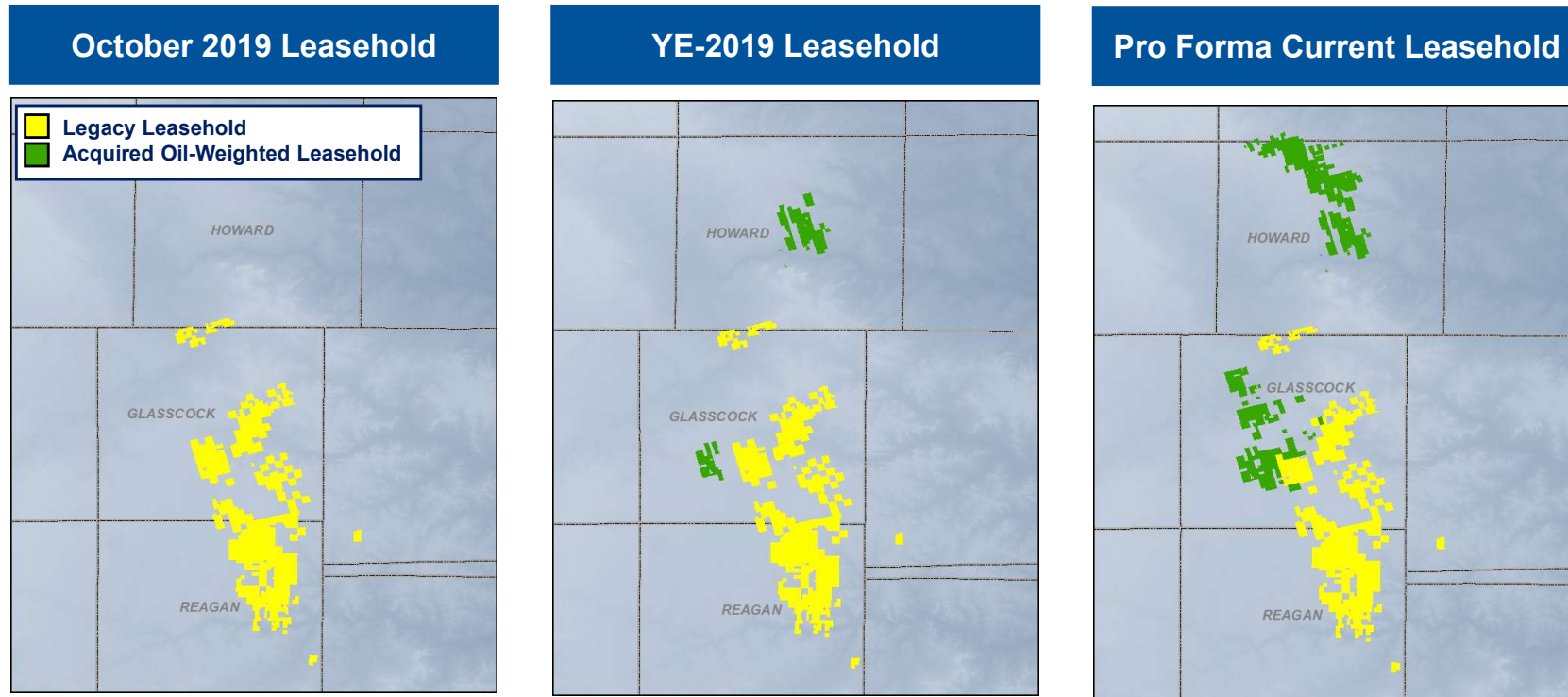
## Manage Risk

- No term-debt maturities until 2025
- Extended credit facility maturity to 2025
- Credit facility borrowing base increased to \$1 billion
- Active hedge program in 2022 to protect forecasted Free Cash Flow<sup>1</sup>
- Expect to reduce total leverage ratio to ~1.5x by YE-22

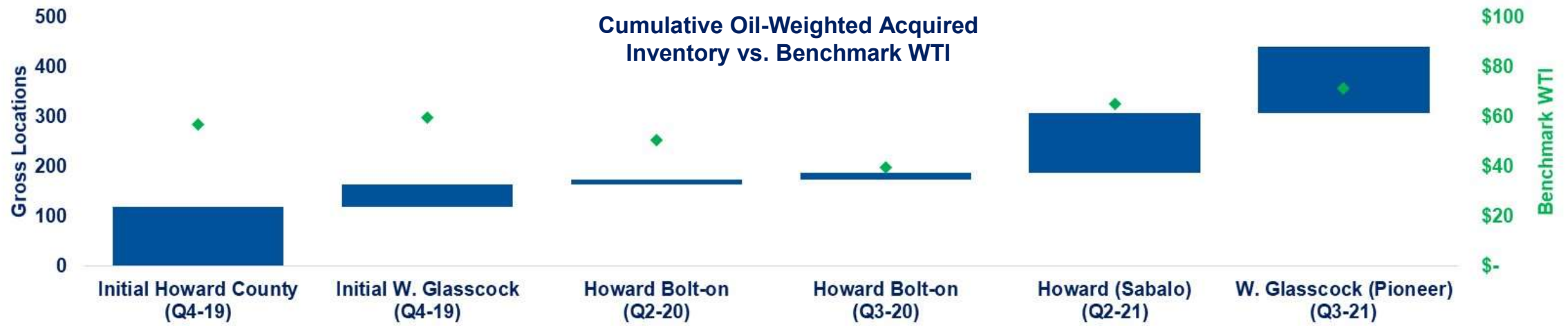
## Continuously Improve

- Reduced percentage of produced natural gas flared/vented to 0.37% through 3Q-21, excluding recently integrated North Howard assets, from 0.71% for FY-20
- Reduced drilling costs by 14% in 2021 versus FY-20 average
- Company-owned sand mine protects against sand cost inflation, saving an estimated \$250,000 per well
- Commitment to eliminate routine flaring by 2025

# Oil-Weighted Leasehold Built at Lower Oil Prices



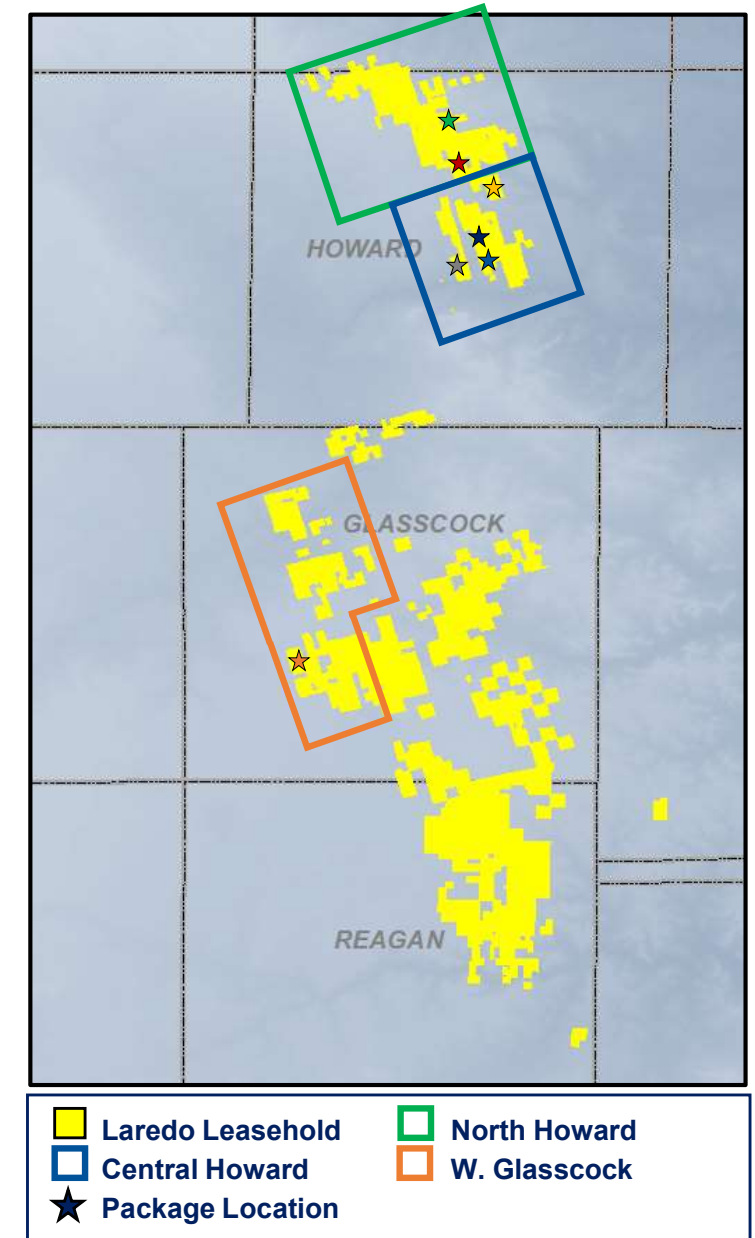
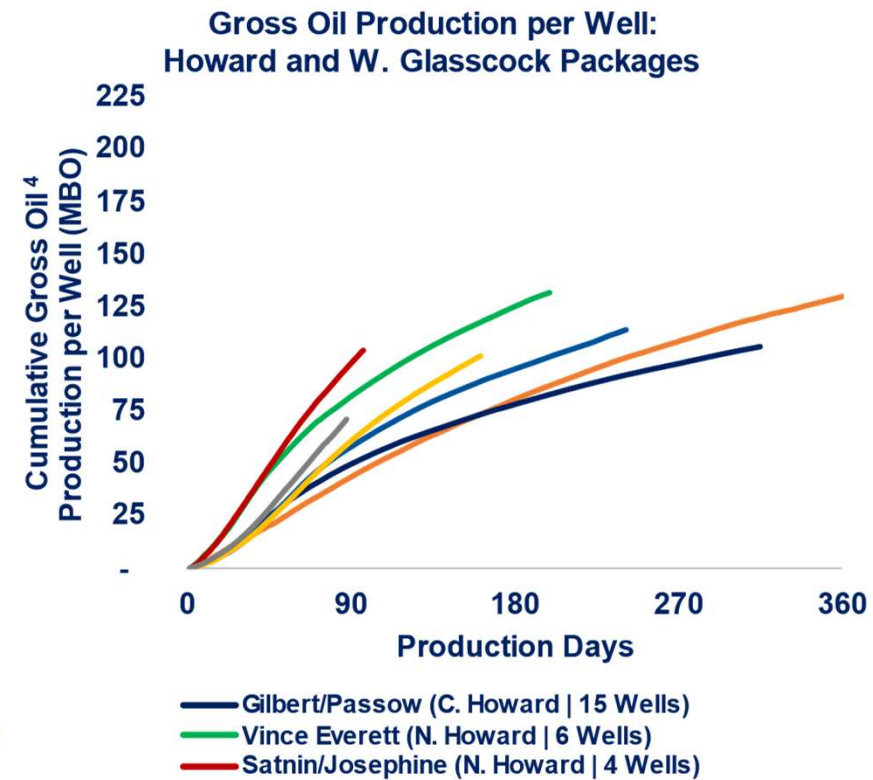
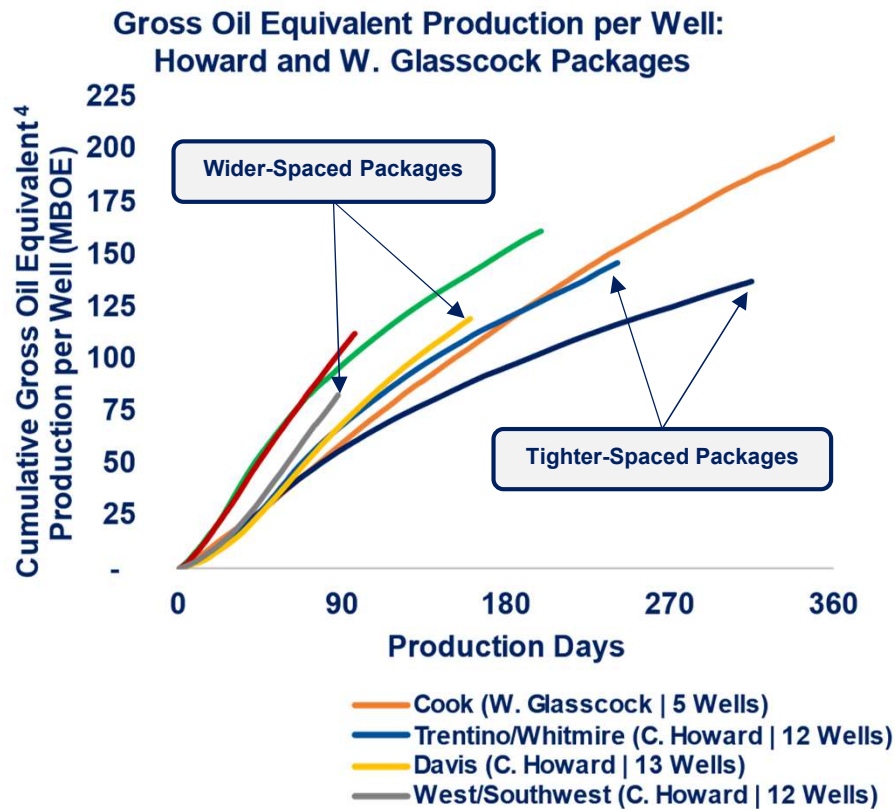
Acquired approximately 55,000 net acres of highly productive, oil-weighted inventory in Howard and western Glasscock counties in just two years at an average benchmark WTI of ~\$63 per barrel





# Development Activity Focused on Acquired Acreage

	W. Glasscock County	Howard County	Total
Net acres <sup>1</sup>	~22,200	~33,400	~55,600
Target formations	LS/WC-A/WC-B	LS/WC-A	*
Locations (gross) <sup>2</sup>	~175	~225	~400
Avg. breakeven oil price <sup>3</sup>	<\$40	<\$35	*

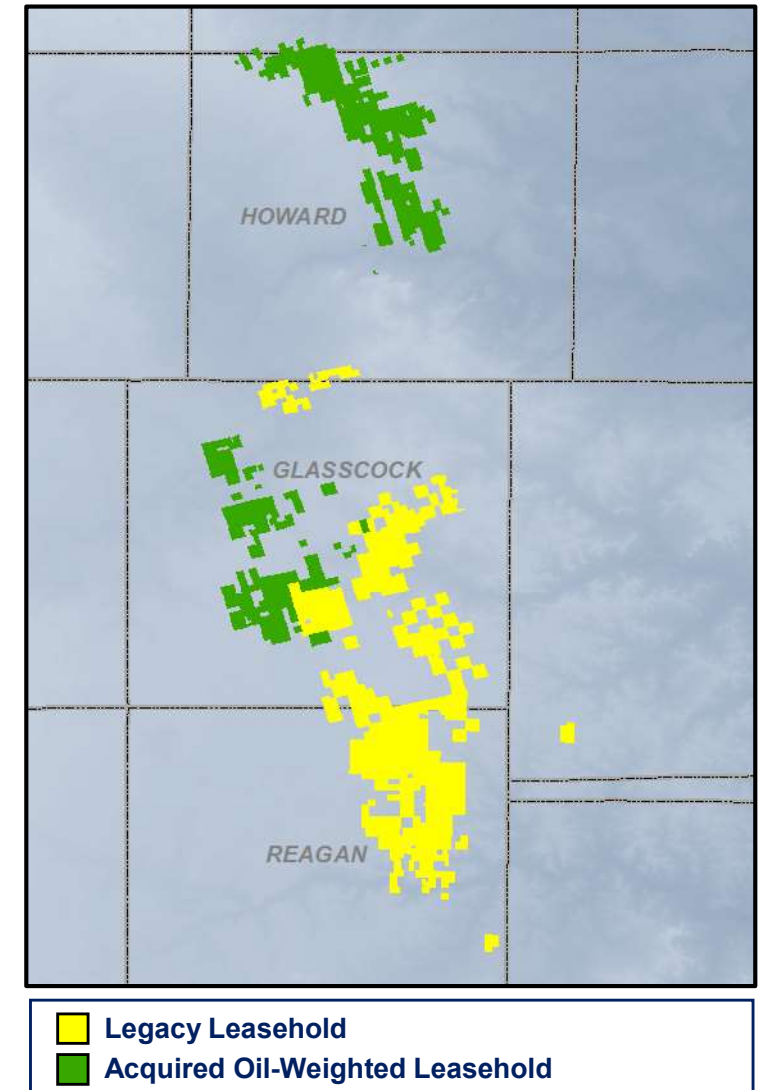
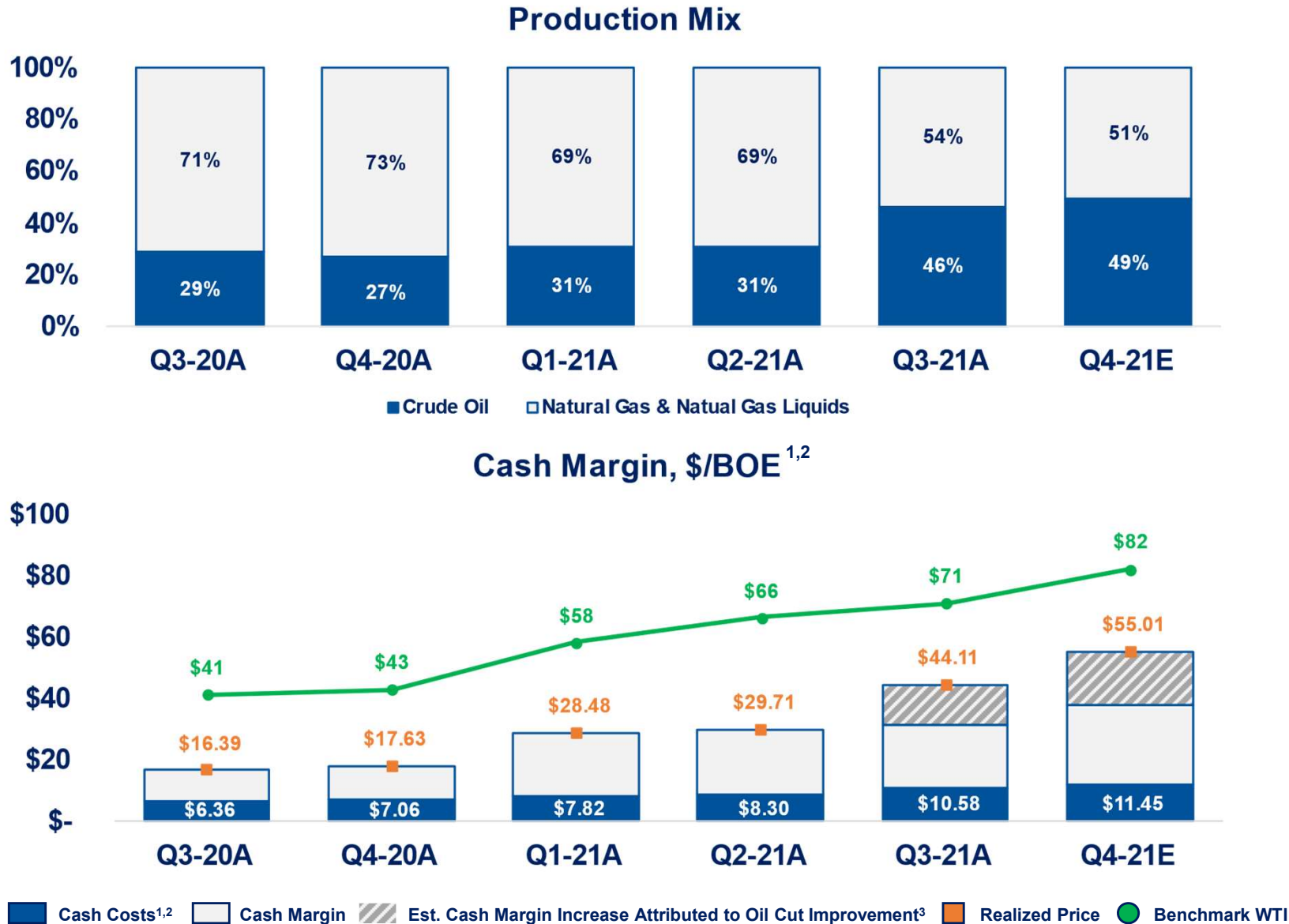


<sup>1</sup>Map and acreage as of 10-18-21

<sup>2</sup>Gross operated locations as of January 2021 (adjusted for 2020 completions), pro forma for all announced acquisitions;

<sup>3</sup>Flat oil price needed to achieve 10% IRR assuming a \$3.00 natural gas price;<sup>4</sup>Production data normalized to 10,000' lateral length, downtime days excluded

# Increased Oil Cut and Margin Improvement Drives Free Cash Flow Generation

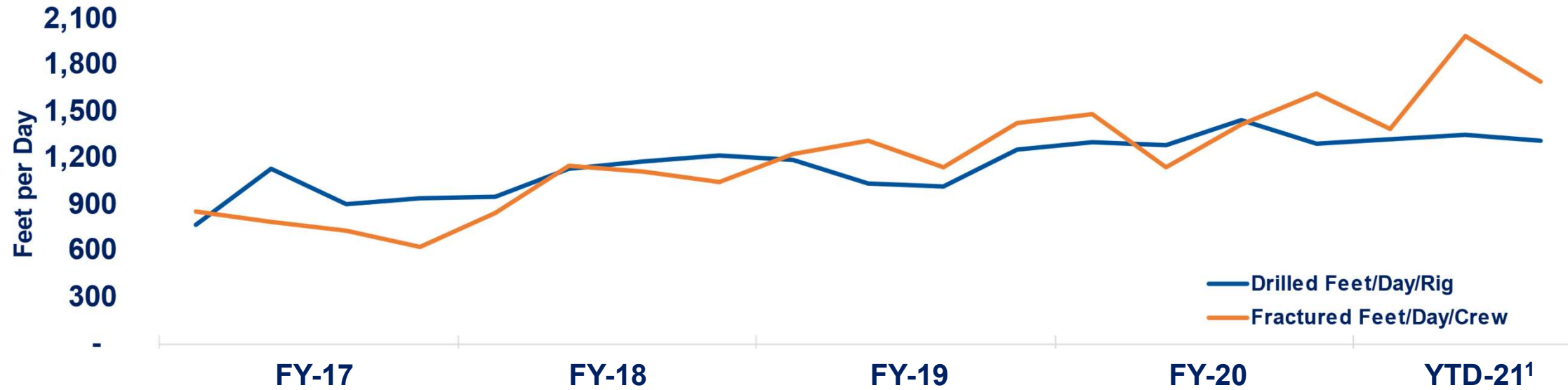


<sup>1</sup>Excludes impacts of hedges and interest payments; <sup>2</sup>Includes the following charges (LOE, Transportation, Production Taxes, Ad Valorem Taxes, Cash G&A & Cash LTIP);

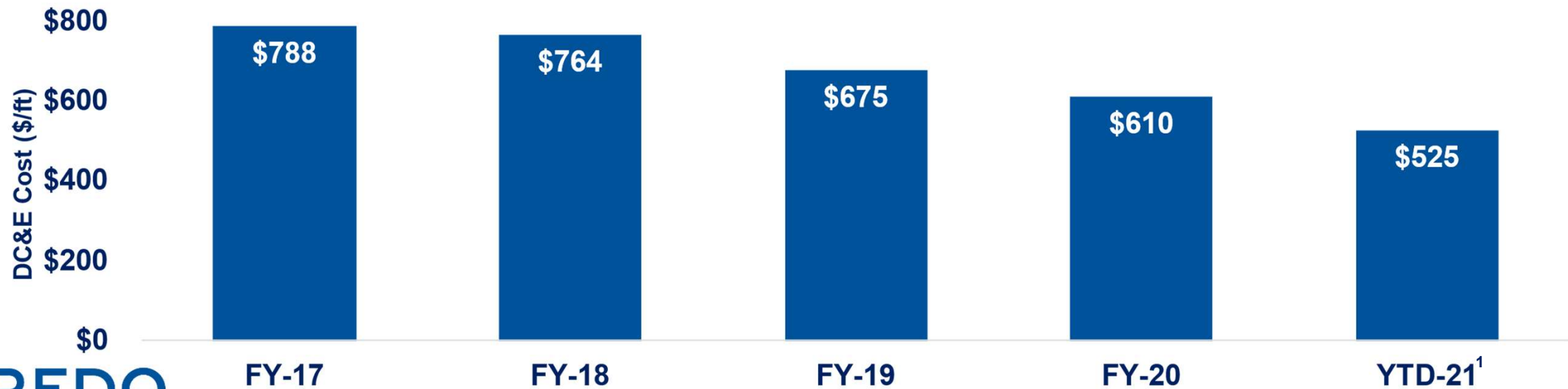
<sup>3</sup>Estimated using Q2-21 production mix and current quarter realized prices to estimate impact of production mix shift

# Maintaining Operational & Cost Advantages

## Drilling & Completions Efficiencies



## Consistently Reducing DC&E Costs





# Laredo-Owned Sand Mine Saves on Completions Costs



 LPI Leasehold  
 Mining Area



**>\$250,000<sup>1</sup> savings per well versus market price**

- Utilized in all 3Q-21 completions, 100% of all sand used
- Mine operated by a third party
- No additional capital investment beyond surface acreage acquisition
- Elimination of 300,000 miles per month of truck traffic and utilization of wet sand reduces emissions



Operated on Laredo-owned surface acreage



5+ years supply of sand



Protects against sand cost inflation



Reduces emissions

# Commitment to Reducing Emissions

For the second consecutive year, flaring/venting reduction targets are part of executive compensation metrics


## Emissions Reduction Targets for 2025



**<12.5 mtCO<sub>2</sub>e / MBOE**

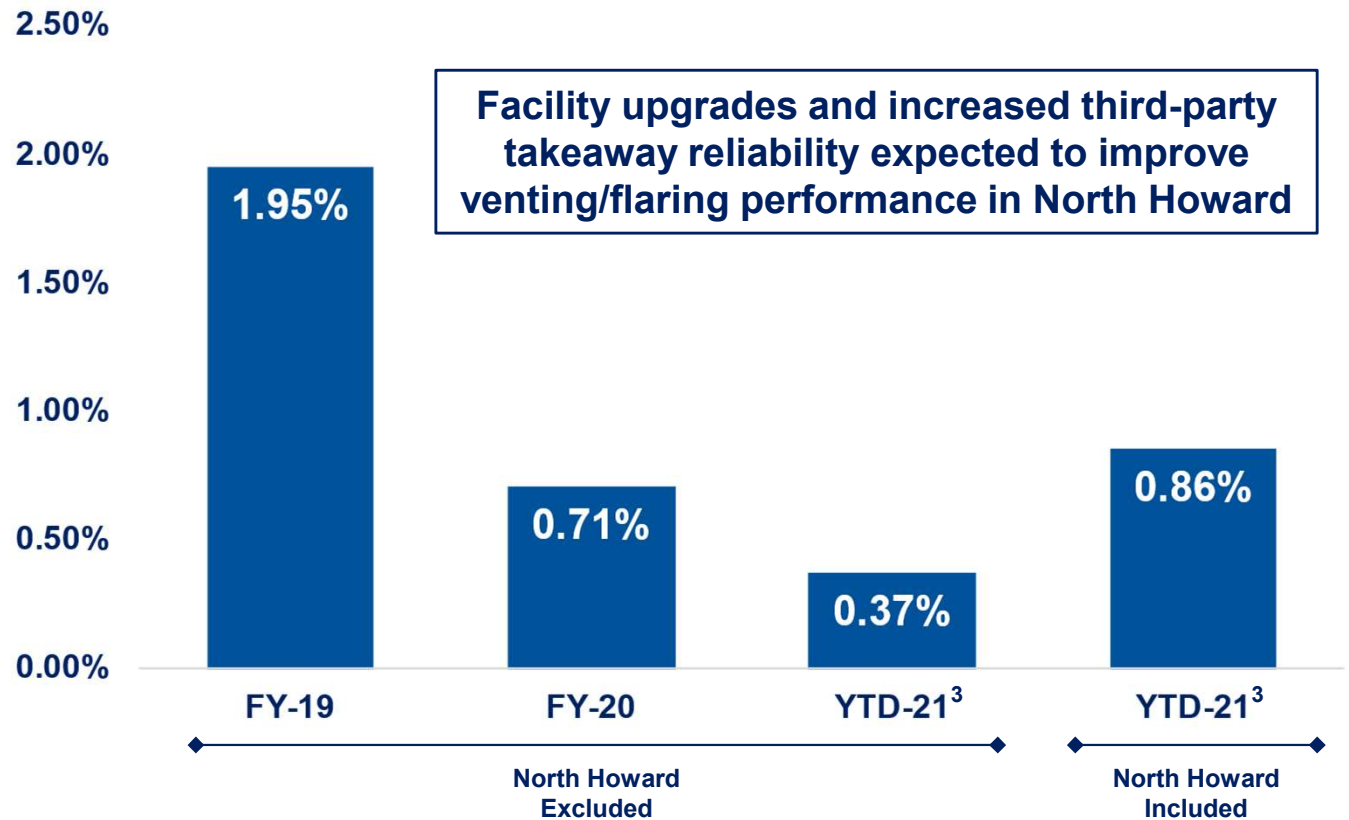


**Zero routine flaring**



**<0.20% methane emissions<sup>1,2</sup>**

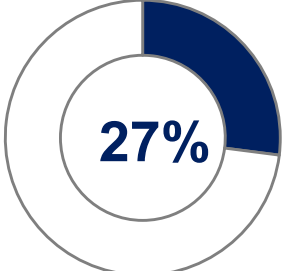
Percentage of Produced Natural Gas Flared/Vented



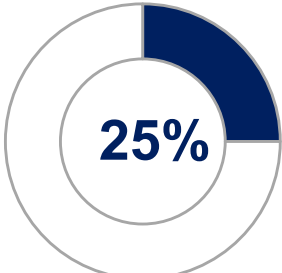
# Corporate and Community Responsibility

## Diversity<sup>1</sup>

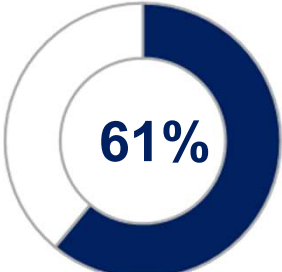
Women in workforce



Minorities in workforce

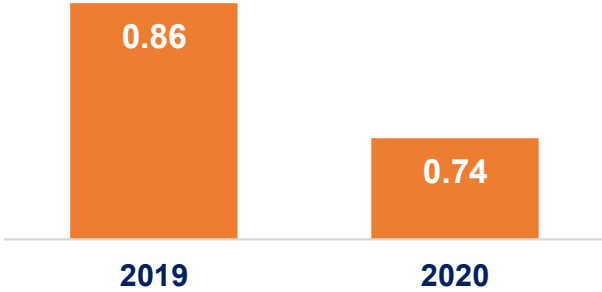


Women and/or minorities in professional-or-higher roles



EEO-1 data disclosed in Company's 2021 ESG & Climate Risk Report

## Safety TRIR<sup>2</sup>



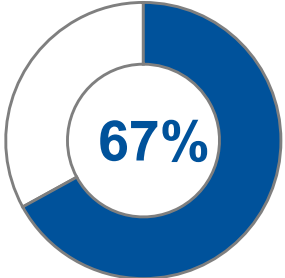
Laredo had zero at-fault vehicle incidents in 2020

## Giving

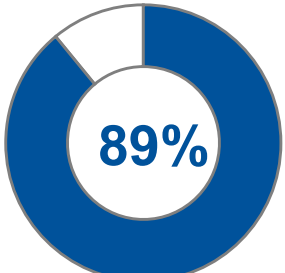


>\$610,000  
Total amount donated since 2019 to improve our local communities

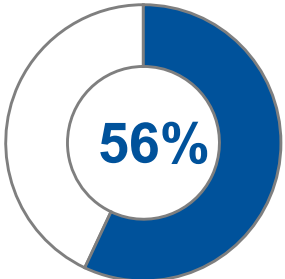
## Governance



Board refresh in last 2 years



Independent Directors



Female & Minority Directors

Separated roles of Chairman and CEO October 2019

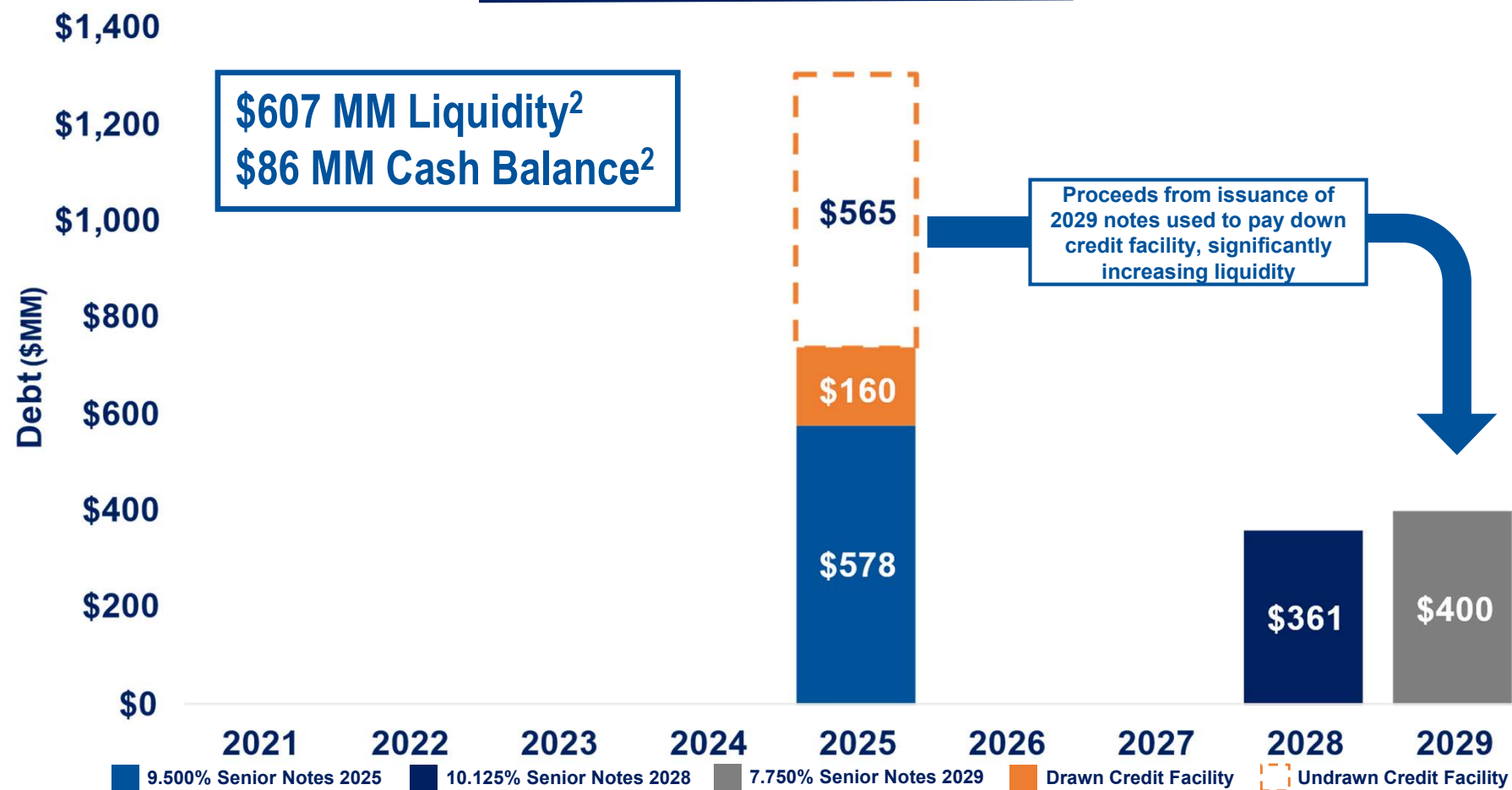
<sup>1</sup>Data as of 12-31-20; <sup>2</sup>Combined employee and contractor Total Recordable Incident Rate



# Actively Managing our Balance Sheet & Liquidity

- No term-debt maturities until 2025
- Executed “At-the-Market” equity program YTD 2021 resulting in ~\$73 million of net proceeds
- Extended credit facility maturity until 2025
- Active hedge program to protect Free Cash Flow<sup>1</sup>
- Program expected to generate sustainable Free Cash Flow<sup>1</sup> used to reduce debt and drive leverage down to 1.5x or less by YE-22

## Current Maturity Profile



**Senior secured credit facility borrowing base increased to \$1 billion and elected commitment maintained at \$725 million**

# Active Hedge Program to Protect Free Cash Flow

Crude Oil Hedge Book

(Volume in MBbl; Price in \$/Bbl)	4Q-21	FY-22	FY-23
<b>Brent Swaps</b>	1,891	4,125	-
WTD Price	\$51.29	\$48.34	-
<b>Brent Collars</b>	331	1,551	-
WTD Floor Price	\$55.00	\$56.65	-
WTD Ceiling Price	\$66.53	\$65.44	-
<b>WTI Swaps</b>	368	365	-
WTD Price	\$69.46	\$64.40	-
<b>WTI Collars</b>	92	3,395	-
WTD Floor Price	\$63.00	\$58.23	-
WTD Ceiling Price	\$67.65	\$69.39	-
<b>Total Brent/WTI Swaps/Collars</b>	2,682	9,435	-
WTD Floor Price	\$54.64	\$53.88	-

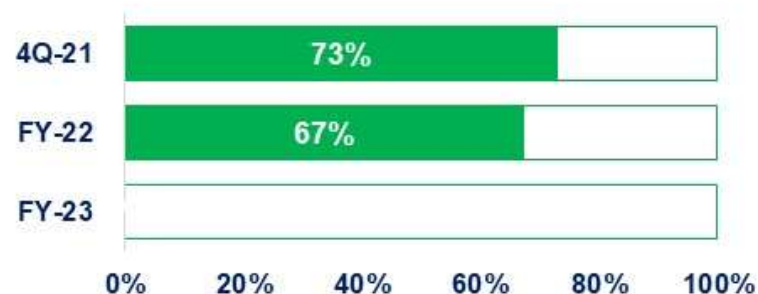
Natural Gas Liquids Hedge Book

(Volume in MBbl; Price in \$/Bbl)	4Q-21	FY-22	FY-23
<b>Ethane Swaps</b>	230	1,533	-
WTD Price	\$12.01	\$11.42	-
<b>Propane Swaps</b>	611	1,168	-
WTD Price	\$22.90	\$35.91	-
<b>Butane Swaps</b>	204	365	-
WTD Price	\$25.87	\$41.58	-
<b>Isobutane Swaps</b>	56	110	-
WTD Price	\$26.55	\$42.00	-
<b>Pentane Swaps</b>	222	365	-
WTD Price	\$38.16	\$60.65	-

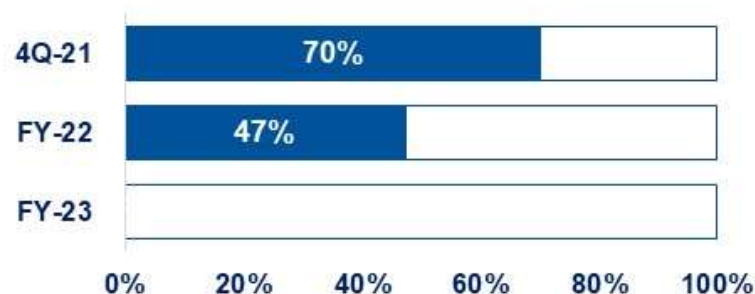
Natural Gas Hedge Book

(Volume in MMBtu; Price in \$/MMBtu)	4Q-21	FY-22	FY-23
<b>Henry Hub Swaps</b>	10,718,000	3,650,000	-
WTD Price	\$2.59	\$2.73	-
<b>Henry Hub Collars</b>	-	29,200,000	-
WTD Floor Price	-	\$3.09	-
WTD Ceiling Price	-	\$3.84	-
<b>Total Henry Hub Swaps/Collars</b>	10,718,000	32,850,000	-
WTD Floor Price	\$2.59	\$3.05	-
<b>Waha Basis Swaps</b>	14,278,400	29,017,500	-
WTD Price	(\$0.47)	(\$0.36)	-

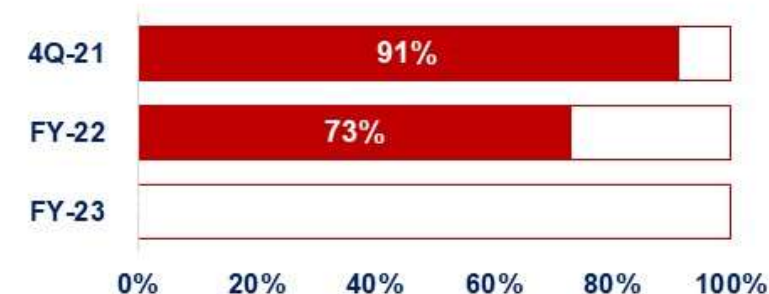
Crude Oil Production Hedged<sup>1</sup>



Natural Gas Liquids Production Hedged<sup>1</sup>



Natural Gas Production Hedged<sup>1</sup>



## Guidance

Production:	4Q-21	FY-21
Total production (MBOE/d)	80.3 - 83.3	80.5 - 81.3
Oil production (MBO/d)	39.0 - 41.0	31.3 - 31.8
Incurred capital expenditures <sup>1</sup> (\$ MM)	\$120	\$420
Average sales price realizations: <i>(excluding derivatives)</i>	4Q-21	
Oil (% of WTI)	100%	
NGL (% of WTI)	40%	
Natural gas (% of Henry Hub)	75%	
Net settlements received (paid) for matured commodity derivatives (\$ MM):	4Q-21	
Oil	(\$72)	
NGL	(\$44)	
Natural Gas	(\$34)	
Other (\$ MM):	4Q-21	
Net income / (expense) of purchased oil	(\$3.5)	
Operating costs & expenses (\$/BOE):	4Q-21	
Lease operating expenses	\$4.25	
Production and ad valorem taxes <i>(% of oil, NGL and natural gas revenues)</i>	6.00%	
Transportation and marketing expenses	\$1.65	
General and administrative expenses (excluding LTIP)	\$1.70	
General and administrative expenses (LTIP cash)	\$0.35	
General and administrative expenses (LTIP non-cash)	\$0.25	
Depletion, depreciation and amortization	\$9.50	

<sup>1</sup>Excludes non-budgeted acquisitions and leasehold expenses



L A R E D O P E T R O L E U M



## APPENDIX

# Commodity Prices Used for 4Q-21 Average Sales Price Realization and Derivatives Guidance

## Oil:

	WTI NYMEX (\$/Bbl)	Brent ICE (\$/Bbl)
Oct-21	\$81.22	\$83.71
Nov-21	\$83.06	\$83.67
Dec-21	\$81.13	\$82.46
4Q-21 Average	\$81.79	\$83.28

## Natural Gas:

	HH (\$/MMBtu)	Waha (\$/MMBtu)
Oct-21	\$5.84	\$4.92
Nov-21	\$6.20	\$5.56
Dec-21	\$5.43	\$5.51
4Q-21 Average	\$5.82	\$5.33

## Natural Gas Liquids:

	C2 (\$/Bbl)	C3 (\$/Bbl)	IC4 (\$/Bbl)	NC4 (\$/Bbl)	C5+ (\$/Bbl)	Composite (\$/Bbl)
Oct-21	\$18.24	\$60.73	\$68.12	\$67.93	\$80.55	\$46.08
Nov-21	\$17.64	\$58.38	\$68.62	\$68.88	\$80.64	\$45.18
Dec-21	\$17.69	\$58.28	\$67.99	\$68.09	\$80.22	\$45.02
4Q-21 Average	\$17.86	\$59.14	\$68.24	\$68.29	\$80.47	\$45.43

# Supplemental Non-GAAP Financial Measures

## Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we define as net income or loss (GAAP) plus adjustments for share-settled equity-based compensation, depletion, depreciation and amortization, impairment expense, mark-to-market on derivatives, premiums paid for commodity derivatives that matured during the period, accretion expense, gains or losses on disposal of assets, interest expense, income taxes and other non-recurring income and expenses. Adjusted EBITDA provides no information regarding a company's capital structure, borrowings, interest costs, capital expenditures, working capital movement or tax position. Adjusted EBITDA does not represent funds available for future discretionary use because it excludes funds required for debt service, capital expenditures, working capital, income taxes, franchise taxes and other commitments and obligations. However, our management believes Adjusted EBITDA is useful to an investor in evaluating our operating performance because this measure: is widely used by investors in the oil and natural gas industry to measure a company's operating performance without regard to items that can vary substantially from company to company depending upon accounting methods, the book value of assets, capital structure and the method by which assets were acquired, among other factors; helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing the effect of our capital structure from our operating structure; and is used by our management for various purposes, including as a measure of operating performance, in presentations to our board of directors and as a basis for strategic planning and forecasting. There are significant limitations to the use of Adjusted EBITDA as a measure of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss and the lack of comparability of results of operations to different companies due to the different methods of calculating Adjusted EBITDA reported by different companies. Our measurements of Adjusted EBITDA for financial reporting as compared to compliance under our debt agreements differ.

The following table presents a reconciliation of net income (loss) (GAAP) to Adjusted EBITDA (non-GAAP):

<i>(in thousands, unaudited)</i>	Three months ended,			
	12/31/2020	3/31/2021	6/30/2021	9/30/2021
Net Income (loss)	(\$165,932)	(\$75,439)	(\$132,661)	\$136,832
Plus:				
Share-settled equity-based compensation, net	2,106	2,068	1,730	1,811
Depletion, depreciation and amortization	42,210	38,109	39,976	62,678
Impairment expense	109,804	—	1,613	—
(Gain) loss on sale of oil and natural gas properties, net	—	—	1,741	(95,223)
Organizational restructuring expenses	—	—	9,800	—
Mark-to-market on derivatives:				
Loss on derivatives, net	81,935	154,365	216,942	96,240
Settlements received (paid) for matured derivatives, net	41,786	(41,174)	(57,607)	(92,726)
Net premiums paid for commodity derivatives that matured during the period <sup>(1)</sup>	—	(11,005)	(10,183)	(10,182)
Accretion expense	1,105	1,143	1,158	906
(Gain) loss on disposal of assets, net	(94)	72	(66)	22
Interest expense	26,139	25,946	25,870	30,406
Gain on extinguishment of debt, net	(22,309)	—	—	—
Income tax expense (benefit)	3,208	(762)	(1,322)	2,677
<b>Adjusted EBITDA</b>	<b>\$119,958</b>	<b>\$93,323</b>	<b>\$96,991</b>	<b>\$133,441</b>

(1) Reflects net premiums paid previously or upon settlement that are attributable to derivatives settled in the respective periods presented



## Supplemental Non-GAAP Financial Measures

### Consolidated EBITDAX (Credit Agreement Calculation)

“Consolidated EBITDAX” means, for any Person for any period, the Consolidated Net Income of such Person for such period, plus each of the following, to the extent deducted in determining Consolidated Net Income without duplication, determined for such Person and its Consolidated Subsidiaries on a consolidated basis for such period: any provision for (or less any benefit from) income or franchise Taxes; interest expense (as determined under GAAP as in effect as of December 31, 2016), depreciation, depletion and amortization expense; exploration expenses; and other non-cash charges to the extent not already included in the foregoing clauses (ii), (iii) or (iv), plus the aggregate Specified EBITDAX Adjustments during such period; *provided* that the aggregate Specified EBITDAX Adjustments shall not exceed fifteen percent (15%) of the Consolidated EBITDAX for such period prior to giving effect to any Specified EBITDAX Adjustments for such period, and minus all non-cash income to the extent included in determining Consolidated Net Income. For the purposes of calculating Consolidated EBITDAX for any Rolling Period in connection with any determination of the financial ratio contained in Section 10.1(b), if during such Rolling Period, Borrower or any Consolidated Restricted Subsidiary shall have made a Material Disposition or Material Acquisition, the Consolidated EBITDAX for such Rolling Period shall be calculated after giving pro forma effect thereto as if such Material Disposition or Material Acquisition, as applicable, occurred on the first day of such Rolling Period.

For additional information, please see the Company's Fifth Amended and Restated Credit Agreement, as amended, dated May 2, 2017 as filed with Securities and Exchange Commission.

The following table presents a reconciliation of net income (loss) (GAAP) to Consolidated EBITDAX (Credit Agreement Calculation; non-GAAP):

<i>(in thousands, unaudited)</i>	Three months ended,			
	12/31/2020	3/31/2021	6/30/2021	9/30/2021
Net Income (loss)	(\$165,932)	(\$75,439)	(\$132,661)	\$136,832
Organizational restructuring expenses	—	—	9,800	—
(Gain) loss on sale of oil and natural gas properties, net	—	—	1,741	(95,223)
Gain on extinguishment of debt, net	(22,309)	—	—	—
(Gain) loss on disposal of assets, net	(94)	72	(66)	22
<b>Consolidated Net Income (Loss)</b>	<b>(188,335)</b>	<b>(75,367)</b>	<b>(121,186)</b>	<b>41,631</b>
Mark-to-market on derivatives:				
Loss on derivatives, net	81,935	154,365	216,942	96,240
Settlements received (paid) for matured derivatives, net	41,786	(41,174)	(57,607)	(92,726)
<b>Mark-to-market loss on derivatives, net</b>	<b>123,721</b>	<b>113,191</b>	<b>159,335</b>	<b>3,514</b>
Premiums received (paid) for commodity derivatives	—	9,041	—	—
Non-Cash Charges/Income:				
Deferred income tax expense (benefit)	3,208	(762)	(1,322)	1,377
Depletion, depreciation and amortization	42,210	38,109	39,976	62,678
Share-settled equity-based compensation, net	2,106	2,068	1,730	1,811
Accretion expense	1,105	1,143	1,158	906
Impairment expense	109,804	—	1,613	—
Interest expense	26,139	25,946	25,870	30,406
<b>Consolidated EBITDAX after EBITDAX Adjustments (limited to 15%) (non-GAAP)</b>	<b>\$119,958</b>	<b>\$113,369</b>	<b>\$107,174</b>	<b>\$142,322</b>

# Supplemental Non-GAAP Financial Measures

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## Net Debt

Net Debt, a non-GAAP financial measure, is calculated as the face value of long-term debt less cash and cash equivalents. Management believes Net Debt is useful to management and investors in determining the Company's leverage position since the Company has the ability, and may decide, to use a portion of its cash and cash equivalents to reduce debt. Net Debt as of 9-30-21 was \$1.318 B.

## Net Debt to TTM Adjusted EBITDA

Net Debt to TTM Adjusted EBITDA is calculated as Net Debt divided by trailing twelve-month Adjusted EBITDA. Net Debt to Adjusted EBITDA is used by our management for various purposes, including as a measure of operating performance, in presentations to our board of directors and as a basis for strategic planning and forecasting.

## Net Debt to TTM Consolidated EBITDAX (Credit Agreement Calculation)

Net Debt to TTM Consolidated EBITDAX is calculated as Net Debt divided by trailing twelve-month Consolidated EBITDAX. Net Debt to Consolidated EBITDAX is used by the banks in our Senior Secured Credit Agreement as a measure of indebtedness and as a calculation to measure compliance with the Company's leverage covenant.

## Cash Flow

Cash flow, a non-GAAP financial measure, represents cash flows from operating activities before changes in operating assets and liabilities, net.

## Free Cash Flow

Free Cash Flow is a non-GAAP financial measure, that we define as net cash provided by operating activities (GAAP) before changes in operating assets and liabilities, net, less incurred capital expenditures, excluding non-budgeted acquisition costs. Free Cash Flow does not represent funds available for future discretionary use because it excludes funds required for future debt service, capital expenditures, acquisitions, working capital, income taxes, franchise taxes and other commitments and obligations. However, management believes Free Cash Flow is useful to management and investors in evaluating operating trends in our business that are affected by production, commodity prices, operating costs and other related factors. There are significant limitations to the use of Free Cash Flow as a measure of performance, including the lack of comparability due to the different methods of calculating Free Cash Flow reported by different companies.

We are unable to provide a reconciliation of the forward-looking Free Cash Flow projection contained in this presentation to net cash provided by operating activities, the most directly comparable GAAP financial measure, because we cannot reliably predict certain of the necessary components of net cash provided by operating activities, such as changes in working capital, without unreasonable efforts. Such unavailable reconciling information may be significant.