

PIONEER NATURAL RESOURCES CO

Form 10-K

February 17, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

or

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: 1-13245

Pioneer Natural Resources Company

(Exact name of registrant as specified in its charter)

Delaware

75-2702753

(I.R.S.

(State or other jurisdiction of incorporation or organization)

Employer Identification No.)

5205 N. O'Connor Blvd., Suite 200, Irving, Texas 75039

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (972) 444-9001

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, par value \$.01 New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Accelerated filer

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

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes

No

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter \$25,469,484,123

Number of shares of Common Stock outstanding as of February 13, 2017 169,796,963

DOCUMENTS INCORPORATED BY REFERENCE:

(1) Portions of the Definitive Proxy Statement for the Company's Annual Meeting of Shareholders to be held during May 2017 are incorporated into Part III of this report.

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Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

• "Bbl" means a standard barrel containing 42 United States gallons.

• "Bcf" means one billion cubic feet.

• "BOE" means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of gas to one Bbl of oil or natural gas liquid.

• "BOEPD" means BOE per day.

• "Btu" means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.

• "CBM" means coal bed methane.

• "Conway" means the daily average natural gas liquids components as priced in Oil Price Information Services ("OPIS") in the table "U.S. and Canada LP – Gas Weekly Averages" at Conway, Kansas.

• "DD&A" means depletion, depreciation and amortization.

• "Field fuel" means gas consumed to operate field equipment (primarily compressors) prior to the gas being delivered to a sales point.

• "GAAP" means accounting principles that are generally accepted in the United States of America.

• "LIBOR" means London Interbank Offered Rate, which is a market rate of interest.

• "MBbl" means one thousand Bbls.

• "MBOE" means one thousand BOEs.

• "Mcf" means one thousand cubic feet and is a measure of gas volume.

• "MMBbl" means one million Bbls.

• "MMBOE" means one million BOEs.

• "MMBtu" means one million Btus.

• "MMcf" means one million cubic feet.

• "Mont Belvieu" means the daily average natural gas liquids components as priced in OPIS in the table "U.S. and Canada LP – Gas Weekly Averages" at Mont Belvieu, Texas.

• "NGL" means natural gas liquid.

• "NYMEX" means the New York Mercantile Exchange.

• "NYSE" means the New York Stock Exchange.

• "Pioneer" or the "Company" means Pioneer Natural Resources Company and its subsidiaries.

• "Proved developed reserves" mean reserves that can be expected to be recovered through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well.

• "Proved reserves" mean those quantities of oil and gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons ("LKH") as seen in a well penetration unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil ("HKO") elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an

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area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

"Proved undeveloped reserves" means reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion.

(i) Reserves on undrilled acreage shall be limited to those directly offsetting development spacing areas that are reasonably certain of production when drilled, unless evidence using reliable technology exists that establishes reasonable certainty of economic producibility at greater distances.

(ii) Undrilled locations can be classified as having proved undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances, justify a longer time.

(iii) Under no circumstances shall estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual projects in the same reservoir or an analogous reservoir, or by other evidence using reliable technology establishing reasonable certainty.

"SEC" means the United States Securities and Exchange Commission.

"Standardized Measure" means the after-tax present value of estimated future net cash flows of proved reserves, determined in accordance with the rules and regulations of the SEC, using prices and costs employed in the determination of proved reserves and a ten percent discount rate.

"U.S." means United States.

"WTI" means West Texas intermediate, a light, sweet blend of oil produced from fields in western Texas.

With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.

Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "forecasts," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate," or the negative of such terms and similar expressions as they relate to the Company are intended to identify forward-looking statements, which are generally not historical in nature. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different from the anticipated results described in the forward-looking statements. See "Item 1. Business — Competition, Markets and Regulations," "Item 1A. Risk Factors," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly

update these statements except as required by law.

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PIONEER NATURAL RESOURCES COMPANY

PART I

ITEM 1. BUSINESS

General

Pioneer, a Delaware corporation formed in 1997, is a large independent oil and gas exploration and production company that explores for, develops and produces oil, NGLs and gas within the United States. The Company's common stock has been listed and traded on the NYSE under the ticker symbol "PXD" since its formation in 1997. The Company's principal executive office is located at 5205 N. O'Connor Blvd., Suite 200, Irving, Texas 75039. The Company also maintains an office in Midland, Texas and field offices in its areas of operation. At December 31, 2016, Pioneer had 3,604 employees, 1,343 of whom were employed in field and plant operations and 947 of whom were employed in vertical integration activities.

Available Information

Pioneer files or furnishes annual, quarterly and current reports, proxy statements and other documents with the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). The public may read and copy any materials that Pioneer files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers, including Pioneer, that file electronically with the SEC. The public can obtain any documents that Pioneer files with the SEC at <http://www.sec.gov>.

The Company also makes available free of charge through its Internet website (www.pxd.com) its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and, if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. In addition to the reports filed or furnished with the SEC, Pioneer publicly discloses information from time to time in its press releases, investor presentations posted on its website and in publicly accessible conferences. Such information, including information posted on or connected to the Company's website, is not a part of, or incorporated by reference in, this Report or any other document the Company files with or furnishes to the SEC.

Mission and Strategies

The Company's mission is to be America's leading independent energy company, focused on value, safety, the environment, technology and our greatest asset, our people. The Company's long-term growth strategy is centered around the following strategic objectives:

- maintaining a strong balance sheet to ensure financial flexibility;
- delivering economic production and reserve growth;
- enhancing drilling, completion and production activities by utilizing the Company's scale and technology advancements to reduce costs and improve efficiency; and
- developing and training employees and contractors to perform their jobs in a safe manner, combined with environmental stewardship through industry-leading sustainable development efforts.

These strategies are primarily anchored by the Company's interests in the long-lived Spraberry/Wolfcamp oil field located in West Texas, which has an estimated remaining productive life in excess of 40 years. Underlying the Spraberry/Wolfcamp field is over 75 percent of the Company's total proved oil and gas reserves as of December 31, 2016. Complementing this growth area, the Company has oil and gas production activities and development and exploration opportunities in the following areas:

- the liquid-rich Eagle Ford Shale play located in South Texas;
- the Raton gas field located in southern Colorado;
- the West Panhandle gas and liquids field located in the Texas Panhandle; and
- the Edwards gas field located in South Texas.

Business Activities

Pioneer's purpose is to competitively and profitably explore for, develop and produce oil and gas reserves. In so doing, the Company sells homogeneous oil, NGL and gas units that, except for geographic and relatively minor quality differences, cannot be significantly differentiated from units offered for sale by the Company's competitors. The Company's portfolio of resources

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PIONEER NATURAL RESOURCES COMPANY

and opportunities are diversified among oil, NGL and gas, and are well balanced among long-lived, dependable production and lower-risk exploration and development opportunities.

Petroleum industry. The industry has been operating in a low oil price environment since late 2014, when North American oil prices began declining due to a worldwide oversupply of oil. During the fourth quarter of 2016, members of the Organization of Petroleum Exporting Countries ("OPEC") agreed to reduce their output by approximately 1.2 million BOEPD and certain oil-producing nations outside of OPEC, including Russia, agreed to an additional 600,000 BOEPD reduction in production. These combined output reductions represent an unprecedented level of cooperation among oil-producing countries and the announcement of the reductions has resulted in a nominal increase in oil prices. In 2017, the worldwide supply of oil is expected to decline and, as a result, oil prices are expected to gradually increase as the supply reductions are realized and worldwide oil inventory levels decline. Enforcement of the agreed production cuts will be monitored closely, and the Company expects ongoing oil price volatility as compliance with the output reduction agreement is reported.

The growth of unconventional shale drilling in the United States has substantially increased the supply of gas and NGLs, resulting in a significant decline in related prices as the supply of these products has grown. While the industry has invested in initiatives designed to increase takeaway capacity, such as the construction of liquefied natural gas ("LNG") and NGL export facilities, the supply of these products has exceeded the overall United States and international demand for these commodities. NGL products and gas supplies are expected to remain at consistent levels during 2017, which is expected to keep prices relatively flat during 2017.

Significant factors that are likely to affect 2017 commodity prices include: the effect of new policies enacted by a new President of the United States and his administration; fiscal challenges facing the United States federal government; potential changes to the tax laws in the United States; continuing economic struggles in European and Asian nations; political and economic developments in North Africa and the Middle East; demand from Asian and European markets; the extent to which members of OPEC and other oil exporting nations adhere to and agree to extend the agreed oil production cuts, which expire in June 2017; the supply and demand fundamentals for NGLs in the United States and the pace at which export capacity grows; and overall North American gas supply and demand fundamentals, including incremental LNG export capacity additions and the pace that gas storage is refilled during the year given that gas storage levels are anticipated to be normal at the end of the winter draw season.

Pioneer uses commodity derivative contracts to mitigate the effect of commodity price volatility on the Company's net cash provided by operating activities and its net asset value. The Company has entered into commodity derivative contracts for a large portion of its forecasted production through 2017; however, commodity prices are volatile and if commodity prices decline, the Company could realize lower prices for unprotected volumes and could see a reduction in the prices at which the Company is able to enter into derivative contracts on additional volumes in the future. As a result, the Company's internal cash flows will be negatively impacted by a reduction in commodity prices. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" and Note E of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for information regarding the Company's open derivative positions as of December 31, 2016, and subsequent changes to these positions.

Liquidity. In spite of the current commodity price environment, the Company has maintained a strong liquidity position. The Company's primary needs for cash are for capital expenditures and acquisition expenditures on oil and gas properties and related vertical integration assets and facilities, payments of contractual obligations, including debt maturities, dividends and working capital obligations. Principal sources of liquidity include cash and cash equivalents, short-term and long-term investment securities, net cash provided by operating activities, proceeds from divestitures and proceeds from financing activities (principally borrowings under the Company's credit facility or issuances of debt or equity securities). If internal cash flows do not meet the Company's expectations, the Company may reduce its level of capital expenditures, and/or fund a portion of its capital expenditures (i) by using cash on hand, (ii) through sales of short-term and long-term investments, (iii) with borrowings under the Company's credit facility, (iv) through issuances of debt or equity securities or (v) through other sources, such as sales of nonstrategic assets.

Production. The Company focuses its efforts towards maximizing its average daily production of oil, NGLs and gas through development drilling, production enhancement activities and acquisitions of producing properties, while

minimizing controllable costs associated with production activities. For the year ended December 31, 2016, the Company's production from continuing operations of 86 MMBOE, excluding field fuel usage, represented a 15 percent increase compared to production from continuing operations during 2015. Production, price and cost information with respect to the Company's properties for 2016, 2015 and 2014 is set forth in "Item 2. Properties — Selected Oil and Gas Information — Production, price and cost data."

Acquisition activities. The Company regularly seeks to acquire properties that complement its operations, provide exploration and development opportunities and potentially provide superior returns on investment. In addition, the Company may pursue strategic acquisitions that will allow the Company to expand into new geographical areas that provide future exploitation and exploration opportunities. The Company periodically evaluates and pursues acquisition opportunities (including opportunities

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to acquire particular oil and gas assets or entities owning oil and gas assets and opportunities to engage in mergers, consolidations or other business combinations with such entities) and at any given time may be in various stages of evaluating such opportunities. Such stages may take the form of internal financial analyses, oil and gas reserve analyses, due diligence, the submission of indications of interest, preliminary negotiations, negotiations of letters of intent or negotiations of definitive agreements. The success of any acquisition is uncertain and depends on a number of factors, some of which are outside the Company's control. See "Item 1A. Risk Factors — The Company may be unable to make attractive acquisitions and any acquisition it completes is subject to substantial risks that could adversely affect its business."

During 2016, 2015 and 2014, the Company spent \$446 million, \$36 million and \$104 million, respectively, primarily to purchase undeveloped acreage for future exploitation and exploration activities in the Spraberry/Wolfcamp field of the Permian Basin.

Permian Basin acquisition. The Company's 2016 acquisition activities include the August 2016 acquisition of 28,000 net acres in the Permian Basin, with net production of approximately 1,400 BOEPD, from an unaffiliated third party for \$428 million, including normal closing adjustments. The fair value of the assets acquired included \$347 million of unproved property, \$79 million of proved property and \$5 million of other property and equipment. The fair value of the asset retirement obligations and other liabilities assumed were \$2 million and \$1 million, respectively.

Affiliated partnerships. The Company's 2014 acquisition activities include the December 2014 acquisition of the remaining limited partner interests in five affiliated oil and gas drilling partnerships for \$54 million.

Exploratory activities. The Company has devoted significant efforts and resources to hiring and developing a highly skilled geoscience, engineering and land staff as well as acquiring a significant portfolio of lower-risk exploration opportunities that are expected to be evaluated and tested over the next decade and beyond. Exploratory and extension drilling involve greater risks of dry holes or failure to find commercial quantities of hydrocarbons than development drilling or enhanced recovery activities. See "Item 1A. Risk Factors - Exploration and development drilling may not result in commercially productive reserves."

Development activities. The Company seeks to increase its proved oil and gas reserves, production and cash flow through development drilling and by conducting other production enhancement activities, such as well recompletions. During the three years ended December 31, 2016, the Company drilled 464 gross (368 net) development wells, with 100 percent of the wells being successfully completed as productive wells, at a total drilling cost (net to the Company's interest) of \$2.9 billion.

The Company believes that its current property base provides a substantial inventory of prospects for future reserve, production and cash flow growth. The Company's proved reserves as of December 31, 2016 include proved undeveloped reserves and proved developed reserves that are behind pipe of 37 MMBbls of oil, 10 MMBbls of NGLs and 136 Bcf of gas. The Company believes that its proved reserves provide a meaningful portfolio of development opportunities. The timing of the development of these proved reserves will be dependent upon commodity prices, drilling and operating costs and the Company's expected operating cash flows and financial condition.

Integrated services. The Company continues to utilize its integrated services to control well costs and operating costs in addition to supporting the execution of its drilling and production activities. The Company owns fracture stimulation fleets totaling approximately 470,000 horsepower that support its drilling operations. The Company also owns other field service equipment that support its drilling and production operations, including pulling units, fracture stimulation tanks, water transport trucks, hot oilers, blowout preventers, construction equipment and fishing tools. In addition, Premier Silica (the Company's wholly-owned sand mining subsidiary) is supplying high-quality and logistically advantaged brown sand for proppant, which is being used by the Company to fracture stimulate horizontal wells in the Spraberry and Wolfcamp Shale intervals.

The Company is also developing a water distribution system to support the Company's field development. The Company is purchasing approximately 100 thousand barrels per day of effluent water from the City of Odessa and has signed an agreement with the City of Midland to purchase effluent water upon legislative validation from the State of Texas and completion of a new water treatment facility. The Company expects to spend \$160 million in 2017 primarily related to its field-wide water distribution network, which is expected to provide significant future cost

savings and support the Company's long-term growth plan in the Spraberry/Wolfcamp area.

Asset divestitures and discontinued operations. The Company regularly reviews its asset base for the purpose of identifying nonstrategic assets, the disposition of which would increase capital resources available for other activities, create organizational and operational efficiencies and further the Company's objective of maintaining a strong balance sheet to ensure financial flexibility.

EFS Midstream. In July 2015, the Company completed the sale of its 50.1 percent equity interest in EFS Midstream LLC ("EFS Midstream") to an unaffiliated third party, with the Company receiving total consideration of \$1.0 billion, of which \$530

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million was received at closing and the remaining \$501 million was received in July 2016. The Company recorded a net gain on the disposition of \$777 million in September 2015.

Sendero. In March 2014, the Company completed the sale of its majority interest in Sendero Drilling Company, LLC ("Sendero") to Sendero's minority interest owner for cash proceeds of \$31 million. As part of the sales agreement, the Company committed to lease from Sendero 12 vertical rigs through December 31, 2015 and eight vertical rigs in 2016.

Asset divestitures reflected as discontinued operations. During 2014, the Company completed the sale of (i) its net assets in the Hugoton field in southwest Kansas for cash proceeds of \$328 million, (ii) its net assets in the Barnett Shale field in North Texas for cash proceeds of \$150 million and (iii) 100 percent of its capital stock in Pioneer's Alaska subsidiary ("Pioneer Alaska") for cash proceeds of \$267 million. The Company has reflected the results of operations of its Hugoton assets, its Barnett Shale assets and Pioneer Alaska as discontinued operations in the accompanying consolidated statements of operations.

The Company anticipates that it will continue to sell nonstrategic properties or other assets from time to time to increase capital resources available for other activities, to achieve operating and administrative efficiencies and to improve profitability. See Notes C and D of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for specific information regarding the Company's asset divestitures, impairments and discontinued operations. Also see "Item 1A. Risk Factors - The Company's ability to complete dispositions of assets, or interests in assets, may be subject to factors beyond its control, and in certain cases the Company may be required to retain liabilities for certain matters" for a discussion of risks associated with potential divestitures.

Marketing of Production

General. Production from the Company's properties is marketed using methods that are consistent with industry practices. Sales prices for oil, NGL and gas production are negotiated based on factors normally considered in the industry, such as an index or spot price, price regulations, distance from the well to the pipeline, commodity quality and prevailing supply and demand conditions. See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" for additional discussion regarding price risk.

Seasonal nature of business. Generally, but not always, the demand for gas decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters or hot summers may impact general seasonal changes in demand.

Significant purchasers. During 2016, the Company's significant purchasers of oil, NGLs and gas were Occidental Energy Marketing Inc. (17 percent), Plains Marketing LP (17 percent) and Vitol, Inc. (13 percent). Vitol Inc.'s Permian Basin oil systems were acquired by Sunoco Logistics Partners L.P. ("Sunoco") during the fourth quarter of 2016; the Company's contracts with Vitol Inc. have been transferred to Sunoco. The loss of a significant purchaser or an inability to secure adequate pipeline, gas plant and NGL fractionation infrastructure in its key producing areas could have a material adverse effect on its ability to sell its oil, NGL and gas production. See "Item 1A. Risk Factors - The Company may not be able to obtain access on commercially reasonable terms or otherwise to pipelines and storage facilities, gathering systems and other transportation, processing, fractionation and refining facilities to market its oil, NGL and gas production; the Company relies on a limited number of purchasers for a majority of its products" and Note L of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for more information about infrastructure capacity risks and the Company's significant customers.

Derivative risk management activities. The Company primarily utilizes commodity swap contracts, collar contracts and collar contracts with short puts that are intended to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. The Company also, from time to time, utilizes interest rate derivative contracts intended to reduce the effect of interest rate volatility on the Company's indebtedness. The Company accounts for its derivative contracts using the mark-to-market ("MTM") method of accounting. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for a description of the Company's derivative risk management activities, "Item 7A. Quantitative and Qualitative

Disclosures About Market Risk" and Note E of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for information about the impact of commodity derivative activities on oil, NGL and gas revenues and net derivative gains and losses during 2016, 2015 and 2014, as well as the Company's open commodity derivative positions at December 31, 2016, and subsequent changes to those positions.

Competition, Markets and Regulations

Competition. The oil and gas industry is highly competitive in the exploration for and acquisition of reserves, the acquisition of oil and gas leases and the hiring and retention of staff necessary for the identification, evaluation and acquisition and development of such properties. The Company's competitors include a large number of companies, including major integrated oil and gas

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companies, other independent oil and gas companies, and individuals engaged in the exploration for and development of oil and gas properties. Some of the Company's competitors are substantially larger and have financial and other resources greater than those of the Company; as such, the Company may be at a competitive disadvantage in the identification, acquisition and development of properties that complement the Company's operations.

Competitive advantage is gained in the oil and gas exploration and development industry by employing well-trained and experienced personnel who make prudent capital investment decisions based on management direction, embrace technological innovation and are focused on price and cost management. The Company has a team of dedicated employees who represent the professional disciplines and sciences that the Company believes are necessary to allow Pioneer to maximize the long-term profitability and net asset value inherent in its physical assets.

Markets. The Company's ability to produce and market oil, NGLs and gas profitably depends on numerous factors beyond the Company's control. The effect of these factors cannot be accurately predicted or anticipated. Although the Company cannot predict the occurrence of events that may affect commodity prices or the degree to which commodity prices will be affected, the prices for any commodity that the Company produces will generally approximate current market prices in the geographic region of the production.

Securities regulations. Enterprises that sell securities in public markets are subject to regulatory oversight by agencies such as the SEC and the NYSE. This regulatory oversight imposes on the Company many requirements, including the responsibility for establishing and maintaining disclosure controls and procedures and internal controls over financial reporting, and ensuring that the financial statements and other information included in submissions to the SEC do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made in such submissions not misleading. Failure to comply with the rules and regulations of the SEC could subject the Company to litigation from public or private plaintiffs. Failure to comply with the rules of the NYSE could result in the de-listing of the Company's common stock, which would have an adverse effect on the market price and liquidity of the Company's common stock. Compliance with some of these rules and regulations is costly, and regulations are subject to change or reinterpretation.

Environmental and occupational health and safety matters. The Company's operations are subject to stringent federal, state and local laws and regulations governing worker health and safety, the discharge of materials into the environment and environmental protection. Numerous governmental entities, including the U.S. Environmental Protection Agency (the "EPA") and analogous state agencies, have the power to enforce compliance with these laws and regulations and the permits issued under them, which may cause the Company to incur significant capital expenditures or take costly actions to achieve and maintain compliance. Failure to comply with these laws and regulations may result in the assessment of sanctions, including administrative, civil and criminal penalties, and the issuance of orders enjoining the Company from conducting certain operations in a particular area. While, historically, the Company's environmental compliance costs have not had a material adverse effect on its results of operations, there can be no assurance that such costs will not be material in the future as the Company complies with existing or new environmental requirements.

The following is a summary of the more significant environmental and worker health and safety laws, as amended from time to time, to which the Company's business operations are or may be subject and with which compliance or the failure to maintain compliance may have a material adverse effect on the Company's capital expenditures, results of operations or financial position.

Hazardous wastes and substances. The federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the authority delegated by the EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. The Company generates some amounts of ordinary industrial wastes that may be regulated as RCRA hazardous wastes. RCRA currently excludes drilling fluids, produced waters and most of the other wastes associated with the exploration, development and production of oil or gas from the definition of hazardous waste. These wastes are instead regulated under RCRA's less stringent non-hazardous waste provisions. Any removal of this exclusion could have a material adverse effect on the Company's results of operations and financial position, and it is possible that certain oil and gas exploration and

production wastes now classified as non-hazardous could be classified as hazardous waste in the future. For example, following the filing of a lawsuit in the U.S. District Court for the District of Columbia in May 2016 by several non-governmental environmental groups against the EPA for the agency's failure to timely assess its RCRA Subtitle D criteria regulations for oil and gas wastes, the EPA and the environmental groups entered into a settlement agreement that was finalized in a consent decree issued by the District Court on December 28, 2016, whereby the EPA is required to propose no later than March 15, 2019, a rulemaking for revision of certain Subtitle D criteria regulations pertaining to oil and gas wastes or sign a determination that revision of the regulations is not necessary. If the EPA proposes a rulemaking for revised oil and gas waste regulations, the decree requires that the EPA take final action following notice and comment rulemaking no later than July 15, 2021.

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The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the Superfund law, and analogous state laws impose joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a "hazardous substance" into the environment. These persons include the current and past owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third-parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Company generates materials in the course of its operations that may be regulated as CERCLA hazardous substances.

The Company currently owns or leases numerous properties that have been used for oil and gas exploration and production for many years. Although the Company believes it has used operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes or petroleum hydrocarbons may have been released on or under the properties owned or leased by the Company, or on or under other locations, including off-site locations, where such substances have been taken for treatment or disposal. In addition, some of the Company's properties or former properties have been operated by predecessors or previous owners or operators whose treatment and disposal of hazardous substances, wastes or petroleum hydrocarbons were not under the Company's control. Certain of these properties have had historical petroleum spills or releases. Such properties and the substances disposed or released on them may be subject to CERCLA, RCRA and analogous state laws, which could require the Company to remove previously disposed substances and wastes, remediate contaminated property or perform remedial plugging or pit closure operations to prevent future contamination. Although the costs of managing wastes or other substances classified as hazardous waste may be significant, the Company does not expect to experience any more burdensome costs than similarly situated companies in the industry.

Water use, surface discharges and discharges into belowground formations. The federal Water Pollution Control Act, also known as the Clean Water Act (the "CWA"), and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and hazardous substances, into waters of the United States and state waters. Spill prevention, control and countermeasure plan requirements imposed under the CWA require appropriate containment berms and similar structures to help prevent the contamination of navigable waters in the event of a petroleum hydrocarbon spill, rupture or leak. Additionally, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of stormwater runoff from certain types of facilities. The CWA also prohibits the discharge of dredge and fill material into regulated waters, including wetlands, unless authorized by an appropriately issued permit. Federal and state regulatory agencies can impose administrative, civil and criminal penalties, as well as require remedial or mitigation measures, for noncompliance with discharge permits or other requirements of the CWA and analogous state laws and regulations.

The Oil Pollution Act ("OPA") sets minimum standards for prevention, containment and cleanup of oil spills into waters of the United States. Under OPA, responsible parties, including owners and operators of onshore facilities, such as exploration and production facilities, may be held strictly liable for oil spill cleanup costs and natural resource damages as well as a variety of public and private damages that may result from oil spills. OPA amends the CWA and thus noncompliance with OPA could result in civil and criminal penalties under the CWA.

In May 2015, the EPA released a final rule that was meant to define more precisely the extent to which water bodies are subject to the CWA. The CWA has generated substantial controversy, and several court challenges have been filed and are ongoing. The rule was stayed nationwide by the U.S. Sixth Circuit Court of Appeals in 2015 as that appellate court ponders lawsuits opposing implementation of the rule. In January 2017, the U.S. Supreme Court accepted review of this rule to determine whether jurisdiction rests with the federal district or appellate courts. The Company continues to monitor the legal challenges to the rule and evaluate the impact of the CWA on its operations. Any expansion to CWA jurisdiction in areas where the Company operates could impose additional permitting obligations

on the Company.

The Company may dispose of produced water from oil and gas activities in underground wells, which are designed and permitted to place the water into non-productive geologic formations, isolated from fresh water sources. The Underground Injection Control ("UIC") program established under the federal Safe Drinking Water Act ("SDWA") (i) requires permits from the EPA or an analogous state agency for the construction and operation of disposal wells, (ii) establishes minimum standards for disposal well operations and (iii) restricts the types and quantities of fluids that may be disposed. Because some states have become concerned that the disposal of produced water into belowground formations could contribute to seismicity, they have adopted or are considering adopting additional regulations governing such disposal. Should future onerous regulations or bans relating to underground wells be placed in effect in areas where the Company has significant operations, there could be an adverse impact on the Company's ability to operate. See "Item 1A. Risk Factors - Legislation or regulatory initiatives intended to address seismic

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activity could restrict the Company's drilling and production activities, as well as its ability to dispose of produced water gathered from such activities, which could have a material adverse effect on its business" for further discussion on seismicity issues.

Hydraulic fracturing. Hydraulic fracturing is an important and common practice to stimulate production of oil and gas from dense subsurface rock formations. The process involves the injection of water, sand and additives under pressure into targeted subsurface formations to fracture the surrounding rock and stimulate oil and gas production. The Company routinely conducts hydraulic fracturing in its drilling and completion programs. The process is typically regulated by state oil and gas commissions, but several federal, state or local agencies have asserted regulatory authority over certain aspects of the process. Additionally, from time to time, the U.S. Congress has considered legislation that would provide for federal regulation of hydraulic fracturing and disclosure of chemical used in the fracturing process but, to date, no such federal legislation has been adopted. The Company participates in FracFocus, a national publicly accessible internet-based registry developed by the Ground Water Protection Council and the Interstate Oil and Gas Compact Commission. The additives used in the hydraulic fracturing process on all wells the Company operates are disclosed on that website. In the event federal, state or local restrictions are adopted in areas where the Company is currently conducting operations, or in the future plans to conduct operations, the Company may incur additional costs to comply with such requirements that may be significant in nature, experience delays or curtailment in the pursuit of exploration, development or production activities, and be limited or precluded in the drilling of wells or the volume that the Company is ultimately able to produce from its reserves.

See "Item 1A. Risk Factors - Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities, could result in increased costs and additional operating restrictions or delays and adversely affect the Company's production" for further discussion on hydraulic fracturing issues.

Air emissions. The Clean Air Act (the "CAA") and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other compliance requirements. Such laws and regulations could (i) require a facility to obtain pre-approval for construction or modification projects expected to produce air emissions or result in the increase of existing air emissions, (ii) impose stringent air permit requirements or (iii) utilize specific emission control technologies to limit emissions of certain air pollutants. Federal and state regulatory agencies can also impose administrative, civil and criminal penalties for noncompliance with air permits or other requirements of the CAA and associated state laws and regulations. See "Item 1A. Risk Factors - The Company's operations are subject to federal, state and local laws and regulations, including those that govern the discharge of materials into the environment, that could cause it to suspend or curtail its operations or incur substantial costs" for further discussion on air emission issues.

Climate change. Climate change continues to attract considerable public, political and scientific attention. As a result, numerous proposals have been made, and are likely to continue to be made, at the international, national, regional and state levels of government to monitor and limit emissions of greenhouse gases ("GHGs"). These efforts have included consideration of cap-and-trade programs, carbon taxes, GHG reporting and tracking programs, and regulations that directly limit GHG emissions from certain sources. The adoption and implementation of any international, federal or state legislation or regulations that require reporting of GHGs or otherwise restrict emissions of GHGs from the Company's equipment and operations could require the Company to incur increased operating costs, such as costs to purchase and operate emissions control systems, acquire emissions allowances or comply with new regulatory or reporting requirements. See "Item 1A. Risk Factors - Climate change legislation and regulatory initiatives restricting emissions of GHGs could result in increased operating costs and reduced demand for the oil, NGLs and gas the Company produces" for further discussion on climate change issues.

Endangered species. The federal Endangered Species Act (the "ESA") and analogous state laws regulate activities that could have an adverse effect on species listed as threatened or endangered under the ESA. Some of the Company's operations are conducted in areas where protected species or their habitats are known to exist. In these areas, the Company may be obligated to develop and implement plans to avoid potential adverse effects to protected species and their habitats, and the Company may be prohibited from conducting operations in certain locations or during certain

seasons, such as breeding and nesting seasons, when the Company's operations could have an adverse effect on the species. It is also possible that a federal or state agency could order a complete halt to drilling activities in certain locations if it is determined that such activities may have a serious adverse effect on a protected species. See "Item 1A. Risk Factors - Laws and regulations pertaining to threatened and endangered species could delay or restrict the Company's operations and cause it to incur substantial costs" for further discussion on endangered species issues. Activities on federal lands. Oil and gas exploration, development and production activities on federal lands are subject to the National Environmental Policy Act ("NEPA"). NEPA requires federal agencies, including the federal Bureau of Land Management (the "BLM"), to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an Environmental Assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. Currently, the Company has minimal exploration and production activities

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on federal lands. However, for those current activities as well as for future or proposed exploration and development plans on federal lands, governmental permits or authorizations that are subject to the requirements of NEPA are required. This process has the potential to delay or limit, or increase the cost of, the development of some of the Company's oil and gas projects. Authorizations under NEPA are also subject to protest, appeal or litigation, any or all of which may delay or halt projects. Moreover, depending on the mitigation strategies recommended in the Environmental Assessments, the Company could incur added costs, which could be substantial.

Occupational health and safety. The Company's operations are subject to the requirements of the federal Occupational Safety and Health Administration ("OSHA") and comparable state statutes. These laws and the related regulations strictly govern the protection of the health and safety of employees. The OSHA hazard communication standard, EPA community right-to-know regulations under Title III of CERCLA and similar state statutes require that the Company organize or disclose information about hazardous materials used or produced in the Company's operations. In addition, the Company's sand mining operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment and other matters.

Other regulation of the oil and gas industry. The oil and gas industry is regulated by numerous federal, state and local authorities. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous federal and state departments and agencies are authorized by statute to issue rules and regulations that are binding on the oil and gas industry and its individual members, some of which carry substantial penalties for failure to comply. Although the regulatory burden on the oil and gas industry may increase the Company's cost of doing business by increasing the cost of production, the Company believes that these burdens generally do not affect the Company any differently or to any greater or lesser extent than they affect other companies in the industry with similar types, quantities and locations of production.

Development and production. Development and production operations are subject to various types of regulation at federal, state and local levels. These types of regulation include requiring permits for the drilling of wells, the posting of bonds in connection with various types of activities and filing reports concerning operations. Most states, and some counties and municipalities, in which the Company operates also regulate one or more of the following:

- the location of wells;
- the method of drilling and casing wells;
- the method and ability to fracture stimulate wells;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandoning of wells; and
- notice to surface owners and other third parties.

State laws regulate the size and shape of drilling and spacing units or proration units governing the pooling of oil and gas properties. Some states allow forced pooling or integration of tracts to facilitate development while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third parties and may reduce the Company's interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas and impose requirements regarding production rates. These laws and regulations may limit the amount of oil and gas the Company can produce from the Company's wells or limit the number of wells or the locations that the Company can drill. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil, NGLs and gas within its jurisdiction. States do not regulate wellhead prices or engage in other similar direct regulation, but there can be no assurance that they will not do so in the future. The effect of such future regulations may limit the amounts of oil and gas that may be produced from the Company's wells, negatively affect the economics of production from these wells or limit the number of locations the Company can drill.

Regulation of transportation and sale of gas. The availability, terms and cost of transportation significantly affect sales of gas. Federal and state regulations govern the price and terms for access to gas pipeline transportation. Intrastate gas pipeline transportation activities are subject to various state laws and regulations, as well as orders of state regulatory bodies. The interstate transportation and sale of gas is subject to federal regulation, including regulation of the terms, conditions and rates for interstate transportation, storage and various other matters, primarily by the Federal Energy Regulatory Commission ("FERC"). FERC endeavors to make gas transportation more accessible to gas buyers and sellers on an open-access and non-discriminatory basis.

Pursuant to the Energy Policy Act of 2005 ("EPAAct 2005") it is unlawful for any entity, such as the Company, to use any deceptive or manipulative device or contrivance in connection with the purchase or sale of gas or transportation services subject to regulation by FERC, in contravention of rules prescribed by FERC. The EPAAct 2005 also gives FERC authority to impose civil penalties of up to \$1.2 million per day for each violation of the Natural Gas Act ("NGA") or the Natural Gas Policy Act of 1978.

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Under FERC Order 704, which regulates annual gas transaction reporting requirements, any market participant, including a producer such as the Company, that engages in wholesale sales or purchases of gas that equal or exceed 2.2 million MMBtus of physical gas in the previous calendar year must annually report such sales and purchases to FERC on Form No. 552 by May 1 of the year following the calendar year when such sales and purchases occurred. Form No. 552 contains aggregate volumes of wholesale gas purchased or sold in the prior calendar year to the extent such transactions utilize, contribute to or may contribute to the formation of price indices. Order 704 is intended to increase the transparency of the wholesale gas markets and to assist FERC in monitoring those markets and in detecting market manipulation.

Intrastate gas pipeline transportation rates are subject to regulation by state regulatory commissions. The basis for intrastate gas pipeline regulation, and the degree of regulatory oversight and scrutiny given to intrastate gas pipeline rates, vary from state to state. Additional proposals and proceedings that might affect the gas industry are considered from time to time by the U.S. Congress, FERC, state regulatory bodies and the courts. The Company cannot predict when or if any such proposals might become effective or their effect, if any, on its operations. The Company believes that the regulation of intrastate gas pipeline transportation rates will not affect its operations in any way that is materially different from the effects on its similarly situated competitors.

Natural gas processing. The Company's gas processing operations are generally not subject to FERC or state regulation. There can be no assurance that the Company's processing operations will continue to be unregulated in the future. However, although the processing facilities may not be directly related, other laws and regulations may affect the availability of gas for processing, such as state regulation of production rates and maximum daily production allowable from gas wells, which could impact the Company's processing business.

Gas gathering. Section 1(b) of the NGA exempts gas gathering facilities from FERC jurisdiction. The Company believes that its gathering facilities meet the traditional tests FERC has used to establish a pipeline system's status as a non-jurisdictional gatherer. There is, however, no bright-line test for determining the jurisdictional status of pipeline facilities. Moreover, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of litigation from time to time, so the classification and regulation of some of the Company's gathering facilities may be subject to change based on future determinations by the FERC and the courts. Thus, the Company cannot guarantee that the jurisdictional status of its gas gathering facilities will remain unchanged. While the Company owns or operates some gas gathering facilities, the Company also depends on gathering facilities owned and operated by third parties to gather production from its properties, and therefore the Company is affected by the rates charged by these third parties for gathering services. To the extent that changes in federal or state regulation affect the rates charged for gathering services, the Company also may be affected by these changes. The Company does not anticipate that the Company would be affected any differently than similarly situated gas producers.

Regulation of transportation and sale of oil and NGLs. Intrastate liquids pipeline transportation rates, terms and conditions are subject to regulation by numerous federal, state and local authorities and, in a number of instances, the ability to transport and sell such products on interstate pipelines is dependent on pipelines that are also subject to FERC jurisdiction under the Interstate Commerce Act (the "ICA"). The Company does not believe these regulations affect it any differently than other producers.

The ICA requires that pipelines maintain a tariff on file with the FERC. The tariff sets forth the established rates as well as the rules and regulations governing the service. The ICA requires, among other things, that rates and terms and conditions of service on interstate common carrier pipelines be "just and reasonable." Such pipelines must also provide jurisdictional service in a manner that is not unduly discriminatory or unduly preferential. Shippers have the power to challenge new and existing rates and terms and conditions of service before the FERC.

Rates of interstate liquids pipelines are currently regulated by the FERC, primarily through an annual indexing methodology, under which pipelines increase or decrease their rates in accordance with an index adjustment specified by the FERC. For the five-year period beginning in July 2016, the FERC established an annual index adjustment equal to the change in the producer price index for finished goods plus 1.23 percent. This adjustment is subject to review every five years. Under the FERC's regulations, a liquids pipeline can request a rate increase that exceeds the rate obtained through application of the indexing methodology by using a cost-of-service approach, but only after the

pipeline establishes that a substantial divergence exists between the actual costs experienced by the pipeline and the rates resulting from application of the indexing methodology. Increases in liquids transportation rates may result in lower revenue and cash flows for the Company.

In addition, due to common carrier regulatory obligations of liquids pipelines, capacity must be prorated among shippers in an equitable manner in the event there are nominations in excess of capacity by current shippers or capacity requests are received from a new shipper. Therefore, new shippers or increased volume by existing shippers may reduce the capacity available to the Company. Any prolonged interruption in the operation or curtailment of available capacity of the pipelines that the Company relies upon for liquids transportation could have a material adverse effect on its business, financial condition, results of operations and

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cash flows. However, the Company believes that access to liquids pipeline transportation services generally will be available to it to the same extent as to its similarly situated competitors.

In November 2009, the Federal Trade Commission (the "FTC") issued regulations pursuant to the Energy Independence and Security Act of 2007 intended to prohibit market manipulation in the petroleum industry. Violators of the regulations face civil penalties of up to \$1.0 million per violation per day. The Commodity Futures Trading Commission (the "CFTC") has also issued anti-manipulation rules that subject violators to a civil penalty of up to the greater of \$1.0 million or triple the monetary gain to the person for each violation.

Energy commodity prices. Sales prices of oil, condensate, NGLs and gas are not currently regulated and sales are made at market prices. Although prices of these energy commodities are currently unregulated, the U.S. Congress historically has been active in their regulation. The Company cannot predict whether new legislation to regulate oil and gas might actually be enacted by the U.S. Congress or the various state legislatures, and what effect, if any, the proposals might have on the Company's operations.

Transportation of hazardous materials. The federal Department of Transportation has adopted regulations requiring that certain entities transporting designated hazardous materials develop plans to address security risks related to the transportation of hazardous materials. The Company does not believe that these requirements will have an adverse effect on the Company or its operations. The Company cannot provide any assurance that the security plans required under these regulations would protect against all security risks and prevent an attack or other incident related to the Company's transportation of hazardous materials.

ITEM 1A. RISK FACTORS

The nature of the business activities conducted by the Company subjects it to certain hazards and risks. The following is a summary of some of the material risks relating to the Company's business activities. Other risks are described in "Item 1. Business — Competition, Markets and Regulations," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." These risks are not the only risks facing the Company. The Company's business could also be affected by additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial. If any of these risks actually occurs, it could materially harm the Company's business, financial condition or results of operations or impair the Company's ability to implement business plans or complete development activities as scheduled. In that case, the market price of the Company's common stock could decline.

The prices of oil, NGLs and gas are highly volatile and have declined significantly in recent years. A sustained decline in these commodity prices could adversely affect the Company's business, financial condition and results of operations.

The Company's revenues, profitability, cash flow and future rate of growth are highly dependent on commodity prices. Commodity prices may fluctuate widely in response to relatively minor changes in the supply of and demand for oil, NGLs and gas, market uncertainty and a variety of additional factors that are beyond the Company's control, such as:

- domestic and worldwide supply of and demand for oil, NGLs and gas;
- the price and quantity of foreign imports of oil, NGLs and gas;
- worldwide oil, NGL, and gas inventory levels, including at Cushing, Oklahoma, the benchmark location for WTI oil prices, and the U.S. Gulf Coast, where the majority of the U.S. refinery capacity exists;
- the capacity of U.S. and international refiners to utilize U.S. supplies of oil and condensate;
- weather conditions;
- overall domestic and global political and economic conditions;
- actions of OPEC, its members and other state-controlled oil companies relating to oil price and production controls;
- the effect of oil and LNG imports to and exports from the U.S.;
- technological advances affecting energy consumption and energy supply;
- domestic and foreign governmental regulations, including environmental regulations, and taxation;
- the effect of energy conservation efforts;

shareholder activism or activities by non-governmental organizations to restrict the exploration and production of oil and gas so as to minimize emissions of carbon dioxide and methane GHGs;

the proximity, capacity, cost and availability of pipelines and other transportation facilities; and

the price and availability of alternative fuels.

In the past, commodity prices have been extremely volatile, and the Company expects this volatility to continue. For the five years ended December 31, 2016, oil prices fluctuated from a high of \$110.53 per Bbl in 2013 to a low of \$26.21 per Bbl in 2016 while gas prices fluctuated from a high of \$6.15 per Mcf in 2014 to a low of \$1.64 per Mcf in 2016. Likewise, NGLs have suffered significant recent declines. NGLs are made up of ethane, propane, isobutene, normal butane and natural gasoline, all of which have different uses and different pricing characteristics. A further or extended decline in commodity prices could materially

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and adversely affect the Company's future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures. The Company makes price assumptions that are used for planning purposes, and a significant portion of the Company's cash outlays, including rent, salaries and noncancelable capital commitments, are largely fixed in nature. Accordingly, if commodity prices are below the expectations on which these commitments were based, the Company's financial results are likely to be adversely and disproportionately affected because these cash outlays are not variable in the short term and cannot be quickly reduced to respond to unanticipated decreases in commodity prices.

Significant or extended price declines could also adversely affect the amount of oil, NGLs and gas that the Company can produce economically, which may result in the Company having to make significant downward adjustments to its estimated proved reserves. For example, the Company's proved reserves as of December 31, 2016 decreased by 58 MBOE, as compared to proved reserves at December 31, 2015 as a result of declines in the average oil and gas price used to calculate proved reserves for each respective period declining from \$50.11 per BBL and \$2.59 per MCF in 2015 to \$42.82 per BBL and \$2.48 per MCF in 2016. A reduction in production could also result in a shortfall in expected cash flows and require the Company to reduce capital spending or borrow funds to cover any such shortfall. Any of these factors could negatively affect the Company's ability to replace its production and its future rate of growth.

The Company's derivative risk management activities could result in financial losses; the Company may not enter into derivative arrangements with respect to future volumes if prices are unattractive.

To mitigate the effect of commodity price volatility on the Company's net cash provided by operating activities and its net asset value, support the Company's annual capital budgeting and expenditure plans and reduce commodity price risk associated with certain capital projects, the Company's strategy is to enter into derivative arrangements covering a portion of its oil, NGL and gas production. These derivative arrangements are subject to MTM accounting treatment, and the changes in fair market value of the contracts are reported in the Company's statements of operations each quarter, which may result in significant noncash gains or losses. These derivative contracts may also expose the Company to risk of financial loss in certain circumstances, including when:

- production is less than the contracted derivative volumes;
- the counterparty to the derivative contract defaults on its contract obligations; or
- the derivative contracts limit the benefit the Company would otherwise receive from increases in commodity prices.

On the other hand, failure to protect against declines in commodity prices exposes the Company to reduced liquidity when prices decline. Although the Company has entered into commodity derivative contracts for a large portion of its forecasted production through 2017, the volumes of protected production for 2018 and future years is substantially less. A sustained lower commodity price environment would result in lower realized prices for unprotected volumes and reduce the prices at which the Company could enter into derivative contracts on future volumes. This could make such transactions unattractive, and, as a result, some or all of the Company's production volumes forecasted for 2018 and beyond may not be protected by derivative arrangements. In addition, the Company's derivatives arrangements may not achieve their intended strategic purposes.

The failure by counterparties to the Company's derivative risk management activities to perform their obligations could have a material adverse effect on the Company's results of operations.

The use of derivative risk management transactions involves the risk that the counterparties will be unable to meet the financial terms of such transactions. The Company is unable to predict changes in a counterparty's creditworthiness or ability to perform. Even if the Company accurately predicts sudden changes, the Company's ability to negate the risk may be limited depending upon market conditions and the contractual terms of the transactions. During periods of declining commodity prices, the Company's derivative receivable positions generally increase, which increases the Company's counterparty credit exposure. If any of the Company's counterparties were to default on its obligations under the Company's derivative arrangements, such a default could have a material adverse effect on the Company's results of operations, and could result in a larger percentage of the Company's future production being subject to commodity price changes and could increase the likelihood that the Company's derivative arrangements may not achieve their intended strategic purposes.

Exploration and development drilling may not result in commercially productive reserves.

Drilling involves numerous risks, including the risk that no commercially productive oil or gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain and drilling operations may be curtailed, delayed or canceled, or become costlier, as a result of a variety of factors, including:

- unexpected drilling conditions;
- unexpected pressure or irregularities in formations;
- equipment failures or accidents;

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fracture stimulation accidents or failures;
adverse weather conditions;
restricted access to land for drilling or laying pipelines;
lack of available gathering facilities or delays in construction of gathering facilities;
lack of available capacity on interconnecting transmission pipelines;
access to, and the cost and availability of, the equipment, services, resources and personnel required to complete the Company's drilling, completion and operating activities; and
delays imposed by or resulting from compliance with environmental and other governmental or regulatory requirements.

The Company's future drilling activities may not be successful and, if unsuccessful, the Company's proved reserves and production would decline, which could have an adverse effect on the Company's future results of operations and financial condition. While all drilling, whether developmental, extension or exploratory, involves these risks, exploratory and extension drilling involves greater risks of dry holes or failure to find commercial quantities of hydrocarbons. The Company expects that it will continue to experience exploration and abandonment expense in 2017.

Future price declines could result in a reduction in the carrying value of the Company's proved oil and gas properties, which could adversely affect the Company's results of operations.

Significant or extended price declines, as have occurred recently, could result in the Company having to make downward adjustments to its estimated proved reserves. It is possible that prices could decline further, or the Company's estimates of production or other economic factors could change to such an extent that the Company may be required to impair, as a noncash charge to earnings, the carrying value of the Company's oil and gas properties. The Company is required to perform impairment tests on proved oil and gas properties whenever events or changes in circumstances indicate that the carrying value of proved properties may not be recoverable. To the extent such tests indicate a reduction of the estimated useful life or estimated future cash flows of the Company's oil and gas properties, the carrying value may not be recoverable and therefore an impairment charge would be required to reduce the carrying value of the proved properties to their fair value. For example, during 2016 the Company recognized an impairment charge of \$32 million attributable to its West Panhandle field assets in the panhandle region of Texas and, in 2015, the Company recognized aggregate impairment charges of \$1.1 billion attributable to its Eagle Ford Shale assets, other South Texas assets and West Panhandle field assets, primarily due to declines in commodity prices and downward adjustments to the economically recoverable reserves attributable to each asset. The Company may incur impairment charges in the future, which could materially affect the Company's results of operations in the period incurred. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Results of Operations - Impairment of oil and gas properties and other long-lived assets" and Note D of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for further information on the Company's impairment charges.

The Company periodically evaluates its unproved oil and gas properties to determine recoverability of its cost and could be required to recognize noncash charges in the earnings of future periods.

At December 31, 2016, the Company carried unproved oil and gas property costs of \$486 million. GAAP requires periodic evaluation of these costs on a project-by-project basis. These evaluations are affected by the results of exploration activities, commodity price outlooks, planned future sales or expiration of all or a portion of the leases and the contracts and permits appurtenant to such projects. If the quantity of potential reserves determined by such evaluations is not sufficient to fully recover the cost invested in each project, the Company will recognize noncash charges in the earnings of future periods.

The Company periodically evaluates its goodwill for impairment and could be required to recognize noncash charges in the earnings of future periods.

At December 31, 2016, the Company carried goodwill of \$272 million. Goodwill is assessed for impairment annually during the third quarter and whenever facts or circumstances indicate that the carrying value of the Company's

goodwill may be impaired, which may require an estimate of the fair values of the reporting unit's assets and liabilities. Those assessments may be affected by (i) additional reserve adjustments both positive and negative, (ii) results of drilling activities, (iii) management's outlook for commodity prices and costs and expenses, (iv) changes in the Company's market capitalization, (v) changes in the Company's weighted average cost of capital and (vi) changes in income taxes. If the fair value of the reporting unit's net assets is not sufficient to fully support the goodwill balance in the future, the Company will reduce the carrying value of goodwill for the impaired value, with a corresponding noncash charge to earnings in the period in which goodwill is determined to be impaired.

The Company may be unable to make attractive acquisitions and any acquisition it completes is subject to substantial risks that could adversely affect its business.

Acquisitions of producing oil and gas properties have from time to time contributed to the Company's growth.

Acquisition opportunities in the oil and gas industry are very competitive, which can increase the cost of, or cause the Company to refrain

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from, completing acquisitions. The success of any acquisition will depend on a number of factors and involves potential risks, including among other things:

- the inability to estimate accurately the costs to develop the reserves, the recoverable volumes of reserves, rates of future production and future net cash flows attainable from the reserves;
- the assumption of unknown liabilities, including environmental liabilities, and losses or costs for which the Company is not indemnified or for which the indemnity the Company receives is inadequate;
- the validity of assumptions about costs, including synergies;
- the effect on the Company's liquidity or financial leverage of using available cash or debt to finance acquisitions;
- the diversion of management's attention from other business concerns; and
- an inability to hire, train or retain qualified personnel to manage and operate the Company's growing business and assets.

All of these factors affect whether an acquisition will ultimately generate cash flows sufficient to provide a suitable return on investment. Even though the Company performs a review of the properties it seeks to acquire that it believes is consistent with industry practices, such reviews are often limited in scope. As a result, among other risks, the Company's initial estimates of reserves may be subject to revision following an acquisition, which may materially and adversely affect the desired benefits of the acquisition.

The Company's ability to complete dispositions of assets, or interests in assets, may be subject to factors beyond its control, and in certain cases the Company may be required to retain liabilities for certain matters.

From time to time, the Company sells an interest in a strategic asset for the purpose of assisting or accelerating the asset's development. In addition, the Company regularly reviews its property base for the purpose of identifying nonstrategic assets, the disposition of which would increase capital resources available for other activities and create organizational and operational efficiencies. Various factors could materially affect the ability of the Company to dispose of such interests or nonstrategic assets or complete announced dispositions, including the receipt of approvals of governmental agencies or third parties and the availability of purchasers willing to acquire the interests or purchase the nonstrategic assets on terms and at prices acceptable to the Company.

Sellers typically retain certain liabilities or indemnify buyers for certain pre-closing matters, such as matters of litigation, environmental contingencies, royalty obligations and income taxes. The magnitude of any such retained liability or indemnification obligation may be difficult to quantify at the time of the transaction and ultimately may be material. Also, as is typical in divestiture transactions, third parties may be unwilling to release the Company from guarantees or other credit support provided prior to the sale of the divested assets. As a result, after a divestiture, the Company may remain secondarily liable for the obligations guaranteed or supported to the extent that the buyer of the assets fails to perform these obligations.

The Company's operations involve many operational risks, some of which could result in unforeseen interruptions to the Company's operations and substantial losses to the Company for which the Company may not be adequately insured.

The Company's operations, including well stimulation and completion activities, such as hydraulic fracturing, and water distribution and disposal activities, are subject to all the risks incident to the oil and gas development and production business, including:

- blowouts, cratering, explosions and fires;
- adverse weather effects;
- environmental hazards, such as oil, NGL, gas and water leaks, oil spills, pipeline and vessel ruptures, encountering naturally occurring radioactive materials ("NORM"), and unauthorized discharges of toxic chemicals, gases, brine, well stimulation and completion fluids or other pollutants onto the surface or into the subsurface environment;
- high costs, shortages or delivery delays of equipment, labor or other services or water and sand for hydraulic fracturing;
- facility or equipment malfunctions, failures or accidents;
- title problems;
- pipe or cement failures or casing collapses;

- uncontrollable flows of oil or gas well fluids;
- compliance with environmental and other governmental requirements;
- lost or damaged oilfield workover and service tools;
- unusual or unexpected geological formations or pressure or irregularities in formations;
- terrorism, vandalism and physical, electronic and cyber security breaches; and
- natural disasters.

The Company's overall exposure to operational risks may increase as its drilling activity expands and as it increases internally-provided fracture stimulation, water distribution, water disposal and other services. Any of these risks could result in

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substantial losses to the Company due to injury or loss of life, damage to or destruction of wells, production facilities or other property, clean-up responsibilities, regulatory investigations and penalties and suspension of operations.

The Company is not fully insured against certain of the risks described above, either because such insurance is not available or because of the high premium costs and deductibles associated with obtaining such insurance.

Additionally, the Company relies to a large extent on facilities owned and operated by third-parties, and damage to or destruction of those third-party facilities could affect the ability of the Company to produce, transport and sell its hydrocarbons.

The Company's gas processing operations are subject to operational risks, which could result in significant damages and the loss of revenue.

As of December 31, 2016, the Company owned interests in eight gas processing plants and nine treating facilities. The Company is the operator of one of the gas processing plants and all nine of the treating facilities. Seven of the gas processing plants are operated by third parties and six of the treating facilities are not currently being used. There are significant risks associated with the operation of gas processing plants. Gas and NGLs are volatile and explosive and may include carcinogens. Damage to or improper operation of a gas processing plant or facility could result in an explosion or the discharge of toxic gases, which could result in significant damage claims in addition to interrupting a revenue source.

Part of the Company's strategy involves using some of the latest available horizontal drilling and completion techniques, which involve risks and uncertainties in their application.

The Company's operations involve utilizing some of the latest drilling and completion techniques as developed by it and its service providers. Risks that the Company faces while drilling horizontal wells include, but are not limited to, the following:

- landing the wellbore in the desired drilling zone;
- staying in the desired drilling zone while drilling horizontally through the formation;
- running casing the entire length of the wellbore; and
- being able to run tools and other equipment consistently through the horizontal wellbore.

Risks that the Company faces while completing wells include, but are not limited to, the following:

- the ability to fracture stimulate the planned number of stages;
- the ability to run tools the entire length of the wellbore during completion operations; and
- the ability to successfully clean out the wellbore after completion of the final fracture stimulation stage.

Drilling in emerging areas is more uncertain than drilling in areas that are more developed and have a longer history of established drilling operations. New discoveries and emerging formations have limited or no production history and, consequently, the Company is more limited in assessing future drilling results in these areas. If the Company's drilling results are worse than anticipated, the return on investment for a particular project may not be as attractive as anticipated and the Company may recognize noncash impairment charges to reduce the carrying value of its unproved properties in those areas.

The Company's expectations for future drilling activities will be realized over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of such activities.

The Company has identified drilling locations and prospects for future drilling opportunities, including development, exploratory and infill drilling activities. These drilling locations and prospects represent a significant part of the Company's future drilling plans. For example, the Company's proved reserves as of December 31, 2016 include proved undeveloped reserves and proved developed reserves that are behind pipe of 37 MMBbls of oil, 10 MMBbls of NGLs and 136 Bcf of gas. The Company's ability to drill and develop these locations depends on a number of factors, including the availability and cost of capital, regulatory approvals, negotiation of agreements with third parties, commodity prices, costs, access to and availability of equipment, services, resources and personnel and drilling results. There can be no assurance that the Company will drill these locations or that the Company will be able to produce oil or gas reserves from these locations or any other potential drilling locations. Well results vary by formation and geographic area, and the Company's drilling activities are generally focused on remaining locations that are believed to offer the highest return. Changes in the laws or regulations on which the Company relies in planning

and executing its drilling programs could adversely impact the Company's ability to successfully complete those programs. For example, under current Texas laws and regulations the Company may receive permits to drill, and may drill and complete, certain horizontal wells that traverse one or more units and/or leases; a change in those laws or regulations could adversely impact the Company's ability to drill those wells. Because of these uncertainties, the Company cannot give any assurance as to the timing of these activities or that they will ultimately result in the realization of proved reserves or meet the Company's expectations for success. As such, the Company's actual drilling activities may materially differ from the Company's current expectations, which could have a significant adverse effect on the Company's proved reserves, financial condition and results of operations.

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A portion of the Company's total estimated proved reserves at December 31, 2016 were undeveloped, and those proved reserves may not ultimately be developed.

At December 31, 2016, approximately seven percent of the Company's total estimated proved reserves were undeveloped. Recovery of undeveloped proved reserves requires significant capital expenditures and successful drilling. The Company's reserve data assumes that the Company can and will make these expenditures and conduct these operations successfully, which assumptions may not prove correct. If the Company chooses not to spend the capital to develop these proved undeveloped reserves, or if the Company is not otherwise able to successfully develop these proved undeveloped reserves, the Company will be required to write-off these proved reserves. In addition, under the SEC's rules, because proved undeveloped reserves may be booked only if they relate to wells planned to be drilled within five years of the date of booking, the Company may be required to write-off any proved undeveloped reserves that are not developed within this five-year timeframe. As with all oil and gas leases, the Company's leases require the Company to drill wells that are commercially productive and to maintain the production in paying quantities, and if the Company is unsuccessful in drilling such wells and maintaining such production, the Company could lose its rights under such leases. The Company's future production levels and, therefore, its future cash flow and income are highly dependent on successfully developing its proved undeveloped leasehold acreage.

The Company's actual production could differ materially from its forecasts.

From time to time, the Company provides forecasts of expected quantities of future oil and gas production and other financial and operating results. These forecasts are based on a number of estimates and assumptions, including that none of the risks associated with the Company's oil and gas operations summarized in this "Item 1A. Risk Factors" occur. Production forecasts, specifically, are based on assumptions such as expectations of production from existing wells and the level and outcome of future drilling activity, and the absence of facility or equipment malfunctions, adverse weather effects, or downturns in commodity prices or significant increases in costs, which could make certain drilling activities or production uneconomical. Should any of these estimates prove inaccurate, or should the Company's development plans change, actual production could be materially and adversely affected.

Because the Company's proved reserves and production decline continually over time, the Company will need to mitigate these declines through drilling and production enhancement initiatives and/or acquisitions.

Producing oil and gas reservoirs are characterized by declining production rates, which vary depending upon reservoir characteristics and other factors. Because the Company's proved reserves and production decline continually over time as those reserves are produced, the Company will need to mitigate these declines through drilling and production enhancement initiatives and/or acquisitions of additional recoverable reserves. There can be no assurance that the Company will be able to develop, exploit, find or acquire sufficient additional reserves to replace its current or future production.

The Company may not be able to obtain access on commercially reasonable terms or otherwise to pipelines and storage facilities, gathering systems and other transportation, processing, fractionation and refining facilities to market its oil, NGL and gas production; the Company relies on a limited number of purchasers for a majority of its products. The marketing of oil, NGLs and gas production depends in large part on the availability, proximity and capacity of pipelines and storage facilities, gathering systems and other transportation, processing, fractionation and refining facilities, as well as the existence of adequate markets. If there were insufficient capacity available on these systems, if these systems were unavailable to the Company, or if access to these systems were to become commercially unreasonable, the price offered for the Company's production could be significantly depressed, or the Company could be forced to shut in some production or delay or discontinue drilling plans and commercial production following a discovery of hydrocarbons while it constructs its own facility or awaits the availability of third party facilities. The Company also relies (and expects to rely in the future) on facilities developed and owned by third parties in order to store, process, transport, fractionate and sell its oil, NGL and gas production. The Company's plans to develop and sell

its oil and gas reserves could be materially and adversely affected by the inability or unwillingness of third parties to provide sufficient transportation, storage or processing and fractionation facilities to the Company, especially in areas of planned expansion where such facilities do not currently exist.

For example, following Hurricanes Gustav and Ike in 2008, certain Permian Basin gas processors were forced to shut down their plants due to the shutdown of the Texas Gulf Coast NGL fractionators. The Company was able to produce its oil wells and vent or flare the associated gas; however, there is no certainty the Company will be able to vent or flare gas in the future due to potential changes in regulations. The amount of oil and gas that can be produced is subject to limitations in certain circumstances, such as pipeline interruptions due to scheduled and unscheduled maintenance, excessive pressure, physical damage to the gathering, transportation, refining or processing facilities, or lack of capacity on such facilities. The Company has periodically experienced high line pressure at its tank batteries, which has occasionally led to the flaring of gas due to the inability of the gas gathering systems in the areas to support the increased gas production. The curtailments arising from these and similar circumstances may

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last from a few days to several months, and in many cases, the Company may be provided only limited, if any, notice as to when these circumstances will arise and their duration.

To the extent that the Company enters into transportation contracts with pipelines that are subject to FERC regulation, the Company is subject to FERC requirements related to use of such capacity. Any failure on the Company's part to comply with FERC's regulations and policies or with an interstate pipeline's tariff could result in the imposition of civil and criminal penalties.

A limited number of companies purchase a majority of the Company's oil, NGLs and gas. The loss of a significant purchaser could have a material adverse effect on the Company's ability to sell its production.

The Company's operations and drilling activity are concentrated in areas of high industry activity, which may affect its ability to obtain the personnel, equipment, services, resources and facilities access needed to complete its development activities as planned or result in increased costs.

The Company's operations and drilling activity are concentrated in areas in which industry activity had increased rapidly, particularly in the Spraberry field in West Texas and the Eagle Ford Shale play in South Texas. As a result, demand for personnel, equipment, power, services and resources, as well as access to transportation, processing and refining facilities in these areas, increased, as did the costs for those items. In addition, hydraulic fracturing and other operations require significant quantities of water, which supply may be affected by drought conditions. In late 2014, commodity prices began to decline and the demand for goods and services has subsided due to reduced activity in these areas. To the extent that commodity prices improve in the future, any delay or inability to secure the personnel, equipment, power, services, resources and facilities access necessary for the Company to resume or increase its development activities, including the result of any changes in laws or regulations applicable to the Company's operations relating to water usage, could result in oil and gas production volumes being below the Company's forecasted volumes. In addition, any such negative effect on production volumes, or significant increases in costs, could have a material adverse effect on the Company's results of operations, cash flow and profitability.

The Company could experience periods of higher costs if commodity prices rise. These increases could reduce the Company's profitability, cash flow and ability to complete development activities as planned.

Historically, the Company's capital and operating costs have risen during periods of increasing oil, NGL and gas prices. These cost increases result from a variety of factors beyond the Company's control, such as increases in the cost of electricity, steel and other raw materials that the Company and its vendors rely upon; increased demand for labor, services and materials as drilling activity increases; and increased production and ad valorem taxes. Decreased levels of drilling activity in the oil and gas industry in recent periods have led to cost reductions for some drilling equipment, materials and supplies. However, such costs may rise faster than increases in the Company's revenue if commodity prices rise, thereby negatively impacting the Company's profitability, cash flow and ability to complete development activities as scheduled and on budget. This impact may be magnified to the extent that the Company's ability to participate in the commodity price increases is limited by its derivative risk management activities.

The refining industry may be unable to absorb rising U.S. oil and condensate production; in such a case, the resulting surplus could depress prices and restrict the availability of markets, which could adversely affect the Company's results of operations.

Absent an expansion of U.S. refining capacity, rising U.S. production of oil and condensates could result in a surplus of these products in the U.S., which would likely cause prices for these commodities to fall and markets to constrict. Although U.S. law was changed in 2015 to permit the export of oil, exports may not occur if demand is lacking in foreign markets or the price that can be obtained in foreign markets does not support associated transportation and other costs. In such circumstances, the returns on the Company's capital projects would decline, possibly to levels that would make execution of the Company's drilling plans uneconomical, and a lack of market for the Company's products could require that the Company shut in some portion of its production. If this were to occur, the Company's production and cash flow could decrease, or could increase less than forecasted, which could have a material adverse effect on the Company's cash flow and profitability.

The Company's operations are subject to federal, state and local laws and regulations, including those that govern the discharge of materials into the environment and environmental protection, which could cause it to suspend or curtail

its operations or incur substantial costs.

The Company's operations are subject to stringent federal, state and local laws and regulations governing, among other things, permits for the drilling of wells, rates of production, the size and shape of drilling and spacing units or proration units, the transportation and sale of oil, NGLs and gas, worker health and safety, the discharge of materials into the environment and environmental protection. In connection with its operations, the Company must obtain and maintain numerous permits, approvals, and certificates from various federal, state and local governmental authorities, and may incur substantial costs in doing so. For example, there are concerns that the injection of produced water and other fluids resulting from oil and gas activities into

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underground disposal wells regulated under the UIC program may trigger seismic activity in certain areas, including Texas and Colorado. Regulators in some states have imposed, or are considering imposing, rules with certain permitting and data gathering requirements with respect to such wells. Also, states may issue orders to temporarily shut down or to curtail the injection depth of existing disposal wells in the vicinity of seismic events. As another example, in October 2015, the EPA issued a final rule under the CAA lowering the National Ambient Air Quality Standard ("NAAQS") for ground-level ozone from 75 parts per billion to 70 parts per billion under both the primary and secondary standards to provide protection of public health and welfare. Any geographical attainment designations the EPA may make or non-attainment area requirements the EPA may issue pursuant to this NAAQS rule could result in the reclassification of areas or the imposition of more stringent standards that make it more difficult to construct new or modified sources of air pollution in newly designated non-attainment areas. Moreover, states are expected to implement regulations implementing the NAAQS rule that may be more stringent than the federal standards. Future compliance with these legal requirements or with any new or amended environmental laws or regulations could, among other things, delay, restrict or prohibit the issuance of necessary permits, increase the Company's capital expenditures and operating expenses by, for example, requiring installation of new emission controls on some of the Company's equipment, and limit or preclude the use of otherwise available water sources or disposal wells, any one or more of which developments could have a material adverse effect on the Company's business, financial condition and results of operations. As a third example, in connection with the Company's CBM operations in the Raton Basin in Colorado, the Colorado Supreme Court affirmed a state water court holding in 2009 that water produced in connection with CBM operations should be subject to state water-use regulations, including regulations requiring the obtaining of permits for diversion and use of surface and subsurface water, an evaluation of potential competing uses of the water and a possible requirement to provide mitigation water supplies for water rights owners impacted by this extraction. There can be no assurance that present or future regulations will not result in a curtailment of production or processing activities, result in a material increase in the costs of production, development, exploration or processing operations or adversely affect the Company's future operations and financial condition. Noncompliance with these laws and regulations may subject the Company to sanctions, including administrative, civil or criminal penalties, remedial cleanups or corrective actions, delays in permitting or performance of projects, natural resource damages and other liabilities. Such laws and regulations may also affect the costs of acquisitions. In addition, these laws and regulations are subject to amendment or replacement by more stringent laws and regulations.

The nature of the Company's assets and production operations may impact the environment or cause environmental contamination, which could result in material liabilities to the Company.

The Company's assets and production operations may give rise to significant environmental costs and liabilities as a result of the Company's handling of petroleum hydrocarbons and wastes, because of air emissions and water discharges related to its operations, and due to past industry operations and waste disposal practices. The Company's oil and gas business involves the generation, handling, treatment, storage, transport and disposal of wastes, hazardous substances and petroleum hydrocarbons and is subject to environmental hazards, such as oil and produced water spills, gas leaks, pipeline and vessel ruptures and unauthorized discharges of such wastes, substances and hydrocarbons, that could expose the Company to substantial liability due to pollution and other environmental damage. The Company currently owns, leases or operates properties that for many years have been used for oil and gas exploration and production activities, and petroleum hydrocarbons, hazardous substances and wastes may have been released on or under such properties and could be released during future operations. Joint and several strict liabilities may be incurred in connection with such releases of petroleum hydrocarbons, hazardous substances and wastes on, under or from the Company's properties. Private parties, including lessors of properties on which the Company operates and the owners or operators of properties adjacent to the Company's operations and facilities where the Company's petroleum hydrocarbons, hazardous substances or wastes are taken for reclamation or disposal, may also have the right to pursue legal actions to enforce compliance as well as seek damages for noncompliance with environmental laws and regulations or for personal injury or property damage.

The Company may not be able to recover some or any of these costs from sources of contractual indemnity or insurance, as pollution and similar environmental risks generally are not fully insurable, either because such insurance is not available or because of the high premium costs and deductibles associated with obtaining such insurance.

Legislation or regulatory initiatives intended to address seismic activity could restrict the Company's drilling and production activities, as well as its ability to dispose of produced water gathered from such activities, which could have a material adverse effect on its business.

The Company disposes of fluids, including produced water, from oil and gas production operations directly or through the use of third parties. The legal requirements related to the disposal of produced water in underground injection wells are subject to change based on concerns of the public or governmental authorities regarding such disposal activities. One such concern relates to recent seismic events near underground disposal wells used for the disposal by injection of produced water resulting from oil and gas activities. In March 2016, the United States Geological Survey identified at least six states, including Texas and Colorado, with areas of increased rates of induced seismicity that could be attributed to fluid injection or oil and gas extraction. In response

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to concerns regarding induced seismicity, regulators in some states have imposed, or are considering imposing, additional requirements in the permitting of produced water disposal wells or otherwise to assess any relationship between seismicity and the use of such wells. For example, in Texas, the Texas Railroad Commission adopted new rules governing the permitting or re-permitting of wells used to dispose of produced water and other fluids resulting from the production of oil and gas in order to address these seismic activity concerns within the state. Among other things, these rules require companies seeking permits for disposal wells to provide seismic activity data in permit applications, provide for more frequent monitoring and reporting for certain wells and allow the state to modify, suspend or terminate permits on grounds that a disposal well is likely to be, or determined to be, causing seismic activity. In another example, in Colorado, the Colorado Oil and Gas Conservation Commission requires as part of its disposal well permitting process a review for seismicity that considers area-specific knowledge of earthquakes and, as necessary, the acquisition of geologic and geophysical data to assess seismic potential. In addition, states may issue orders to temporarily shut down or to curtail the injection depth of existing wells in the vicinity of seismic events. Furthermore, ongoing lawsuits allege that disposal well operations have caused damage to neighboring properties or otherwise violated state and federal rules regulating waste disposal. These developments could result in additional regulation and restrictions on the use of injection wells by the Company or by commercial disposal well vendors whom the Company may use from time to time to dispose of produced water. Increased regulation and attention given to induced seismicity could also lead to greater opposition, including litigation to oil and gas activities utilizing injection wells for produced water disposal. Any one or more of these developments may result in the Company or its vendors having to limit disposal well volumes, disposal rates and pressures or locations, or require the Company or its vendors to shut down or curtail the injection depth of disposal wells, which events could have a material adverse effect on the Company's business, financial condition and results of operations.

Climate change legislation and regulatory initiatives restricting emissions of GHGs could result in increased operating costs and reduced demand for the oil, NGLs and gas the Company produces.

Climate change continues to attract considerable public and scientific attention. As a result, numerous proposals have been made and are likely to continue to be made at the international, national, regional and state levels of government to monitor and limit emissions of GHGs. These efforts have included consideration of cap-and-trade programs, carbon taxes, GHG reporting and tracking programs, and regulations that directly limit GHG emissions from certain sources. At the federal level, no comprehensive climate change legislation has been implemented to date. The EPA has, however, adopted regulations under the CAA that, among other things, establish certain permits and construction reviews designed to allow operations while ensuring the prevention of significant deterioration in air quality by GHG emissions from large stationary sources that are already potential sources of significant pollutant emissions. The Company could become subject to these permitting requirements and be required to install "best available control technology" to limit emissions of GHGs from any new or significantly modified facilities that the Company may seek to construct in the future if they would otherwise emit large volumes of GHGs from such sources. The EPA has also adopted rules requiring the reporting of GHG emissions on an annual basis from specified GHG emission sources in the United States, including certain oil and gas production facilities, which include certain of the Company's facilities. Federal agencies also have begun directly regulating emissions of methane, a GHG, from oil and gas operations. In June 2016, the EPA published New Source Performance Standards, known as Subpart OOOOa, that require certain new, modified or reconstructed facilities in the oil and gas sector to reduce these methane gas and volatile organic compound emissions. These Subpart OOOOa standards will expand previously issued New Source Performance Standards, published by the EPA in 2012 and known as Subpart OOOO, by using certain equipment-specific emissions control practices, requiring additional controls for pneumatic controllers and pumps as well as compressors and imposing leak detection and repair requirements for well sites and gas compressor and booster stations. Moreover, in November 2016, the EPA issued a final Information Collection Request seeking information about methane emissions from facilities and operators in the oil and gas industry. The EPA has indicated that it intends to use the information from this request to develop Existing Source Performance Standards for the oil and gas industry. If adopted, these standards would not be imposed directly on regulated entities. Instead, they would become guidelines that the states must consider in developing their own rules for regulating sources within their borders. The EPA has

indicated that this information may also be used to develop standards for certain kinds of new and modified equipment and facilities not currently covered under Subpart OOOOa. Additionally, in December 2015, the United States joined the international community at the 21st Conference of the Parties of the United Nations Framework Convention on Climate Change in Paris, France that prepared an agreement requiring member countries to review and "represent a progression" in their intended nationally determined contributions, which set GHG emission reduction goals every five years beginning in 2020. This "Paris agreement" was signed by the United States in April 2016 and entered into force in November 2016. Although this agreement does not create any binding obligations for nations to limit their GHG emissions, it does include pledges to voluntarily limit or reduce future emissions.

The adoption and implementation of any international, federal or state legislation or regulations that requires reporting of GHGs or otherwise restricts emissions of GHGs from the Company's equipment and operations could require the Company to incur increased operating costs, such as costs to purchase and operate emissions control systems, acquire emissions allowances or comply with new regulatory or reporting requirements, including the imposition of a carbon tax, any of which could have an adverse effect on the Company's business, financial condition and results of operations. Moreover, such new legislation or regulatory

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programs could also adversely affect demand for the oil and gas the Company produces and lower the value of its reserves. Depending on the severity of any such limitations, the effect on the value of the Company's reserves could be significant.

Federal, state and local legislative and regulatory initiatives relating to hydraulic fracturing, as well as governmental reviews of such activities, could result in increased costs and additional operating restrictions or delays and adversely affect the Company's production.

Hydraulic fracturing is a common practice that is used to stimulate production of hydrocarbons from tight formations. The Company conducts hydraulic fracturing in the majority of its drilling and completion programs. The process involves the injection of water, sand and additives under pressure into targeted subsurface formations to stimulate oil and gas production. The process is typically regulated by state oil and gas commissions, but several federal agencies have conducted investigations or asserted regulatory authority over certain aspects of the process. For example, in December 2016, the EPA released its final report on the potential impacts of hydraulic fracturing on drinking water resources, concluding that "water cycle" activities associated with hydraulic fracturing may impact drinking water resources under certain circumstances. Additionally, in February 2014, the EPA asserted regulatory authority pursuant to the SDWA's UIC program over hydraulic fracturing activities involving the use of diesel and issued guidance covering such activities, and in 2012 and 2016, the EPA issued final CAA regulations governing performance standards, including standards for the capture of emissions of methane and volatile organic compounds released from hydraulic fracturing activities. Moreover, in June 2016, the EPA published an effluent water final rule prohibiting the discharge of wastewater from onshore unconventional oil and gas extraction facilities to publicly owned wastewater treatment plants, and in May 2014, the EPA issued a prepublication of its Advance Notice of Proposed Rulemaking regarding Toxic Substances Control Act reporting of the chemical substances and mixtures used in hydraulic fracturing. Also, the BLM published a final rule in March 2015 that established new or more stringent standards relating to hydraulic fracturing on federal and American Indian lands. In June 2016, a Wyoming federal judge struck down this final rule, finding that the BLM lacked congressional authority to promulgate the rule, and that decision is currently being appealed by the federal government.

From time to time, the U.S. Congress has considered adopting legislation intended to provide for federal regulation of hydraulic fracturing and to require disclosure of the chemicals used in the hydraulic-fracturing process. In addition, certain states in which the Company operates, including Texas and Colorado, have adopted, and other states are considering adopting, regulations that could impose new or more stringent permitting, disclosure, disposal and well-construction requirements on hydraulic-fracturing operations. States could elect to prohibit high volume hydraulic fracturing altogether, following the lead of New York in 2015. Also, local land use restrictions, such as city ordinances, may restrict or prohibit drilling in general or hydraulic fracturing in particular. For example, in November 2014, voters in the city of Denton, Texas, voted for a ban on hydraulic fracturing within city limits. However, the ban was the subject of lawsuits by the Texas General Land Office and the Texas Oil and Gas Law Association, and spurred the adoption of Texas House Bill 40 in May 2015, which law provided that the regulation of oil and gas operations in Texas was under the exclusive jurisdiction of the state and preempted local regulation of those operations. However, pursuant to House Bill 40, municipalities and political subdivisions in Texas have the right to enact "commercially reasonable" regulations for surface activities. In the event federal, state or local restrictions pertaining to hydraulic fracturing are adopted in areas where the Company is currently conducting operations, or in the future plans to conduct operations, the Company may incur additional costs to comply with such requirements that may be significant in nature, experience delays or curtailment in the pursuit of exploration, development or production activities, and perhaps be limited or precluded in the drilling of wells or in the volume that the Company is ultimately able to produce from its reserves.

Laws and regulations pertaining to threatened and endangered species could delay or restrict the Company's operations and cause it to incur substantial costs.

Various federal and state statutes prohibit certain actions that adversely affect endangered or threatened species and their habitats, migratory birds, wetlands and natural resources. These statutes include the ESA, the Migratory Bird Treaty Act, the CWA, OPA and CERCLA. The U.S. Fish and Wildlife Service (the "FWS") may designate critical

habitat and suitable habitat areas that it believes are necessary for survival of threatened or endangered species. Any designation by the FWS of a critical or suitable habitat with respect to a threatened or endangered species could result in further material restrictions to federal land use and private land use and could delay or prohibit land access or oil and gas development. If harm to species or damages to wetlands, habitat or natural resources occur or may occur, government entities or, at times, private parties may act to prevent oil and gas exploration or development activities or seek damages for harm to species, habitat or natural resources resulting from drilling, construction or releases of petroleum hydrocarbons, wastes, hazardous substances or other regulated materials, and, in some cases, may seek criminal penalties. Moreover, as a result of one or more settlements entered into by the FWS, the agency is required to make determinations on the potential listing of numerous species as endangered or threatened under the ESA. The designation of previously unprotected species as threatened or endangered in areas where the Company conducts operations could cause the Company to incur increased costs arising from species protection measures or could result in delays or limitations on its development and production activities that could have an adverse effect on the Company's ability to develop and produce reserves.

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The Company is a party to debt instruments, a credit facility and other financial commitments that may restrict its business and financing activities.

The Company is a borrower under fixed rate senior notes and maintains a credit facility that is currently undrawn. The terms of the Company's borrowings specify scheduled debt repayments and require the Company to comply with certain associated covenants and restrictions. The Company's ability to comply with the debt repayment terms, associated covenants and restrictions is dependent on, among other things, factors outside the Company's direct control, such as commodity prices and interest rates. The Company is also subject to various commitments for leases, drilling contracts, derivative contracts, firm transportation, processing and fractionation, and purchase obligations for services and products. The Company's financial commitments could have important consequences to its business including, but not limited to, the following:

- increasing its vulnerability to adverse economic and industry conditions;
- limiting its ability to fund future development activities or engage in future acquisitions; and
- placing it at a competitive disadvantage compared to competitors that have less debt and/or fewer financial commitments.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Commitments, Capital Resources and Liquidity" and Notes G and J of Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for information regarding the Company's outstanding debt and other commitments as of December 31, 2016 and the terms associated therewith.

The Company's ability to obtain additional financing is also affected by the Company's debt credit ratings and competition for available debt financing. A ratings downgrade could adversely impact the Company's ability to access debt markets, increase the borrowing cost under the Company's credit facility and the cost of future debt, and potentially require the Company to post letters of credit or other forms of collateral for certain obligations.

The Company faces significant competition and some of its competitors have resources in excess of the Company's available resources.

The oil and gas industry is highly competitive. The Company competes with a large number of companies, producers and operators in a number of areas such as:

- seeking to acquire oil and gas properties suitable for development or exploration;
- marketing oil, NGL and gas production; and
- seeking to acquire the equipment and expertise, including trained personnel, necessary to evaluate, operate and develop its properties.

Some of the Company's competitors are larger and have substantially greater financial and other resources than the Company. To a lesser extent, the Company also faces competition from companies that supply alternative sources of energy, such as wind or solar power. See "Item 1. Business - Competition, Markets and Regulations" for additional discussion regarding competition.

The Company's sales and purchases of oil, NGLs, gas or other energy commodities, and any derivative activities related to such energy commodities, expose the Company to potential regulatory risks.

FERC, the FTC and the CFTC hold statutory authority to monitor certain segments of the physical and futures energy commodities markets relevant to the Company's business. These agencies have imposed broad regulations prohibiting fraud and manipulation of such markets. With regard to the Company's physical sales and purchases of oil, NGLs, gas or other energy commodities, and any derivative activities related to these energy commodities, the Company is required to observe the market-related regulations enforced by these agencies, which hold substantial enforcement authority. Failures to comply with such regulations, as interpreted and enforced, could materially and adversely affect the Company's results of operations and financial condition.

Estimates of proved reserves and future net cash flows are not precise. The actual quantities and net cash flows of the Company's proved reserves may prove to be lower than estimated.

Numerous uncertainties exist in estimating quantities of proved reserves and future net cash flows therefrom. The estimates of proved reserves and related future net cash flows set forth in this Report are based on various assumptions, which may ultimately prove to be inaccurate.

Petroleum engineering is a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of economically recoverable oil and gas reserves and estimates of future net cash flows depend upon a number of variable factors and assumptions, including the following:

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- historical production from the area compared with production from other producing areas;
- the quality and quantity of available data;
- the interpretation of that data;
- the assumed effects of regulations by governmental agencies;
- assumptions concerning future commodity prices; and
- assumptions concerning future operating costs, severance, ad valorem and excise taxes, development costs, transportation costs and workover and remedial costs.

Because all proved reserve estimates are to some degree subjective, each of the following items may differ materially from those assumed in estimating proved reserves:

- the quantities of oil and gas that are ultimately recovered;
- the production costs incurred to recover the reserves;
- the amount and timing of future development expenditures; and
- future commodity prices.

Furthermore, different reserve engineers may make different estimates of proved reserves and cash flows based on the same available data. The Company's actual production, revenues and expenditures with respect to proved reserves will likely be different from estimates, and the differences may be material.

As required by the SEC, the estimated discounted future net cash flows from proved reserves are based on average prices preceding the date of the estimate and costs as of the date of the estimate, while actual future prices and costs may be materially higher or lower. Actual future net cash flows also will be affected by factors such as:

- the amount and timing of actual production;
- levels of future capital spending;
- increases or decreases in the supply of or demand for oil, NGLs and gas; and
- changes in governmental regulations or taxation.

Standardized Measure is a reporting convention that provides a common basis for comparing oil and gas companies subject to the rules and regulations of the SEC. In general, it requires the use of commodity prices that are based upon a historical 12-month unweighted average, as well as operating and development costs being incurred at the end of the reporting period. Consequently, it may not reflect the prices ordinarily received or that will be received for future oil and gas production because of seasonal price fluctuations or other varying market conditions, nor may it reflect the actual costs that will be required to produce or develop the oil and gas properties. Accordingly, estimates included herein of future net cash flows may be materially different from the future net cash flows that are ultimately received.

In addition, the ten percent discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company or the oil and gas industry in general. Therefore, the estimates of discounted future net cash flows or Standardized Measure in this Report should not be construed as accurate estimates of the current market value of the Company's proved reserves.

The Company's business could be negatively affected by security threats, including cybersecurity threats, and other disruptions.

As an oil and gas producer, the Company faces various security threats, including cybersecurity threats to gain unauthorized access to sensitive information or to render data or systems unusable; threats to the security of the Company's facilities and infrastructure or third party facilities and infrastructure, such as processing plants and pipelines; and threats from terrorist acts. The potential for such security threats has subjected the Company's operations to increased risks that could have a material adverse effect on the Company's business. In particular, the Company's implementation of various procedures and controls to monitor and mitigate security threats and to increase security for the Company's information, facilities and infrastructure may result in increased capital and operating costs. Costs for insurance may also increase as a result of security threats, and some insurance coverage may become more difficult to obtain, if available at all. Moreover, there can be no assurance that such procedures and controls will be sufficient to prevent security breaches from occurring. If any of these security breaches were to occur, they could lead to losses of sensitive information, critical infrastructure or capabilities essential to the Company's operations and

could have a material adverse effect on the Company's reputation, financial position, results of operations and cash flows. Cybersecurity attacks in particular are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data and systems, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. These events could damage the Company's reputation and lead to financial losses from remedial actions, loss of business or potential liability.

A failure by purchasers of the Company's production to satisfy their obligations to the Company could require the Company to recognize a pre-tax charge in earnings and have a material adverse effect on the Company's results of operation.

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The Company relies on a limited number of purchasers to purchase a majority of its products. To the extent that purchasers of the Company's production rely on access to the credit or equity markets to fund their operations, there is a risk that those purchasers could default in their contractual obligations to the Company if such purchasers were unable to access the credit or equity markets for an extended period of time. If for any reason the Company were to determine that it was probable that some or all of the accounts receivable from any one or more of the purchasers of the Company's production were uncollectible, the Company would recognize a pre-tax charge in the earnings of that period for the probable loss.

Declining general economic, business or industry conditions could have a material adverse effect on the Company's results of operations.

Since 2010, the economies in the United States and certain other countries have continued to stabilize with resulting improvements in industrial demand and consumer confidence. However, other economies, such as those of certain European, Asian and South American nations, continue to face economic struggles or slowing economic growth and, should these conditions worsen, there could be a significant adverse effect on global financial markets and commodity prices. In addition, continued hostilities in the Middle East and the occurrence or threat of terrorist attacks in the United States or other countries could adversely affect the global economy. If the economic climate in the United States or abroad were to deteriorate, demand for petroleum products could diminish, which could depress the prices at which the Company could sell its oil, NGLs and gas and ultimately decrease the Company's cash flows and profitability.

Changes to U.S. federal income tax legislation could eliminate or postpone certain tax deductions that currently are available with respect to oil and gas exploration and development, or could impose new or additional taxes, and such changes could have an adverse effect on the Company's financial position, results of operations and cash flows.

In past years, legislation has been proposed that would, if enacted into law, make significant changes to U.S. tax laws, including to certain key U.S. federal income tax incentives currently available to oil and gas companies. Such legislative changes have included, but not been limited to, (i) the repeal of the percentage depletion allowance for oil and gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for certain domestic production activities and (iv) an extension of the amortization period for certain geological and geophysical expenditures. U.S. Congress could consider, and could include, some or all of these proposals as part of tax reform legislation to accompany lower federal income tax rates. Moreover, other more general features of tax reform legislation, including changes to cost recovery rules and to the deductibility of interest expense, may be developed that also would change the taxation of oil and gas companies. It is unclear whether these or similar changes will be enacted and, if enacted, how soon any such changes could take effect. In addition, the Company, from time to time, recognizes tax benefits from uncertain tax positions if it believes, based upon the technical merits of the position, that the position will more likely than not be sustained upon examination by the taxing authorities. For example, as of December 31, 2016, the Company had unrecognized tax benefits of \$112 million resulting from research and experimental expenditures related to horizontal drilling and completions innovations. If all or a portion of the unrecognized tax benefit is sustained upon examination by the taxing authorities, the tax benefit will be recognized as a reduction to the Company's deferred tax liability and will affect the Company's effective tax rate in the period it is recognized. The passage of any legislation as a result of these proposals, any other similar changes in U.S. federal income tax laws or an unfavorable determination in regard to the Company's uncertain tax position could eliminate or postpone certain tax deductions that currently are available with respect to oil and gas development, or increase costs, and any such changes could have an adverse effect on the Company's financial position, results of operations and cash flows.

The Company's use of seismic data is subject to interpretation and may not accurately identify the presence of oil and gas, which could adversely affect the results of its drilling operations.

Even when properly used and interpreted, seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators and do not enable the interpreter to know whether hydrocarbons are, in fact, present in those structures. As a result, the Company's drilling activities may not be successful or economical. In addition, the use of advanced technologies, such as 3-D seismic data, requires greater

pre-drilling expenditures than traditional drilling strategies, and the Company could incur losses as a result of such expenditures.

The enactment of derivatives legislation could have an adverse effect on the Company's ability to use derivative instruments to reduce the effect of commodity price, interest rate and other risks associated with its business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") enacted in July 2010, established federal oversight and regulation of the over-the-counter derivatives market and entities, such as the Company, that participate in that market. The Dodd-Frank Act requires the CFTC and the SEC to promulgate rules and regulations for its implementation. Although the CFTC has issued final regulations to implement significant aspects of the legislation, others remain to be finalized or implemented and it is not possible at this time to predict when this will be accomplished.

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In October 2011, the CFTC issued regulations to set position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. The initial position limits rule was vacated by the United States District Court for the District of Columbia in September 2012. However, in November 2013, the CFTC proposed new rules that would place limits on positions in certain futures and options contracts and equivalent swaps for or linked to certain physical commodities, subject to exceptions for certain bona fide derivative transactions. As these new position limit rules are not yet final, the impact of those provisions on the Company is uncertain at this time.

The CFTC has designated certain interest rate swaps and credit default swaps for mandatory clearing and the associated rules also will require the Company, in connection with covered derivative activities, to comply with clearing and trade-execution requirements or take steps to qualify for an exemption to such requirements. The CFTC has not yet proposed rules designating any other classes of swaps, including physical commodity swaps, for mandatory clearing. Although the Company believes it qualifies for the end-user exception from the mandatory clearing requirements for swaps entered to mitigate its commercial risks, the application of the mandatory clearing and trade execution requirements to other market participants, such as swap dealers, may change the cost and availability of the swaps that the Company uses. If the Company's swaps do not qualify for the commercial end-user exception, or if the cost of entering into uncleared swaps becomes prohibitive, the Company may be required to clear such transactions. The ultimate effect of the proposed rules and any additional regulations on the Company's business is uncertain.

In addition, certain banking regulators and the CFTC have adopted final rules establishing minimum margin requirements for uncleared swaps. Although the Company expects to qualify for the end-user exception from margin requirements for swaps entered into to manage its commercial risks, the application of such requirements to other market participants, such as swap dealers, may change the cost and availability of the swaps that the Company uses. If any of the Company's swaps do not qualify for the commercial end-user exception, the posting of collateral could reduce its liquidity and cash available for capital expenditures and could reduce its ability to manage commodity price volatility and the volatility in its cash flows.

The full impact of the Dodd-Frank Act and related regulatory requirements upon the Company's business will not be known until the regulations are implemented and the market for derivatives contracts has adjusted. The Dodd-Frank Act and any new regulations could significantly increase the cost of derivative contracts, materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks the Company encounters and reduce the Company's ability to monetize or restructure its existing derivative contracts. If the Company reduces its use of derivatives as a result of the Dodd-Frank Act and regulations, the Company's results of operations may become more volatile and its cash flows may be less predictable, which could adversely affect the Company's ability to plan for and fund capital expenditures. Finally, the Dodd-Frank Act was intended, in part, to reduce the volatility of oil and gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and gas. The Company's revenues could therefore be adversely affected if a consequence of the Dodd-Frank Act and implementing regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on the Company, its financial condition and its results of operations. In addition, the European Union and other non-U.S. jurisdictions are implementing regulations with respect to the derivatives market. To the extent the Company transacts with counterparties in foreign jurisdictions, it may become subject to such regulations. At this time, the impact of such regulations is not clear.

The future of the CFTC's rulemaking remains uncertain under the new presidential administration. Recent rule proposals by the CFTC suggest that final consideration of major proposed rules will be made by the new administration. During the last quarter of 2016, the CFTC decided to re-propose, rather than finalize, certain regulations, including (a) limitations on speculative futures and swap positions, (b) regulations on automated trading algorithms and (c) limitations on swap capital requirements for swap dealers and major swap participants. In December 2016, the Chairman of the CFTC stated that the CFTC decided to re-propose, rather than finalize, the above regulations, in part based on the uncertainty over the next presidential administration. It is also uncertain whether the current Chairman of the CFTC and other CFTC staff will remain with the CFTC under the new presidential

administration. The current Chairman's term expires in April 2017, and two seats are currently open for Republican appointees, leaving the CFTC's future rulemaking unclear.

Provisions of the Company's charter documents and Delaware law may inhibit a takeover, which could limit the price investors might be willing to pay in the future for the Company's common stock.

Provisions in the Company's certificate of incorporation and bylaws may have the effect of delaying or preventing an acquisition of the Company or a merger in which the Company is not the surviving company and may otherwise prevent or slow changes in the Company's board of directors and management. In addition, because the Company is incorporated in Delaware, it is governed by the provisions of Section 203 of the Delaware General Corporation Law. These provisions could discourage an acquisition of the Company or other change in control transactions and thereby negatively affect the price that investors might be willing to pay in the future for the Company's common stock.

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The Company's sand mining operations are subject to operating risks that are often beyond the Company's control, and such risks may not be covered by insurance.

Ownership of industrial sand mining operations is subject to risks, many of which are beyond the Company's control.

These risks include:

- unusual or unexpected geological formations or pressures;
- cave-ins, pit wall failures or rock falls;
- unanticipated ground, grade or water conditions;
- inclement or hazardous weather conditions, including flooding, and the physical impacts of climate change;
- environmental hazards, such as unauthorized spills, releases and discharges of wastes, vessel ruptures and emission of unpermitted levels of pollutants;
- changes in laws and regulations;
- inability to acquire or maintain necessary permits or mining or water rights;
- restrictions on blasting operations;
- inability to obtain necessary production equipment or replacement parts;
- reduction in the amount of water available for processing;
- technical difficulties or failures;
- labor disputes;
- late delivery of supplies;
- fires, explosions or other accidents; and
- facility interruptions or shutdowns in response to environmental regulatory actions.

Any of these risks could result in damage to, or destruction of, the Company's mining properties or production facilities, personal injury, environmental damage, delays in mining or processing, losses or possible legal liability. Not all of these risks are insurable, and the Company's insurance coverage contains limits, deductibles, exclusions and endorsements. The Company's insurance coverage may not be sufficient to meet its needs in the event of loss and any such loss may have a material adverse effect on the Company.

The Company's estimates of sand reserves and resource deposits are imprecise and actual reserves could be less than estimated.

The Company bases its sand reserve and resource estimates on engineering, economic and geological data assembled and analyzed by engineers and geologists, which are periodically reviewed by outside firms. However, commercial sand reserve estimates are necessarily imprecise and depend to some extent on statistical inferences drawn from available drilling data, which may prove unreliable. There are numerous uncertainties inherent in estimating quantities and qualities of commercial sand reserves and costs to mine recoverable reserves, including many factors beyond the Company's control. Estimates of economically recoverable commercial sand reserves necessarily depend on a number of factors and assumptions, all of which may vary considerably from actual results, such as:

- geological and mining conditions or effects from prior mining that may not be fully identified by available data or that may differ from experience;
- assumptions concerning future prices of commercial sand products, operating costs, mining technology improvements, development costs and reclamation costs; and
- assumptions concerning future effects of regulation, including the issuance of required permits and taxes by governmental agencies.

The Company's sand mining operations are subject to extensive environmental and occupational health and safety regulations that impose significant costs and potential liabilities.

The Company's sand mining operations are subject to a variety of federal, state and local environmental requirements affecting the mining and mineral processing industry, including, among others, those relating to employee health and safety, environmental permitting and licensing, air emissions and water discharges, GHG emissions, water pollution, waste management and disposal, remediation of soil and groundwater contamination, land use restrictions, reclamation and restoration of properties, wastes, hazardous substances and other regulated materials and natural resources. Some environmental laws impose substantial penalties for noncompliance, and others, such as the

CERCLA, impose strict, retroactive and joint and several liability for the remediation of releases of hazardous substances. Failure to properly handle, transport, store or dispose of wastes, hazardous substances and other regulated materials or otherwise conduct the Company's sand mining operations in compliance with environmental laws could expose the Company to liability for governmental penalties, cleanup costs and civil or criminal liability associated with releases of such materials into the environment, damages to property or natural resources and other damages, as well as potentially impair the Company's ability to conduct its sand mining operations. In addition, environmental laws and regulations are subject to amendment, replacement or re-interpretation by more stringent and comprehensive legal requirements.

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While the Company's environmental compliance costs with existing laws and regulations have not historically had a material adverse effect on its results of operations, there can be no assurance that such costs will not be material in the future. Moreover, such future compliance with existing, new or amended laws and regulations could restrict the Company's ability to expand its facilities or extract mineral deposits or could require the Company to acquire costly equipment or to incur other significant expenses in connection with its sand mining operations, which restrictions or costs could have a material adverse effect on the Company's sand mining operations.

Any failure by the Company to comply with applicable environmental laws and regulations in connection with its sand mining operations may cause governmental authorities to take actions that could adversely affect the Company, including:

- issuance of administrative, civil and criminal penalties;
- denial, modification or revocation of permits or other authorizations;
- imposition of injunctive obligations or other limitations on the Company's operations, including interruptions or cessation of operations; and
- requirements to perform site investigatory, remedial or other corrective actions.

In addition to environmental regulation, the Company's sand mining operations are subject to laws and regulations relating to worker health and safety, including such matters as human exposure to crystalline silica dust. Several federal and state regulatory authorities, including the U.S. Mining Safety and Health Administration, may continue to propose changes in their regulations regarding workplace exposure to crystalline silica, such as permissible exposure limits and required controls and personal protective equipment.

The Company's sand mining operations are subject to the Federal Mine Safety and Health Act of 1977 and amending legislation, which impose stringent health and safety standards on numerous aspects of the Company's sand mining operations.

The Company's sand mining operations are subject to the Federal Mine Safety and Health Act of 1977, as amended by the Mine Improvement and New Emergency Response Act of 2006, which imposes stringent health and safety standards on numerous aspects of mineral extraction and processing operations, including the training of personnel, operating procedures, operating equipment and other matters. This Act, as amended, is a strict liability statute and any failure by the Company to comply with such existing or any future standards, or any more stringent interpretation or enforcement thereof, could have a material adverse effect on the Company's sand mining operations or otherwise impose significant restrictions on the Company's ability to conduct mineral extraction and processing operations.

The Company's sand mining operations are subject to extensive governmental regulations that impose significant costs and liabilities.

In addition to the environmental and occupational health and safety regulation discussed above, the Company's sand mining operations are also subject to extensive governmental regulation on matters such as permitting and licensing requirements, reclamation and restoration of mining properties after mining is completed, and the effects that mining have on groundwater quality and availability. Also, the Company's sand mining operations require numerous governmental, environmental, mining and other permits, water rights and approvals authorizing operations at each sand mining facility.

In order to obtain permits, renewals of permits or other approvals in the future for its sand mining operations, the Company may be required to prepare and present data to governmental authorities pertaining to the effect that any such activities may have on the environment. Obtaining or renewing required permits or approvals may be delayed or prevented due to opposition by neighboring property owners, members of the public or other third parties and other factors beyond the Company's control. Moreover, issuance of any permits, permit renewals or other approvals by governmental agencies may be conditioned on new or modified requirements or procedures with respect to mining that may be costly or time-consuming to implement. A decision by a governmental agency or other third party to deny or delay issuing a new or renewed permit or approval, or to revoke or substantially modify an existing permit or approval, could have a material adverse effect on the Company's sand mining operations at the affected facility. Current or future regulations could have a material adverse effect on the Company's sand mining operations and the Company may not be able to renew or obtain permits or other approvals in the future.

The Company's sand mining operations and hydraulic fracturing may result in silica-related health issues and litigation that could have a material adverse effect on the Company.

The inhalation of respirable crystalline silica dust is associated with the lung disease silicosis. There is evidence of an association between crystalline silica exposure or silicosis and lung cancer and a possible association with other diseases, including immune system disorders, such as scleroderma. These health risks have been, and may continue to be, a significant issue confronting the commercial sand industry. The actual or perceived health risks of mining, processing and handling sand could materially and

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adversely affect the Company through the threat of product liability or personal injury lawsuits, recently adopted OSHA silica regulations and increased scrutiny by federal, state and local regulatory authorities.

Premier Silica, the Company's wholly-owned sand mining subsidiary, is named as a defendant, usually among many defendants, in numerous products liability lawsuits brought by or on behalf of current or former employees of Premier Silica's commercial customers alleging damages caused by silica exposure. As of December 31, 2016, Premier Silica was the subject of silica exposure claims from approximately 19 plaintiffs. The great majority of these claims have been inactive for many years due to the plaintiffs' failure to meet specific legal requirements to advance their claims. Almost all of the claims pending against Premier Silica arise out of the alleged use of Premier Silica's sand products in foundries or as an abrasive blast media and have been filed in the states of Texas, Mississippi and Ohio, although some cases have been brought in other jurisdictions over the years.

It is possible that Premier Silica will have additional silica-related claims filed against it, including claims that allege silica exposure for periods for which there is not insurance coverage. In addition, it is possible that similar claims could be asserted arising out of the Company's other operations, including its hydraulic fracturing operations. Any pending or future claims or inadequacies of insurance coverage or contractual indemnification could have a material adverse effect on the Company's results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Reserve Estimation Procedures and Audits

The information included in this Report about the Company's proved reserves as of December 31, 2016, 2015 and 2014 is based on evaluations prepared by the Company's engineers and audited by Netherland, Sewell & Associates, Inc. ("NSAI"), with respect to the Company's major properties. The Company has no oil and gas reserves from non-traditional sources. Additionally, the Company does not provide optional disclosure of probable or possible reserves.

Reserve estimation procedures. The Company has established internal controls over reserve estimation processes and procedures to support the accurate and timely preparation and disclosure of reserve estimates in accordance with SEC requirements. These controls include oversight of the reserves estimation reporting processes by Pioneer's Corporate Reserves Group ("Corporate Reserves"), and annual external audits of substantial portions of the Company's proved reserves by NSAI.

Individual asset teams are responsible for the day-to-day management of the oil and gas activities in each of the Company's Permian Basin, South Texas, Raton and West Panhandle asset areas (the "Asset Teams"). The Company's Asset Teams are each staffed with reservoir engineers and geoscientists who prepare reserve estimates at the end of each calendar quarter for the assets that they manage, using reservoir engineering information technology. There is shared oversight of the Asset Teams' reservoir engineers by the Asset Teams' managers and the Vice President of Corporate Reserves, each of whom is in turn subject to direct or indirect oversight by