

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

FORM 10-Q

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

For the quarterly period ended September 30, 2021
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

(State or other jurisdiction of incorporation or organization)

75-2702753

(I.R.S. Employer Identification No.)

777 Hidden Ridge

Irving, Texas 75038

(Address of principal executive offices and zip code)

(972) 444-9001

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$.01 per share	PXD	New York Stock Exchange

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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 every Interactive Data File required to be submitted 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 such files).
Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

Yes No

Number of shares of Common Stock outstanding as of November 3, 2021 244,133,701

PIONEER NATURAL RESOURCES COMPANY
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PIONEER NATURAL RESOURCES COMPANY**Cautionary Statement Concerning Forward-Looking Statements**

The information in this Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "forecasts," "models," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate" or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or 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.

These risks and uncertainties include, among other things, volatility of commodity prices; product supply and demand; the impact of a widespread outbreak of an illness, such as the COVID-19 pandemic, on global and U.S. economic activity; competition; the ability to obtain environmental and other permits and the timing thereof; the effect of future regulatory or legislative actions on Pioneer or the industry in which it operates, including potential changes to tax laws and rates and the risk of new restrictions with respect to development activities; the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms; potential liability resulting from pending or future litigation; the costs and results of drilling and operations; availability of equipment, services, resources and personnel required to perform the Company's drilling and operating activities; access to and availability of transportation, processing, fractionation, refining, storage and export facilities; Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled; the risk that the Company will not fully or timely realize the expected synergies and accretion metrics from the Parsley Energy, Inc. and Double Eagle III Midco 1 LLC acquisitions; access to and cost of capital; the financial strength of counterparties to Pioneer's credit facility, investment instruments and derivative contracts and purchasers of Pioneer's oil, NGL and gas production; uncertainties about estimates of reserves, identification of drilling locations and the ability to add proved reserves in the future; the Company's ability to achieve its emissions reduction, flaring and other ESG goals; the assumptions underlying forecasts, including forecasts of production, capital expenditures, expenses, cash flow and cash flow from purchases and sales of oil and gas, net of firm transportation commitments; sources of funding; quality of technical data; environmental and weather risks, including the possible impacts of climate change; cybersecurity risks; the risks associated with the ownership and operation of the Company's water services business and acts of war or terrorism. These and other risks are described in Pioneer's Annual Report on Form 10-K for the year ended December 31, 2020, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission. 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 than the anticipated results described in the forward-looking statements. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition," "Part I, Item 1. Business — Regulation," "Part I, Item 1A. Risk Factors," "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2020 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. Pioneer undertakes no duty to publicly update these statements except as required by law.

PIONEER NATURAL RESOURCES COMPANY**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 and is a measure of gas volume.
- "**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.
- "**Brent**" means Brent oil price, a major trading classification of light sweet oil that serves as a benchmark price for oil worldwide.
- "**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.
- "**DD&A**" means depletion, depreciation and amortization.
- "**Dutch TTF**" means Title Transfer Facility and is a virtual trading hub for gas in the Netherlands and is the primary gas pricing hub for the European gas market.
- "**GAAP**" means accounting principles generally accepted in the United States of America.
- "**HH**" means Henry Hub, a distribution hub in Louisiana that serves as the delivery location for gas futures contracts on the NYMEX.
- "**Houston Ship Channel**" is a benchmark pricing hub for South Texas gas.
- "**MBbl**" means one thousand Bbls.
- "**MBOE**" means one thousand BOEs.
- "**Mcf**" means one thousand cubic feet and is a measure of gas volume.
- "**MEH**" means Magellan East Houston, an oil index benchmark price of WTI in Houston, Texas.
- "**MMBtu**" means one million Btus.
- "**NGLs**" means natural gas liquids, which are the heavier hydrocarbon liquids that are separated from the gas stream; such liquids include ethane, propane, isobutane, normal butane and natural gasoline.
- "**NYMEX**" means the New York Mercantile Exchange.
- "**OPEC**" means the Organization of Petroleum Exporting Countries.
- "**Pioneer**" or the "**Company**" means Pioneer Natural Resources Company and its subsidiaries.
- "**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 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.
- "**SEC**" means the United States Securities and Exchange Commission.
- "**SoCal**" is a benchmark pricing hub for Southern California gas.
- "**U.S.**" means United States.
- "**WAHA**" is a benchmark pricing hub for West Texas gas.
- "**WTI**" means West Texas Intermediate, a light sweet blend of oil produced from fields in western Texas and is a grade of oil used as a benchmark in oil pricing.
- 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.
- All currency amounts are expressed in U.S. dollars.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(in millions)

	September 30, 2021	December 31, 2020
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 581	\$ 1,442
Restricted cash	46	59
Accounts receivable, net	1,680	695
Income taxes receivable	1	4
Inventories	340	224
Derivatives	4	5
Investment in affiliate	144	123
Other	45	43
Total current assets	<u>2,841</u>	<u>2,595</u>
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	35,582	23,934
Unproved properties	8,498	576
Accumulated depletion, depreciation and amortization	(11,836)	(10,071)
Total oil and gas properties, net	<u>32,244</u>	<u>14,439</u>
Other property and equipment, net	1,726	1,584
Operating lease right-of-use assets	319	197
Goodwill	261	261
Derivatives	1	3
Other assets	157	150
	<u>\$ 37,549</u>	<u>\$ 19,229</u>

The financial information included as of September 30, 2021 has been prepared by management without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS (continued)
(in millions, except share data)

	<u>September 30, 2021</u>	<u>December 31,</u> <u>2020</u>
	(Unaudited)	
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	\$ 2,227	\$ 928
Due to affiliates	168	102
Interest payable	30	35
Income taxes payable	29	4
Current portion of long-term debt	244	140
Derivatives	1,176	234
Operating leases	115	100
Other	546	363
Total current liabilities	<u>4,535</u>	<u>1,906</u>
Long-term debt	6,685	3,160
Derivatives	151	66
Deferred income taxes	1,833	1,366
Operating leases	220	110
Other liabilities	932	1,052
Equity:		
Common stock, \$0.01 par value; 500,000,000 shares authorized; 244,122,575 and 175,525,268 shares issued as of September 30, 2021 and December 31, 2020, respectively	2	2
Additional paid-in capital	19,104	9,323
Treasury stock at cost: 139 and 11,047,856 shares as of September 30, 2021 and December 31, 2020, respectively	—	(1,234)
Retained earnings	4,087	3,478
Total equity	<u>23,193</u>	<u>11,569</u>
Commitments and contingencies	<u>\$ 37,549</u>	<u>\$ 19,229</u>

The financial information included as of September 30, 2021 has been prepared by management without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	(Unaudited)			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues and other income:				
Oil and gas	\$ 3,282	\$ 922	\$ 7,787	\$ 2,617
Sales of purchased commodities	1,679	935	4,507	2,391
Interest and other income (loss), net	2	13	42	(145)
Derivative loss, net	(501)	(141)	(2,024)	(41)
Gain on disposition of assets, net	1	2	14	7
	<u>4,463</u>	<u>1,731</u>	<u>10,326</u>	<u>4,829</u>
Costs and expenses:				
Oil and gas production	323	163	890	506
Production and ad valorem taxes	179	63	445	182
Depletion, depreciation and amortization	704	393	1,825	1,243
Purchased commodities	1,762	998	4,644	2,598
Exploration and abandonments	10	16	40	35
General and administrative	72	64	216	180
Accretion of discount on asset retirement obligations	2	2	5	7
Interest	41	34	122	94
Other	34	98	384	273
	<u>3,127</u>	<u>1,831</u>	<u>8,571</u>	<u>5,118</u>
Income (loss) before income taxes	1,336	(100)	1,755	(289)
Income tax benefit (provision)	(291)	15	(400)	46
Net income (loss) attributable to common stockholders	<u>\$ 1,045</u>	<u>\$ (85)</u>	<u>\$ 1,355</u>	<u>\$ (243)</u>
Net income (loss) per share attributable to common stockholders:				
Basic	\$ 4.27	\$ (0.52)	\$ 5.88	\$ (1.47)
Diluted	\$ 4.07	\$ (0.52)	\$ 5.60	\$ (1.47)
Weighted average shares outstanding:				
Basic	244	165	230	165
Diluted	257	165	242	165
Dividends declared per share	\$ 2.07	\$ 0.55	\$ 3.19	\$ 1.65

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF EQUITY
(in millions, except share data and dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders					Total Equity
	Shares Outstanding (in thousands)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	
Balance as of December 31, 2020	164,477	\$ 2	\$ 9,323	\$ (1,234)	\$ 3,478	\$ 11,569
Dividends declared (\$0.56 per share)	—	—	—	—	(122)	(122)
Cumulative effect of accounting change on convertible senior notes:						
Equity component	—	—	(230)	—	28	(202)
Deferred tax component	—	—	50	—	(6)	44
Exercise of long-term incentive stock options	55	—	(2)	8	—	6
Purchases of treasury stock	(99)	—	—	(13)	—	(13)
Shares issued or reissued for Parsley Energy, Inc. ("Parsley") acquisition	51,655	—	5,644	1,238	—	6,882
Stock-based compensation costs:						
Vested compensation awards, net	623	—	—	—	—	—
Compensation costs included in net loss	—	—	19	—	—	19
Compensation costs included in net loss associated with Parsley acquisition	—	—	33	—	—	33
Net loss	—	—	—	—	(70)	(70)
Balance as of March 31, 2021	216,711	\$ 2	\$ 14,837	\$ (1)	\$ 3,308	\$ 18,146
Dividends declared (\$0.56 per share)	—	—	—	—	(138)	(138)
Purchases of treasury stock	(2)	—	—	(1)	—	(1)
Shares issued or reissued for Double Eagle III Midco I LLC acquisition	27,187	—	4,234	—	—	4,234
Stock-based compensation costs:						
Vested compensation awards, net	63	—	—	—	—	—
Compensation costs included in net income	—	—	17	—	—	17
Net income	—	—	—	—	380	380
Balance as of June 30, 2021	243,959	\$ 2	\$ 19,088	\$ (2)	\$ 3,550	\$ 22,638
Dividends declared (\$2.07 per share)	—	—	—	—	(508)	(508)
Employee stock purchases	53	—	(2)	7	—	5
Purchases of treasury stock	(34)	—	—	(5)	—	(5)
Stock-based compensation costs:						
Vested compensation awards, net	144	—	—	—	—	—
Compensation costs included in net income	—	—	18	—	—	18
Net income	—	—	—	—	1,045	1,045
Balance as of September 30, 2021	244,122	\$ 2	\$ 19,104	\$ —	\$ 4,087	\$ 23,193

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF EQUITY (continued)
(in millions, except share data and dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders					Total Equity
	Shares Outstanding (in thousands)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	
Balance as of December 31, 2019	165,547	\$ 2	\$ 9,161	\$ (1,069)	\$ 4,042	\$ 12,136
Dividends declared (\$0.55 per share)	—	—	—	—	(91)	(91)
Exercise of long-term incentive stock options	8	—	(1)	1	—	—
Purchases of treasury stock	(1,007)	—	—	(122)	—	(122)
Stock-based compensation costs:						
Vested compensation awards, net	316	—	—	—	—	—
Compensation costs included in net income	—	—	16	—	—	16
Net income	—	—	—	—	291	291
Balance as of March 31, 2020	164,864	\$ 2	\$ 9,176	\$ (1,190)	\$ 4,242	\$ 12,230
Dividends declared (\$0.55 per share)	—	—	—	—	(91)	(91)
Convertible senior notes:						
Equity component	—	—	230	—	—	230
Capped call	—	—	(113)	—	—	(113)
Deferred tax provision	—	—	(25)	—	—	(25)
Purchases of treasury stock	(592)	—	—	(50)	—	(50)
Stock-based compensation costs:						
Vested compensation awards, net	4	—	—	—	—	—
Compensation costs included in net loss	—	—	17	—	—	17
Net loss	—	—	—	—	(449)	(449)
Balance as of June 30, 2020	164,276	\$ 2	\$ 9,285	\$ (1,240)	\$ 3,702	\$ 11,749
Dividends declared (\$0.55 per share)	—	—	—	—	(91)	(91)
Employee stock purchases	62	—	(1)	7	—	6
Purchases of treasury stock	(19)	—	—	(2)	—	(2)
Stock-based compensation costs:						
Vested compensation awards, net	84	—	—	—	—	—
Compensation costs included in net loss	—	—	21	—	—	21
Net loss	—	—	—	—	(85)	(85)
Balance as of September 30, 2020	164,403	\$ 2	\$ 9,305	\$ (1,235)	\$ 3,526	\$ 11,598

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 1,355	\$ (243)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation and amortization	1,825	1,243
Exploration expenses	3	8
Deferred income taxes	371	(36)
Gain on disposition of assets, net	(14)	(7)
Loss on early extinguishment of debt, net	2	27
Accretion of discount on asset retirement obligations	5	7
Interest expense	19	34
Derivative-related activity	636	129
Amortization of stock-based compensation	87	54
Investment in affiliate valuation adjustment	(21)	119
South Texas contingent consideration valuation adjustment	—	42
South Texas deficiency fee obligation	—	69
Other	116	94
Change in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(601)	371
Inventories	(93)	13
Other assets	24	24
Accounts payable	515	(164)
Interest payable	(76)	(37)
Other liabilities	(318)	(201)
Net cash provided by operating activities	3,835	1,546
Cash flows from investing activities:		
Proceeds from disposition of assets	59	58
Cash used in acquisitions, net of cash acquired	(826)	—
Additions to oil and gas properties	(2,191)	(1,297)
Additions to other assets and other property and equipment	(77)	(103)
Net cash used in investing activities	(3,035)	(1,342)
Cash flows from financing activities:		
Proceeds from issuance of senior notes, net of discount	3,247	1,091
Proceeds from issuance of convertible senior notes	—	1,323
Purchase of derivatives related to issuance of convertible senior notes	—	(113)
Borrowings under credit facility	650	800
Repayment of credit facilities	(1,287)	(800)
Repayment of senior notes, including tender offer premiums	(3,371)	(1,198)
Payments of other liabilities	(153)	(162)
Payments of financing fees	(32)	(36)
Purchases of treasury stock	(19)	(174)
Exercise of long-term incentive plan stock options and employee stock purchases	11	6
Dividends paid	(720)	(255)
Net cash provided by (used in) financing activities	(1,674)	482
Net increase (decrease) in cash, cash equivalents and restricted cash	(874)	686
Cash, cash equivalents and restricted cash, beginning of period	1,501	705
Cash, cash equivalents and restricted cash, end of period	\$ 627	\$ 1,391

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

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

PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2021
(Unaudited)

NOTE 1. Organization and Nature of Operations

Pioneer Natural Resources Company ("Pioneer" or the "Company") is a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange (the "NYSE"). The Company is a large independent oil and gas exploration and production company that explores for, develops and produces oil, natural gas liquids ("NGLs") and gas in the Permian Basin in West Texas.

NOTE 2. Basis of Presentation

Presentation. In the opinion of management, the unaudited interim consolidated financial statements of the Company as of September 30, 2021 and for the three and nine months ended September 30, 2021 and 2020 include all adjustments and accruals, consisting only of normal, recurring adjustments and accruals necessary for a fair presentation of the results for the interim periods in conformity with generally accepted accounting principles in the United States ("GAAP"). The operating results for the three and nine months ended September 30, 2021 are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). These unaudited interim consolidated financial statements should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Correction of previously issued financial statements. During the Company's review of its marketing contracts during the fourth quarter of 2020, the Company identified two long-term marketing contracts that should have been accounted for as derivative contracts. The contracts were entered in October 2019, each with a January 1, 2021 contract commencement date and a December 31, 2026 contract termination date. In accordance with Staff Accounting Bulletin ("SAB") No. 99, Materiality, and SAB No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, the Company evaluated the misstatements and, based on an analysis of quantitative and qualitative factors, determined that the related impact of the misstatement was material to its consolidated financial statements for the interim period ended September 30, 2020. In accordance with Accounting Standards Codification 250, Accounting Changes and Error Corrections, the Company has corrected the misstatement for the three and nine months ended September 30, 2020 by restating the consolidated financial statements appearing herein. The net impact of these noncash corrections to the Company's previously reported consolidated financial statements for the three and nine months ended September 30, 2020 is as follows (in millions, except for per share data):

	As Reported		Adjustments		As Restated	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
Oil and gas revenues	\$ 922	\$ 2,617	\$ —	\$ —	\$ 922	\$ 2,617
Derivative gain (loss), net	\$ (57)	\$ 60	\$ (84)	\$ (101)	\$ (141)	\$ (41)
Total revenues and other income	\$ 1,815	\$ 4,930	\$ (84)	\$ (101)	\$ 1,731	\$ 4,829
Total costs and expenses	1,831	5,118	—	—	1,831	5,118
Loss before income taxes	(16)	(188)	(84)	(101)	(100)	(289)
Income tax benefit (provision)	(4)	18	19	28	15	46
Net loss	\$ (20)	\$ (170)	\$ (65)	\$ (73)	\$ (85)	\$ (243)
Basic and diluted net loss per share attributable to common stockholders	\$ (0.12)	\$ (1.03)	\$ (0.40)	\$ (0.44)	\$ (0.52)	\$ (1.47)

Use of estimates in the preparation of financial statements. Preparation of the Company's unaudited interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Depletion of oil and gas properties is calculated using estimates of proved oil and gas reserves. There are numerous uncertainties inherent in the estimation of quantities of proved reserves, the projection of future rates of production and the timing of development

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expenditures. Similarly, evaluations for impairment of goodwill and proved and unproved oil and gas properties are subject to numerous uncertainties including, among others, estimates of proved, probable and possible reserves and commodity price outlooks. Actual results could differ from the estimates and assumptions utilized.

Adoption of new accounting standards. In August 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, "Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for certain convertible instruments by removing the separation models for convertible debt with a cash conversion feature or convertible instruments with a beneficial conversion feature. Additionally, ASU 2020-06 amends the diluted earnings per share calculation for convertible instruments by requiring the use of the if-converted method. The if-converted method assumes the conversion of convertible instruments occurs at the beginning of the reporting period and diluted weighted average shares outstanding includes the common shares issuable upon conversion of the convertible instruments. The Company early adopted ASU 2020-06 on January 1, 2021.

Upon issuance of the Company's \$1.3 billion principal amount of 0.250% convertible senior notes due 2025 (the "Convertible Notes") in May 2020, the Company bifurcated the debt and equity components of the Convertible Notes to long-term debt and additional paid-in capital in its consolidated balance sheet. The amount recorded to additional paid-in capital represented a debt discount that was being amortized to interest expense over the life of the Convertible Notes. As part of the adoption of ASU 2020-06, the Company (i) reversed the debt discount and related deferred income tax liability recorded to additional paid-in capital of \$230 million and \$50 million, respectively, (ii) recorded a cumulative effect of the adoption of ASU 2020-06 of \$22 million to retained earnings, representing a reversal of \$28 million of the debt discount that was amortized to interest expense, net of an associated deferred income tax impact of \$6 million, in 2020 and (iii) recorded the respective offsets for items (i) and (ii) above, representing the unamortized debt discount attributable to the Convertible Notes of \$202 million to long-term debt and the associated deferred tax impact of \$44 million to deferred income tax liabilities. See [Note 7](#) for additional information.

Additionally, upon adoption of ASU 2020-06, the treasury stock method utilized by the Company to calculate earnings per share through December 31, 2020 is no longer allowed. As such, the Company has transitioned to the if-converted method utilizing the modified retrospective approach, resulting in 12 million incremental shares being included in the Company's weighted-average diluted shares outstanding for the three and nine months ended September 30, 2021. See [Note 16](#) for additional information.

NOTE 3. Acquisitions, Divestitures and Restructuring Activities

Acquisitions

DoublePoint Acquisition. On May 4, 2021, the Company acquired Double Eagle III Midco 1 LLC ("DoublePoint") pursuant to a definitive membership interest purchase agreement to acquire DoublePoint dated April 1, 2021 (the "DoublePoint Acquisition") in exchange for 27 million shares of Pioneer common stock and \$1.0 billion of cash. The Pioneer stock consideration transferred had a fair value of \$4.2 billion.

Parsley Acquisition. On January 12, 2021, the Company acquired Parsley Energy, Inc., a Delaware corporation that previously traded on the NYSE under the symbol "PE" ("Parsley"), pursuant to the Agreement and Plan of Merger, dated as of October 20, 2020, among Pioneer, certain of its subsidiaries, Parsley and Parsley's subsidiary, Parsley Energy, LLC (the "Parsley Acquisition"). On the closing date of the Parsley Acquisition, Parsley merged into a newly formed wholly-owned subsidiary of the Company, and the subsidiaries of Parsley, including Jagged Peak Energy LLC ("Jagged Peak"), became indirect subsidiaries of the Company.

As part of the Parsley Acquisition, each eligible share of Parsley Class A common stock and each membership interest unit of Parsley Energy, LLC were automatically converted into the right to receive 0.1252 (the "Exchange Ratio") shares of Pioneer common stock. As a result, the Company issued 52 million shares of Pioneer common stock upon the consummation of the Parsley Acquisition, representing total stock consideration transferred of \$6.9 billion.

Both the Parsley Acquisition and the DoublePoint Acquisition were accounted for using the acquisition method under ASC Topic 805, Business Combinations, which requires all assets acquired and liabilities assumed to be recorded at fair value at the acquisition date. Provisional fair value measurements were made for acquired assets and liabilities, and adjustments to

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those measurements may be made in subsequent periods (up to one year from the acquisition date) as information necessary to complete the fair value analysis is obtained.

The following table summarizes the provisional fair values assigned to assets acquired and liabilities assumed (presented in millions):

	Parsley Acquisition	DoublePoint Acquisition
	As of January 12, 2021	As of May 4, 2021
Cash and cash equivalents (a)	\$ 118	\$ 58
Accounts receivable	253	131
Derivatives	8	—
Proved properties	5,110	3,929
Unproved properties	5,636	2,406
Other property and equipment	118	72
Operating lease right-of-use assets	201	2
Other assets	22	11
Total assets acquired	11,466	6,609
Accounts payable	337	232
Interest payable	49	22
Derivatives	317	86
Operating leases	201	2
Deferred income taxes	140	—
Long-term debt	3,238	975
Other liabilities	301	58
Total liabilities assumed	4,583	1,375
Net assets acquired	\$ 6,883	\$ 5,234

(a) Cash used in investing activities as a result of the Parsley Acquisition and DoublePoint Acquisition includes (i) \$2 million of cash used in the settlement of partial shares related to the conversion of Parsley Class A common stock at the Exchange Ratio and (ii) \$1 billion of cash used to acquire DoublePoint, respectively.

The following unaudited pro forma summary presents the results of operations as if the Parsley Acquisition and DoublePoint Acquisition had occurred on January 1, 2020. The pro forma summary uses estimates and assumptions based on information available at the time. Management believes the estimates and assumptions to be reasonable; however, actual results may have differed significantly from this pro forma financial information. The pro forma information does not reflect any synergy savings that might have been achieved from combining the operations and is not intended to reflect the actual results that would have occurred had the companies actually been combined during the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)		(in millions)	
and other income	\$ 4,463	\$ 2,168	\$ 10,373	6,797
ne (loss)	\$ 1,045	\$ (40)	\$ 1,210	(3,870)

Divestitures

- In March 2021, the Company sold its well services business to a third party for (i) net cash proceeds of \$20 million and (ii) up to \$4 million of additional cash proceeds to be earned over the next three years. The Company recorded a gain on sale of \$9 million, which is reflected in net gain on disposition of assets in the consolidated statements of operations for the nine months ended September 30, 2021.

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- In May 2020, the Company completed the sale of certain vertical wells and approximately 1,500 undeveloped acres in Upton County of the Permian Basin to an unaffiliated third party for net cash proceeds of \$6 million. The Company recorded a gain of \$6 million associated with the sale which is reflected in net gain on disposition of assets in the consolidated statements of operations for the nine months ended September 30, 2020.

Restructuring

During 2020, the Company implemented changes to respond to a reduction in expected activity levels as a result of the COVID-19 pandemic. In October 2020, the Company initiated a corporate restructuring whereby approximately 300 employees were involuntarily separated from the Company. The Company recorded \$74 million of employee-related charges, including \$3 million of noncash stock-based compensation expense related to the accelerated vesting of certain equity awards, in other expense in the consolidated statements of operations during the three and nine months ended September 30, 2020. See [Note 8](#) and [Note 14](#) for additional information.

In June 2020, the Company implemented changes to its well services business, including a staffing reduction of approximately 50 employees.

The employee-related costs associated with restructuring activities were primarily recorded in other expense in the consolidated statements of operations. Obligations associated with employee-related charges are included in accounts payable - due to affiliates in the consolidated balance sheets. See [Note 14](#) for additional information.

The changes in the Company's total employee-related obligations associated with divestiture and restructuring activities are as follows:

	Nine Months Ended September 30,	
	2021	2020
	(in millions)	
Beginning employee-related obligations	\$ 3	\$ 6
Additions (a)	1	75
Less:		
Noncash stock-based compensation	—	3
Cash payments	3	7
Ending employee-related obligations	<u>\$ 1</u>	<u>\$ 71</u>

- (a) Additions for the nine months ended September 30, 2021 primarily represent employee-related charges associated with the divestiture of the Company's well services business in March 2021. Additions for the nine months ended September 30, 2020 primarily represent employee-related charges associated with the 2020 corporate restructuring of \$74 million and the Company's staffing reduction in its well services business of \$1 million. See [Note 14](#) for additional information.

NOTE 4. Fair Value Measurements

The Company determines fair value based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The three input levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets.
- Level 2 – quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability

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(e.g. interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 – unobservable inputs for the asset or liability, typically reflecting management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore, determined using model-based techniques, including discounted cash flow models.

Assets and liabilities measured at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis are as follows:

	As of September 30, 2021			
	Fair Value Measurement			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(in millions)			
Assets:				
Commodity price derivatives	\$ —	\$ 5	\$ —	\$ 5
Deferred compensation plan assets	74	—	—	74
Investment in affiliate	144	—	—	144
Total assets	218	5	—	223
Liabilities:				
Commodity price derivatives	—	1,239	—	1,239
Marketing derivatives	—	—	88	88
Total liabilities	—	1,239	88	1,327
Total recurring fair value measurements	\$ 218	\$ (1,234)	\$ (88)	\$ (1,104)
	As of December 31, 2020			
	Fair Value Measurement			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
	(in millions)			
Assets:				
Commodity price derivatives	\$ —	\$ 8	\$ —	\$ 8
Deferred compensation plan assets	72	—	—	72
Investment in affiliate	123	—	—	123
Total assets	195	8	—	203
Liabilities:				
Commodity price derivatives	—	209	—	209
Marketing derivatives	—	—	91	91
Total liabilities	—	209	91	300
Total recurring fair value measurements	\$ 195	\$ (201)	\$ (91)	\$ (97)

Commodity price derivatives. The Company's commodity price derivatives represent oil, NGL and gas swap contracts, collar contracts, collar contracts with short puts, option contracts and basis swap contracts. The asset and liability measurements for the Company's commodity price derivative contracts are determined using Level 2 inputs. The Company utilizes discounted cash flow and option-pricing models for valuing its commodity price derivatives.

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The asset and liability values attributable to the Company's commodity price derivatives were determined based on inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar contracts, collar contracts with short puts and option contracts, which is based on active and independent market-quoted volatility factors.

Marketing derivatives. Under the contract terms of the marketing derivatives, the Company agreed to purchase and simultaneously sell 50 thousand barrels of oil per day at an oil terminal in Midland, Texas for a six-year term that ends on December 31, 2026. The price the Company pays to purchase the oil volumes under the purchase contract is based on a Midland West Texas Intermediate ("WTI") price and the price the Company receives for the oil volumes sold is a weighted average sales price ("WASP") that the non-affiliated counterparty receives for selling oil through their Gulf Coast storage and export facility at prices that are highly correlated with Brent oil prices during the same month of the purchase. Based on the form of the marketing contracts, the Company determined that the marketing contracts should be accounted for as derivative instruments not designated as hedges. The asset and liability measurements for the Company's marketing derivative contracts are determined using both Level 2 and 3 inputs. The Company utilizes a discounted cash flow model for valuing its marketing derivatives.

The asset and liability values attributable to the Company's marketing derivatives were determined based on Level 2 inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable estimated credit-adjusted risk-free rate yield curve and (iv) stated contractual rates. The Level 3 inputs attributable to the Company's marketing derivatives include the historical monthly differential between Brent oil prices and the corresponding WASP of the counterparty to the marketing derivatives ("WASP Differential Deduction") and, to a lesser extent, an estimated annual cost inflation rate. The average WASP Differential Deduction used in the fair value determination as of September 30, 2021 and 2020 was \$2.07 and \$1.97 per barrel, respectively. The WASP Differential Deduction and the estimated annual cost inflation rate reflects management's best estimate of future results utilizing historical performance, but these estimates are not observable inputs by a market participant and contain a high degree of uncertainty. The Company could experience significant market-to-market fluctuations in the fair value of its marketing derivatives based on changes in the WASP Differential Deduction if it deviates from historical levels. For example, a 10 percent increase or decrease in the WASP Differential Deduction would impact the fair value of the Company's marketing derivatives recorded by approximately \$20 million as of September 30, 2021.

Deferred compensation plan assets. The Company's deferred compensation plan assets include investments in equity and mutual fund securities that are actively traded on major exchanges. The fair value of these investments is determined using Level 1 inputs based on observable prices on major exchanges.

Investment in affiliate. The Company elected the fair value option for measuring its equity method investment in ProPetro Holding Corp. ("ProPetro"). The fair value of its investment in ProPetro is determined using Level 1 inputs based on observable prices on a major exchange. See [Note 11](#) and [Note 13](#) for additional information.

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. These assets and liabilities can include inventory, proved and unproved oil and gas properties, goodwill and other long-lived assets that are written down to fair value when they are impaired or held for sale.

Parsley Acquisition and DoublePoint Acquisition. Both the Parsley Acquisition and DoublePoint Acquisition were accounted for using the acquisition method under ASC Topic 805, "Business Combinations", which requires all assets acquired and liabilities assumed in the acquisitions to be recorded at fair values at the acquisition date of each transaction. Oil and gas properties were valued based on income and market based approaches utilizing Level 3 inputs, including internally generated development and production profiles and price and cost assumptions. Debt assumed in the acquisitions was valued based on Level 2 inputs that included using observable market prices to determine fair value. Net derivative liabilities assumed in the acquisitions were valued based on Level 2 inputs similar to the Company's other commodity price derivatives. See [Note 3](#) for additional information.

South Texas Divestiture. The Company recorded a deficiency fee obligation and related deficiency fee receivable in conjunction with the divestiture of the Company's Eagle Ford assets and other remaining South Texas assets in May 2019 (the "South Texas Divestiture"). The fair value of the deficiency fee obligation and deficiency fee receivable was determined using Level 3 inputs based on a probability-weighted forecast that considers historical results, market conditions and various development plans to arrive at the estimated present value of the deficiency payments and corresponding receipts. Changes to

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the Company's forecasted deficiency fee obligation resulted in the Company recording a charge of \$69 million to other expense during the nine months ended September 30, 2020. The present value of the estimated future cash payments and expected cash receipts were determined using a 3.6 percent and 3.2 percent discount rate, respectively, based on the estimated timing of future payments and receipts and the Company's counterparty credit risk assessments. See [Note 10](#) and [Note 14](#) for additional information.

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets are as follows:

	As of September 30, 2021		As of December 31, 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Assets:				
Cash and cash equivalents (a)	\$ 581	\$ 581	\$ 1,442	\$ 1,442
Restricted cash (a) (b)	\$ 46	\$ 46	\$ 59	\$ 59
Liabilities:				
Current portion of long-term debt:				
Senior notes (c)	\$ 244	\$ 249	\$ 140	\$ 140
Long-term debt:				
Convertible Notes (c) (d)	\$ 1,305	\$ 2,139	\$ 1,100	\$ 1,756
Senior notes (c)	\$ 5,380	\$ 5,469	\$ 2,060	\$ 2,230

(a) Fair value approximates carrying value due to the short-term nature of the instruments.

(b) Primarily relates to funds in escrow for use in future deficiency fee payments related to the South Texas Divestiture. Any remaining balance after the payment of the deficiency fees will revert to the Company on March 31, 2023.

(c) Fair value is determined using Level 2 inputs. The Company's senior notes are quoted, but not actively traded on major exchanges; therefore, fair value is based on periodic values as quoted on major exchanges. See [Note 7](#) for additional information.

(d) Upon issuance of the Convertible Notes, the debt discount and related deferred income tax liability were recorded to additional paid-in capital. As part of the Company's early adoption of ASU 2020-06 on January 1, 2021 (see [Note 2](#)), the Company reclassified the debt discount and related deferred income tax liability of \$230 million and \$50 million, respectively, from additional paid-in capital to the Convertible Notes reported in long-term debt and deferred income taxes, respectively, in the consolidated balance sheets.

The Company has other financial instruments consisting primarily of receivables, payables, other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include assets acquired and liabilities assumed in a business combination, goodwill and asset retirement obligations.

NOTE 5. Derivative Financial Instruments

The Company primarily utilizes commodity swap contracts, collar contracts, collar contracts with short puts and basis swap contracts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's capital budgeting and expenditure plans and (iii) support the payment of contractual obligations and dividends.

Oil production derivatives. The Company sells its oil production at the lease and the sales contracts governing such oil production are tied directly to, or are correlated with, New York Mercantile Exchange ("NYMEX") WTI oil prices. The Company also enters into (i) pipeline capacity commitments in order to secure available oil, NGL and gas transportation capacity from its areas of production and (ii) purchase transactions with third parties and separate sale transactions with third parties to diversify a portion of the Company's oil pricing to Gulf Coast refineries or international export markets at prices that are highly correlated to Brent oil prices. As a result, the Company uses a combination of Brent, Magellan East Houston

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("MEH") and WTI derivative contracts to manage future oil price volatility.

The Company's outstanding oil derivative contracts as of September 30, 2021 and the weighted average oil prices per barrel for those contracts are as follows:

	2021	Year Ending December
	Fourth Quarter	31, 2022 (a)
Brent swap contracts:		
Volume per day (Bbl)	17,000	—
Price per Bbl	\$ 44.45	\$ —
MEH swap contracts:		
Volume per day (Bbl)	43,000	2,055
Price per Bbl	\$ 40.52	\$ 42.80
Midland WTI swap contracts:		
Volume per day (Bbl)	5,000	—
Price per Bbl	\$ 40.50	\$ —
NYMEX WTI swap contracts:		
Volume per day (Bbl)	15,000	—
Price per Bbl	\$ 52.85	\$ —
NYMEX rollfactor swap contracts:		
Volume per day (Bbl)	35,000	—
Price per Bbl	\$ 0.17	\$ —
Midland WTI basis swap contracts:		
Volume per day (Bbl)	37,000	26,000
Price per Bbl	\$ 0.89	\$ 0.50
Brent call contracts sold:		
Volume per day (Bbl) (b)	20,000	—
Price per Bbl	\$ 69.74	\$ —
Brent collar contracts:		
Volume per day (Bbl)	—	10,000
Price per Bbl:		
Ceiling	\$ —	\$ 60.32
Floor	\$ —	\$ 50.00
NYMEX WTI collar contracts:		
Volume per day (Bbl)	6,000	—
Price per Bbl:		
Ceiling	\$ 55.54	\$ —
Floor	\$ 50.00	\$ —
Brent collar contracts with short puts:		
Volume per day (Bbl)	90,000	67,000
Price per Bbl:		
Ceiling	\$ 50.74	\$ 66.02
Floor	\$ 45.11	\$ 52.39
Short put	\$ 35.07	\$ 39.25

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MEH collar contracts with short puts:			
Volume per day (Bbl)		9,446	
Price per Bbl:			
Ceiling	\$	51.29	\$
Floor	\$	41.55	\$
Short put	\$	31.55	\$
NYMEX WTI collar contracts with short puts:			
Volume per day (Bbl)		—	12
Price per Bbl:			
Ceiling	\$	—	\$ 6
Floor	\$	—	\$ 5
Short put	\$	—	\$ 4

- (a) Between October 1, 2021 and November 1, 2021, the Company liquidated certain derivative contracts as follows (i) 8,152 Bbls per day of MEH swap contracts for January 2022 through March 2022 production with a weighted average swap price of \$42.80, (ii) 10,000 Bbls per day of Brent collar contracts for January 2022 through December 2022 production with a weighted average call price of \$60.32 and a put price of \$50.00 and (iii) 20,000 Bbls per day of Brent collar contracts with short puts for January 2022 through December 2022 production with a weighted average call price of \$57.88, put price of \$45.50 and short put price of \$35.00.
- (b) The referenced call contracts were sold in exchange for higher ceiling prices on certain 2020 collar contracts with short puts.

NGL production derivatives. All material physical sales contracts governing the Company's NGL production are tied directly or indirectly to Mont Belvieu, Texas NGL component product prices. The Company uses derivative contracts to manage the volatility of NGL component product prices. As of September 30, 2021, the Company did not have any NGL derivative contracts outstanding.

Gas production derivatives. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to NYMEX Henry Hub ("HH") gas prices or regional index prices (e.g. WAHA, SoCal and Houston Ship Channel) where the gas is sold. To diversify the gas prices it receives to international market prices, the Company sells a portion of its gas production at Dutch Title Transfer Facility ("Dutch TTF") prices. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and actual index prices at which the gas is sold.

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The Company's outstanding gas derivative contracts as of September 30, 2021 and the weighted average gas prices per MMBtu for those contracts are as follows:

	<u>2021</u>	<u>Year Ending December</u>
	<u>Fourth Quarter</u>	<u>31, 2022</u>
NYMEX swap contracts:		
Volume per day (MMBtu)	160,000	—
Price per MMBtu	\$ 3.63	\$ —
Dutch TTF swap contracts:		
Volume per day (MMBtu)	30,000	30,000
Price per MMBtu	\$ 5.07	\$ 8.87
WAHA swap contracts:		
Volume per day (MMBtu)	116,304	4,932
Price per MMBtu	\$ 2.36	\$ 2.46
NYMEX collar contracts:		
Volume per day (MMBtu)	247,000	1,726
Price per MMBtu:		
Ceiling	\$ 3.20	\$ 3.45
Floor	\$ 2.60	\$ 2.75
NYMEX collar contracts with short puts:		
Volume per day (MMBtu)	—	100,000
Price per MMBtu:		
Ceiling	\$ —	\$ 4.00
Floor	\$ —	\$ 3.20
Short put	\$ —	\$ 2.50
Basis swap contracts:		
Permian Basin index swap volume per day (MMBtu) (a)	7,000	1,726
Price differential (\$/MMBtu)	\$ (0.39)	\$ (0.39)

(a) The referenced basis swap contracts fix the basis differentials between the index price at which the Company sells a portion of its Permian Basin gas and the NYMEX index price used in swap contracts.

Marketing derivatives. The Company uses marketing derivatives to diversify its oil pricing to Gulf Coast and international markets. The Company's marketing derivatives reflect two long-term marketing contracts that were entered in October 2019 whereby the Company agreed to purchase and simultaneously sell 50 thousand barrels of oil per day at an oil terminal in Midland, Texas for a six-year term that began on January 1, 2021 and ends on December 31, 2026. The price the Company pays to purchase the oil volumes under the purchase contract is based on a Midland WTI price and the price the Company receives for the oil volumes sold is a WASP that a non-affiliated counterparty receives for selling oil through their Gulf Coast storage and export facility at prices that are highly correlated with Brent oil prices during the same month of the purchase. Based on the form of the marketing contracts, the Company determined that the marketing contracts should be accounted for as derivative instruments. For the three and nine months ended September 30, 2021, the Company recorded noncash marketing derivative gains of \$6 million and \$3 million, respectively, and cash payments of \$11 million and \$31 million, respectively, as compared to noncash marketing derivative losses of \$85 million and \$100 million, respectively, and no cash payments or receipts for the same respective periods in 2020.

Derivative accounting. The Company's derivatives are accounted for as non-hedge derivatives and therefore all changes in the fair values of its derivative contracts are recognized as gains or losses in the earnings of the periods in which they occur. The Company enters into commodity price derivatives under master netting arrangements, which, in an event of default, allows the Company to offset payables to and receivables from the defaulting counterparty.

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Contingent consideration. The Company's right to receive contingent consideration in conjunction with the South Texas Divestiture was determined to be a derivative financial instrument that is not designated as a hedging instrument. Prior to its settlement in July 2020, the contingent consideration was revalued using an option pricing model each reporting period based on forecasted oil and NGL prices during each of the five years from 2020 to 2024. See [Note 13](#) for additional information.

Noncash gains and losses associated with the Company's (i) commodity price derivatives and marketing derivatives and (ii) contingent consideration are separately presented in operating activities within the consolidated statements of cash flows.

Fair value. The fair value of derivative financial instruments not designated as hedging instruments is as follows:

As of September 30, 2021				
Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
(in millions)				
Assets:				
Commodity price derivatives	Derivatives - current	\$ 4	\$ —	\$ 4
Commodity price derivatives	Derivatives - noncurrent	\$ 1	\$ —	\$ 1
Liabilities:				
Commodity price derivatives	Derivatives - current	\$ 1,129	\$ —	\$ 1,129
Marketing derivatives	Derivatives - current	\$ 47	\$ —	\$ 47
Commodity price derivatives	Derivatives - noncurrent	\$ 110	\$ —	\$ 110
Marketing derivatives	Derivatives - noncurrent	\$ 41	\$ —	\$ 41

As of December 31, 2020				
Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
(in millions)				
Assets:				
Commodity price derivatives	Derivatives - current	\$ 5	\$ —	\$ 5
Commodity price derivatives	Derivatives - noncurrent	\$ 3	\$ —	\$ 3
Liabilities:				
Commodity price derivatives	Derivatives - current	\$ 198	\$ —	\$ 198
Marketing derivatives	Derivatives - current	\$ 36	\$ —	\$ 36
Commodity price derivatives	Derivatives - noncurrent	\$ 11	\$ —	\$ 11
Marketing derivatives	Derivatives - noncurrent	\$ 55	\$ —	\$ 55

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Fair value. Gains and losses recorded on derivative financial instruments not designated as hedging instruments are as follows:

Derivatives Not Designated as Hedging Instruments	Location of Gain/(Loss) Recognized in Earnings on Derivatives	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
(in millions)					
Commodity price derivatives	Derivative loss, net	\$ (496)	\$ (56)	\$ (1,996)	\$ 81
Marketing derivatives	Derivative loss, net	\$ (5)	\$ (85)	\$ (28)	\$ (100)
Interest rate derivatives	Derivative loss, net	\$ —	\$ —	\$ —	\$ (22)
Contingent consideration	Interest and other income (loss), net	\$ —	\$ 22	\$ —	\$ (42)

The Company uses credit and other financial criteria to evaluate the credit standing of, and to select, counterparties to its derivative instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

NOTE 6. Exploratory Costs

The Company capitalizes exploratory well and project costs until a determination is made that the well or project has either found proved reserves, is impaired or is sold. The Company's capitalized exploratory well and project costs are included in proved properties in the consolidated balance sheets. If the exploratory well or project is determined to be impaired, the impaired costs are charged to exploration and abandonments expense.

The changes in capitalized exploratory well costs are as follows:

	Nine Months Ended September 30, 2021
	(in millions)
Beginning capitalized exploratory well costs	\$ 498
Additions to exploratory well costs pending the determination of proved reserves	2,110
Additions to capitalized exploratory well costs from acquisitions	235
Reclassification due to determination of proved reserves	(2,093)
Ending capitalized exploratory well costs	\$ 750

Aging of capitalized exploratory costs and the number of projects for which exploratory well costs have been capitalized for a period greater than one year, based on the date drilling was completed, are as follows:

	As of September 30, 2021	As of December 31, 2020
	(in millions, except well counts)	
Capitalized exploratory well costs that have been suspended:		
One year or less	\$ 750	\$ 495
More than one year	—	3
	\$ 750	\$ 498
Number of wells or projects with exploratory well costs that have been suspended for a period greater than one year	—	1

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NOTE 7. Long-term Debt

The components of long-term debt, including the effects of issuance costs and issuance discounts, are as follows:

	As of September 30, 2021	As of December 31, 2020
	(in millions)	
Outstanding debt principal balances:		
3.450% senior notes due 2021	\$ —	\$ 140
3.950% senior notes due 2022	244	244
0.550% senior notes due 2023	750	—
0.750% senior callable notes due 2024	750	—
0.250% convertible senior notes due 2025	1,323	1,323
1.125% senior notes due 2026	750	—
4.450% senior notes due 2026	500	500
5.625% senior notes due 2027	179	—
7.200% senior notes due 2028	241	241
4.125% senior notes due 2028	138	—
1.900% senior notes due 2030	1,100	1,100
2.150% senior notes due 2031	1,000	—
	6,975	3,548
Issuance costs and discounts, net	(46)	(248)
Total debt	6,929	3,300
Less current portion of long-term debt	244	140
Long-term debt	<u>\$ 6,685</u>	<u>\$ 3,160</u>

Credit facility. The Company maintains a revolving corporate credit facility (the "Credit Facility") with a syndicate of financial institutions and has aggregate loan commitments of \$2.0 billion. On January 12, 2021, Pioneer entered into the First Amendment to Credit Agreement (the "Amendment") with Wells Fargo Bank, National Association, as Administrative Agent, and the other agents and lenders party thereto. The primary changes attributable to the Amendment were to increase the aggregate loan commitments from \$1.5 billion to \$2.0 billion, extend the maturity of the Credit Facility to January 12, 2026 and to nominally adjust the drawn and undrawn pricing. As of September 30, 2021, the Company had no outstanding borrowings under the Credit Facility and was in compliance with its debt covenants.

Assumption of DoublePoint notes and payoff of DoublePoint credit facility. In connection with the completion of the DoublePoint Acquisition, the Company assumed DoublePoint's outstanding senior notes of \$650 million in aggregate principal amount (with a fair value of \$735 million) and DoublePoint's credit facility with an outstanding balance of \$240 million. The Company repaid and terminated the DoublePoint credit facility agreement on May 4, 2021.

Assumption of Parsley notes and payoff of Parsley credit facility. In connection with the completion of the Parsley Acquisition, the Company assumed Parsley's outstanding senior notes of \$2.7 billion in aggregate principal amount (with a fair value of \$2.8 billion) and Parsley's credit facility with an outstanding balance of \$397 million. The Company repaid and terminated the Parsley credit facility agreement on January 12, 2021.

Senior notes. In May 2021, the Company issued \$750 million of 0.550% senior notes that will mature May 15, 2023 (the "May 2021 Senior Notes Offering"). The Company received proceeds, net of \$4 million of issuance costs and discounts, of \$746 million. Interest on the notes will be payable on May 15 and November 15 of each year. The senior notes are unsecured obligations ranking equally in right of payment with all other senior unsecured indebtedness of the Company.

The Company used \$731 million of the proceeds from the May 2021 Senior Notes Offering to redeem DoublePoint's 7.750% senior notes due 2025. Associated with the redemption, the Company recognized a \$3 million gain on the early extinguishment of debt. See [Note 14](#) for additional information.

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In January 2021, the Company issued \$750 million of 0.750% senior callable notes that will mature January 15, 2024, \$750 million of 1.125% senior notes that will mature January 15, 2026 and \$1.0 billion of 2.150% senior notes that will mature January 15, 2031 (the "January 2021 Senior Notes Offering"). The Company received proceeds, net of \$24 million of issuance costs and discounts, of \$2.5 billion. Interest on each of the new notes will be payable on January 15 and July 15 of each year. The senior notes are unsecured obligations ranking equally in right of payment with all other senior unsecured indebtedness of the Company.

The Company used the proceeds from the January 2021 Senior Notes Offering to pay (i) \$1.6 billion to redeem Parsley's 5.250% senior notes due 2025, Parsley's 5.375% senior notes due 2025 and Jagged Peak's 5.875% senior notes due 2026 and (ii) \$852 million to purchase a portion of Parsley's 5.625% senior notes due 2027 and Parsley's 4.125% senior notes due 2028 pursuant to a cash tender offer. In connection with the tender offers, the Company also obtained the requisite consents from holders of Parsley's 5.625% senior notes due 2027 and 4.125% senior notes due 2028 to amend the indentures pursuant to which the notes were issued to, among other things, (i) eliminate substantially all of the restrictive covenants and related provisions and certain events of default contained in each indenture and (ii) shorten the minimum notice requirement for optional redemptions to three days. Associated with the redemption and tenders, the Company recognized a \$5 million loss on the early extinguishment of debt. See [Note 14](#) for additional information.

The Company's 3.450% senior notes, with a debt principal balance of \$140 million, matured and were repaid in January 2021. The Company funded the repayment with cash on hand.

The Company's 3.950% senior notes, with a debt principal balance of \$244 million, will mature in July 2022. The 3.950% senior notes are recorded in the current portion of long-term debt in the consolidated balance sheet as of September 30, 2021.

Convertible senior notes. In May 2020, the Company issued \$1.3 billion principal amount of convertible senior notes due 2025. The Convertible Notes bear a fixed interest rate of 0.250% per year, with interest payable on May 15 and November 15 of each year. The Convertible Notes will mature on May 15, 2025, unless earlier redeemed, repurchased or converted. The Convertible Notes are unsecured obligations ranking equally in right of payment with all other senior unsecured indebtedness of the Company.

The Convertible Notes are convertible into shares of the Company's common stock at an adjusted conversion rate of 9.2055 shares of the Company's common stock per \$1,000 principal amount of the Convertible Notes (subject to further adjustment pursuant to the terms of the notes indenture, the "Conversion Rate"), which represents an adjusted conversion price of \$108.63 per share (subject to further adjustment pursuant to the terms of the notes indenture, the "Conversion Price"). Upon conversion, the Convertible Notes will be settled in cash, shares of the Company's common stock or a combination thereof, at the Company's election.

Holders of the Convertible Notes may convert their notes at their option prior to February 15, 2025 under the following circumstances:

- during the quarter following any quarter during which the last reported sales price of the Company's common stock for at least 20 of the last 30 consecutive trading days of such quarter exceeds 130 percent of the Conversion Price;
- during the five-day period following any five consecutive trading day period when the trading price of the Convertible Notes is less than 98 percent of the price of the Company's common stock times the Conversion Rate;
- upon notice of redemption by the Company; or
- upon the occurrence of specified corporate events, including certain consolidations or mergers.

On or after February 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time. The Company may not redeem the Convertible Notes prior to May 20, 2023, and after such date, may redeem the Convertible Notes only if the last reported sale price of the Company's common stock has been at least 130 percent of the Conversion Price for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides the notice of redemption. The redemption price is equal to 100 percent of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest.

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During the last 30 consecutive trading days of the third quarter of 2021, the last reported sales prices of the Company's common stock exceeded 130 percent of the Conversion Price for at least 20 trading days, causing the Convertible Notes to become convertible at the option of the holders during the three month period ending December 31, 2021. As of September 30, 2021, if converted by the holder, the Company intends to settle the Convertible Notes in cash with cash on hand or through borrowings under its Credit Facility. The Company reserves its right under the notes indenture to elect to settle the Convertible Notes in shares of the Company's common stock or a combination of cash and common stock.

The Company early adopted ASU 2020-06 on January 1, 2021. Upon issuance of the Convertible Notes in May 2020, the Company bifurcated the debt and equity components of the Convertible Notes between long-term debt and additional paid-in capital in its consolidated balance sheet. The amount recorded to additional paid-in capital represented a debt discount that was being amortized to interest expense over the life of the Convertible Notes. As part of the adoption of ASU 2020-06, the Company (i) reversed the debt discount and related deferred income tax liability recorded to additional paid-in capital of \$230 million and \$50 million, respectively, (ii) recorded a cumulative effect of the adoption of ASU 2020-06 of \$22 million to retained earnings, representing the reversal of the \$28 million debt discount that was amortized to interest expense, net of an associated deferred income tax impact of \$6 million, in 2020 and (iii) recorded the respective offsets for items (i) and (ii) above, representing the unamortized debt discount attributable to the Convertible Notes of \$202 million to long-term debt and the associated deferred tax impact of \$44 million to deferred income tax liabilities. See [Note 2](#) for additional information.

As of September 30, 2021, the Convertible Notes had an outstanding principal balance of \$1.3 billion and unamortized issuance costs of \$17 million. The effective interest rate related to interest expense to be recorded over the life of the Convertible Notes is 0.6 percent. See [Note 2](#) for additional information regarding the effect of the early adoption of ASU 2020-06 on the debt discount on the Company's Convertible Notes.

The interest costs recognized on the Convertible Notes, are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Contractual coupon interest	\$ 1	\$ 1	\$ 3	\$ 1
Amortization of debt discount and issuance costs	1	12	3	19
	<u>\$ 2</u>	<u>\$ 13</u>	<u>\$ 6</u>	<u>\$ 20</u>

Capped call transactions. In connection with the issuance of the Convertible Notes, the Company entered into privately negotiated capped call transactions with certain financial institution counterparties (the "Capped Call"), the purpose of which was to reduce the potential dilution to the Company's common stock upon conversion of the Convertible Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of such converted notes, with such reduction and offset subject to a capped price. The Capped Call transactions have an adjusted strike price of \$108.63 per share of common stock and an adjusted capped price of \$154.59 per share of common stock. The net costs of \$113 million incurred to purchase the Capped Call transactions were recorded as a reduction to additional paid-in capital.

NOTE 8. Incentive Plans

In connection with the Parsley Acquisition, the Company assumed all rights and obligations under the Amended and Restated Parsley Energy, Inc. 2014 Long Term Incentive Plan (the "2014 Parsley Plan") and the Jagged Peak Energy Inc. 2017 Long Term Incentive Plan (the "Jagged Peak Plan") and together with the 2014 Parsley Plan, (the "Parsley Plans"). The awards outstanding under the Parsley Plans were assumed by the Company and were automatically converted into an award with the right to receive a number of shares of Pioneer common stock that is equal to the product of the number of shares of Parsley common stock subject to such award under the Parsley Plans as of the acquisition date and the Exchange Ratio (0.1252). As a result, 37,299 shares of Pioneer common stock are issuable by the Company upon settlement of the outstanding awards granted under the 2014 Parsley Plan and 1,166 shares of Pioneer common stock are issuable by the Company upon settlement of the outstanding awards granted under the Jagged Peak Plan.

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The number of shares available for grant pursuant to the awards issued under the Company's Amended and Restated 2006 Long-Term Incentive Plan ("LTIP") is as follows:

	As of September 30, 2021
Approved and authorized awards	12,600,000
2014 Parsley Plan awards available to the LTIP (a)	879,575
Awards issued under the plan	(9,459,418)
Awards available for future grant	4,020,157

(a) Under New York Stock Exchange rules, the Company added the shares that were available under the 2014 Parsley Plan to the LTIP. These shares can only be used for grants to employees who were not employed or engaged by Pioneer or any of its subsidiaries immediately before the Parsley Acquisition and such awards may only be granted through May 22, 2024, the date that the 2014 Parsley Plan would have otherwise expired.

Stock-based compensation expense is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Restricted stock - equity awards	\$ 11	\$ 15	\$ 32	\$ 37
Restricted stock - liability awards (a)	3	4	12	7
Restricted stock and performance units - Parsley awards (b)	—	—	33	—
Performance unit awards	6	6	20	15
Employee stock purchase plan	1	—	2	2
	\$ 21	\$ 25	\$ 99	\$ 61

(a) Liability Awards are expected to be settled on their vesting date in cash. As of September 30, 2021 and December 31, 2020, accounts payable – due to affiliates included \$4 million and \$7 million, respectively, of liabilities attributable to Liability Awards.

(b) Represents the accelerated vesting of Parsley restricted stock equity awards and performance units upon completion of the Parsley Acquisition, which was recorded to other expense in the consolidated statements of operations.

As of September 30, 2021, there was \$105 million of unrecognized stock-based compensation expense related to unvested share-based compensation awards, including \$25 million attributable to stock-based awards that are expected to be settled on their vesting date in cash, rather than in equity shares. The unrecognized compensation expense will be recognized on a straight-line basis over the remaining vesting periods of the awards, which is a period of less than three years on a weighted average basis.

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Activity for restricted stock awards, performance units and stock options is as follows:

	Nine Months Ended September 30, 2021			
	Restricted Stock Equity Awards	Restricted Stock Liability Awards	Performance Units	Stock Options
Beginning incentive compensation awards	765,981	221,353	207,430	86,332
Awards granted	304,142	71,870	173,423	—
Awards assumed (a) (c)	255,379	—	100,056	—
Awards forfeited	(7,329)	(5,848)	—	—
Awards vested (b) (c)	(562,752)	(100,956)	(100,056)	—
Options exercised	—	—	—	(55,173)
Options expired	—	—	—	(415)
Ending incentive compensation awards	<u>755,421</u>	<u>186,419</u>	<u>380,853</u>	<u>30,744</u>

(a) Awards assumed as a result of the Parsley Acquisition.

(b) Per the terms of award agreements and elections, the issuance of common stock may be deferred for certain restricted stock equity awards, performance units and stock options that vest during the period.

(c) The amounts presented include the assumption and accelerated vesting of 216,914 Parsley restricted stock equity awards and 100,056 of Parsley performance units, both of which vested upon completion of the Parsley Acquisition.

NOTE 9. Asset Retirement Obligations

The changes in asset retirement obligations are as follows:

	Nine Months Ended September 30, 2021 (in millions)
Beginning asset retirement obligations	\$ 282
Liabilities assumed in the Parsley Acquisition	73
Liabilities assumed in the DoublePoint Acquisition	37
New wells placed on production	8
Changes in estimates (a)	(1)
Liabilities settled	(27)
Accretion of discount	5
Ending asset retirement obligations	<u>377</u>
Less current portion of asset retirement obligations	<u>(61)</u>
Asset retirement obligations - noncurrent	<u>\$ 316</u>

(a) Changes in estimates are determined based on several factors, including updating abandonment cost estimates using recent actual costs incurred to abandon wells, credit-adjusted risk-free discount rates, economic well life estimates and forecasted timing of abandoning wells.

NOTE 10. Commitments and Contingencies

Legal actions. The Company is a party to various proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to these proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company records reserves for contingencies when information available indicates that a loss is probable and the amount of the loss can be reasonably estimated.

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Indemnifications. The Company has agreed to indemnify its directors and certain of its officers, employees and agents with respect to claims and damages arising from acts or omissions taken in such capacity, as well as with respect to certain litigation.

Environmental. Environmental expenditures that relate to an existing condition caused by past operations and that have no future economic benefits are expensed. Environmental expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Liabilities for expenditures that will not qualify for capitalization are recorded when environmental assessment and/or remediation is probable and the costs can be reasonably estimated. Such liabilities are undiscounted unless the timing of cash payments for the liability is fixed or reliably determinable. Environmental liabilities normally involve estimates that are subject to revision until settlement or the remediation occurs.

Firm purchase, gathering, processing, transportation, fractionation and storage commitments. From time to time, the Company enters into, and as of September 30, 2021 was a party to, take-or-pay agreements, which include contractual commitments (i) to purchase sand, water and diesel for use in the Company's drilling and completion operations, (ii) with midstream service companies and pipeline carriers for future gathering, processing, transportation, fractionation and storage and (iii) with oilfield services companies that provide drilling and pressure pumping services. These commitments are normal and customary for the Company's business activities.

Obligations following divestitures. In connection with its divestiture transactions, the Company may retain certain liabilities and provide the purchaser certain indemnifications, subject to defined limitations, which may apply to identified pre-closing matters, including matters of litigation, environmental contingencies, royalties and income taxes. Also associated with its divestiture transactions, the Company has issued and received guarantees to facilitate the transfer of contractual obligations, such as firm transportation agreements or gathering and processing arrangements. The Company does not recognize a liability if the fair value of the obligation is immaterial and the likelihood of making payments under these guarantees is remote.

South Texas Divestiture. In conjunction with the South Texas Divestiture, the Company transferred its long-term midstream agreements and associated minimum volume commitments ("MVC's") to the buyer. However, the Company retained the obligation to pay 100 percent of any deficiency fees associated with the MVC's from January 2019 through July 2022. The buyer is required to reimburse the Company for 18 percent of the deficiency fees paid by the Company from January 2019 through July 2022; such reimbursement will be paid by the buyer in installments beginning in 2023 through 2025. Assuming 100 percent of the MVC's are paid as deficiency fees, the maximum amount of future payments for this obligation would be approximately \$260 million as of September 30, 2021. As of September 30, 2021, the Company's estimated deficiency fee obligation of \$198 million is included in other current liabilities in the consolidated balance sheets. The deficiency fee receivable from the buyer of \$77 million is included in noncurrent other assets in the consolidated balance sheets. The Company has credit support for the deficiency fee receivable of up to \$100 million.

Raton transportation commitments. In July 2018, the Company completed the sale of its gas field assets in the Raton Basin to an unaffiliated third party and transferred certain gas transportation commitments, which extend through 2032, to the buyer for which the Company has provided a guarantee. Assuming 100 percent of the remaining commitments are paid by the Company under its guarantee, the maximum amount of future payments would be approximately \$72 million as of September 30, 2021. The Company has received credit support for the commitments of up to \$50 million. The Company paid \$2 million in gas transportation fees associated with the transferred commitment for the nine months ended September 30, 2021 and was fully reimbursed.

West Eagle Ford Shale commitments. In April 2018, the Company completed the sale of its West Eagle Ford Shale gas and liquids field to an unaffiliated third party and transferred certain gas and liquids transportation commitments, which extend through 2022, to the buyer for which the Company has provided a guarantee. Assuming 100 percent of the remaining commitments are paid by the Company under its guarantee, the maximum amount of future payments would be approximately \$16 million as of September 30, 2021. The Company has received credit support for the commitments of up to \$17 million.

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Certain contractual obligations were retained by the Company after some divestitures, including the aforementioned South Texas Divestiture. These contractual obligations are primarily related to firm transportation and storage agreements in which the Company is unlikely to realize any benefit. The estimated obligations are included in other current or noncurrent liabilities in the consolidated balance sheets. The changes in contract obligations are as follows:

	Nine Months Ended September 30, 2021	
	(in millions)	
Beginning contract obligations	\$	360
Liabilities settled		(159)
Accretion of discount		6
Changes in estimate (a)		(2)
Ending contract obligations	\$	205

(a) Represents differences between estimated and actual liabilities settled.

NOTE 11. Related Party Transactions

In December 2018, the Company completed the sale of its pressure pumping assets to ProPetro in exchange for 16.6 million shares of ProPetro common stock and \$110 million of cash that was received during the first quarter of 2019. ProPetro is considered a related party as the shares received represent 16 percent of ProPetro's outstanding common stock. In addition to the sale of equipment and related facilities, the Company entered into a long-term agreement with ProPetro for it to provide pressure pumping and related services. The costs of these services are capitalized in oil and gas properties as incurred.

In October 2019, Phillip A. Gobe, a nonemployee member of the Company's board of directors, was appointed by the board of directors of ProPetro to serve as its Executive Chairman, and in March 2020 he was appointed as Chief Executive Officer and Chairman of the board of directors. In July 2021, ProPetro announced that, effective August 31, 2021, Mr. Gobe would transition from ProPetro's Chairman and Chief Executive Officer to Executive Chairman. Mark S. Berg, the Company's Executive Vice President, Corporate Operations, serves as a member of the ProPetro board of directors under the Company's right to designate a director to the board of directors of ProPetro so long as the Company owns five percent or more of ProPetro's outstanding common stock.

Transactions and balances with ProPetro are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Pressure pumping and related services charges (a)	\$ 130	\$ 21	\$ 297	\$ 163

(a) Includes no idle frac fleet fees for the three months ended September 30, 2021 and \$5 million of idle frac fleet fees for the nine months ended September 30, 2021, as compared to \$6 million and \$35 million of idle frac fleet fees for the three and nine months ended September 30, 2020, respectively.

	As of September 30, 2021		As of December 31, 2020	
	(in millions)			
Accounts payable - due to affiliate (a)	\$ 97	\$	\$	45

(a) Represents amounts payable for pressure pumping and related services provided by ProPetro as part of a long-term agreement.

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The Company discloses ProPetro's summarized financial information on a one-quarter lag as it enables the Company to report its quarterly results independent from the timing of when ProPetro reports its results. Summarized financial information for ProPetro is as follows:

	Six Months Ended June 30,	
	2021	2020
	(in millions)	
Revenue - Service revenue	\$ 378	\$ 501
Cost of services (exclusive of depreciation and amortization)	\$ 286	\$ 369
Net loss	\$ (29)	\$ (34)

NOTE 12. Revenue Recognition

The Company recognizes revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Disaggregated revenue from contracts with purchasers. Revenues on sales of oil, NGLs, gas and purchased oil, gas and diesel are recognized when control of the product is transferred to the purchaser and payment can be reasonably assured. Sales prices for oil, NGLs, gas and diesel are negotiated based on factors normally considered in the industry, such as an index or spot price, distance from the well to the pipeline or market, commodity quality and prevailing supply and demand conditions. Accordingly, the prices received by the Company for oil, NGLs, gas and diesel sales generally fluctuate similar to changes in the relevant market index prices.

Disaggregated revenue from contracts with purchasers by product type is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Oil sales	\$ 2,477	\$ 724	\$ 6,043	\$ 2,101
NGL sales	515	129	1,135	344
Gas sales	290	69	609	172
Total oil and gas revenues	3,282	922	7,787	2,617
Sales of purchased oil	1,642	934	4,422	2,373
Sales of purchased gas	22	1	38	18
Sales of purchased diesel	15	—	47	—
Total sales of purchased commodities	1,679	935	4,507	2,391
Total revenue from contracts with purchasers	\$ 4,961	\$ 1,857	\$ 12,294	\$ 5,008

As of September 30, 2021 and December 31, 2020, the accounts receivable balance representing amounts due or billable under the terms of contracts with purchasers was \$1.6 billion and \$661 million, respectively.

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NOTE 13. Interest and Other Income (Loss), Net

The components of net interest and other income (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Investment in affiliate fair value adjustment (Note 4)	\$ (8)	\$ (18)	\$ 21	\$ (119)
Deferred compensation plan income	3	6	11	3
Contingent consideration fair value adjustment (Note 5)	—	22	—	(42)
Other	7	3	10	13
	<u>\$ 2</u>	<u>\$ 13</u>	<u>\$ 42</u>	<u>\$ (145)</u>

NOTE 14. Other Expense

The components of other expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Parsley Acquisition transaction costs (a)	\$ 3	\$ —	\$ 209	\$ —
Winter Storm Uri gas commitments (b)	—	—	80	—
DoublePoint Acquisition transaction costs (c)	5	—	32	—
Unoccupied facility expense (d)	10	—	26	(1)
Transportation commitment charges (e)	5	4	15	12
Termination and idle drilling and frac equipment charges (f)	—	16	5	69
Loss on early extinguishment of debt (Note 7)	—	—	2	27
Restructuring charges (Note 3)	—	74	1	75
South Texas deficiency fee obligation (Note 4)	—	—	—	69
Vertical integration services loss (income), net (g)	2	(2)	(4)	(1)
Other	9	6	18	23
	<u>\$ 34</u>	<u>\$ 98</u>	<u>\$ 384</u>	<u>\$ 273</u>

(a) Represents costs associated with the Parsley Acquisition, which includes \$90 million of employee-related costs and \$119 million of transaction-related fees during the nine months ended September 30, 2021 and \$3 million of transaction-related fees during the three months ended September 30, 2021. See Note 3 and Note 8 for additional information.

(b) Represents costs related to the Company's fulfillment of certain firm gas commitments during Winter Storm Uri in February 2021.

(c) Represents transaction-related fees associated with the DoublePoint Acquisition. See Note 3 for additional information.

(d) Primarily facilities expense associated with certain acquired Parsley offices that are no longer occupied.

(e) Primarily represents firm transportation payments on excess pipeline capacity commitments.

(f) Includes idle frac fleet fees, stacked drilling rig charges and drilling rig early termination charges.

(g) Primarily represents net margins (attributable to third party working interest owners) that result from Company-provided vertically integrated services, which are ancillary to and supportive of the Company's oil and gas joint operating activities, and do not represent intercompany transactions. The components of the vertical integration services net margins are as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Gross revenues	\$ 9	\$ 11	\$ 32	\$ 36
Gross costs and expenses	\$ 11	\$ 9	\$ 28	\$ 35

NOTE 15. Income Taxes

Income tax benefit (provision) and effective tax rate are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Current tax benefit (provision)	\$ (11)	\$ (1)	\$ (29)	\$ 10
Deferred tax benefit (provision)	(280)	16	(371)	36
Income tax benefit (provision)	<u>\$ (291)</u>	<u>\$ 15</u>	<u>\$ (400)</u>	<u>\$ 46</u>
Effective tax rate	22 %	15 %	23 %	16 %

The Company evaluates and updates its annual effective income tax rate on an interim basis based on current and forecasted earnings and tax laws. The mix and timing of the Company's actual earnings compared to annual projections can cause interim effective tax rate fluctuations. The Company's interim effective tax rate for the three and nine months ended September 30, 2021 differed from the U.S. statutory rate of 21 percent primarily due to forecasted state income taxes.

The Company files income tax returns in the U.S. federal and various state and foreign jurisdictions. The Internal Revenue Service has closed examinations of the 2019 and prior tax years and, with few exceptions, the Company believes that it is no longer subject to examinations by state and foreign tax authorities for years before 2014. As of September 30, 2021, no adjustments had been proposed in any jurisdiction that would have a significant effect on the Company's liquidity, future results of operations or financial position.

DoublePoint Acquisition. The Company purchased all the membership interests of DoublePoint, a disregarded entity for federal income tax purposes. As a result, for tax purposes, the Company recorded the cost basis in the assets acquired equal to its purchase price (i.e. stepped-up basis).

Parsley Acquisition. For federal income tax purposes, the Parsley Acquisition qualified as a tax-free merger whereby the Company acquired carryover tax basis in Parsley's assets and liabilities. The Company recorded a deferred tax liability of \$140 million associated with the acquired assets. Included in the deferred tax liability are deferred tax asset attributes acquired from Parsley, which primarily consist of net operating loss carryforwards of \$2.2 billion that are subject to an annual limitation under Internal Revenue Code Section 382. The Company believes it is more likely than not that the acquired net operating loss carryforwards will be utilized before they expire. Offsetting the deferred tax assets attributes are deferred tax liability attributes, primarily related to the cost basis in oil and gas properties for tax purposes being less than the recorded book amounts.

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NOTE 16. Net Income (Loss) Per Share

The components of basic and diluted net income (loss) per share attributable to common stockholders are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Net income (loss) attributable to common stockholders	\$ 1,045	\$ (85)	\$ 1,355	\$ (243)
Participating share-based earnings (a)	(3)	—	(4)	—
Basic net income (loss) attributable to common stockholders	1,042	(85)	1,351	(243)
Adjustment to after-tax interest expense to reflect the dilutive impact attributable to Convertible Notes	2	—	5	—
Diluted net income (loss) attributable to common stockholders	\$ 1,044	\$ (85)	\$ 1,356	\$ (243)
Basic weighted average shares outstanding	244	165	230	165
Contingently issuable stock-based compensation	1	—	—	—
Convertible Notes (b)	12	—	12	—
Diluted weighted average shares outstanding	257	165	242	165

(a) Unvested restricted stock awards represent participating securities because they participate in non-forfeitable dividends with the common equity owners of the Company. Participating share-based earnings represent the distributed and undistributed earnings of the Company attributable to the participating securities. Unvested restricted stock awards do not participate in undistributed net losses as they are not contractually obligated to do so. The dilutive effect of the reallocation of participating share-based earnings to diluted net income (loss) attributable to common stockholders was negligible.

(b) Diluted weighted average common shares outstanding have been increased to reflect the dilutive effect that would have resulted if the Company's Convertible Notes had been converted at the beginning of the three and nine months ended September 30, 2021. If converted by the holder, the Company intends to settle the Convertible Notes in cash.

Stock repurchase program. In December 2018, the Company's board of directors authorized a \$2 billion common stock repurchase program. Under this stock repurchase program, the Company may repurchase shares at management's discretion in accordance with applicable securities laws. In addition, the Company may repurchase shares pursuant to a trading plan meeting the requirements of Rule 10b5-1 under the Securities Act of 1934, which would permit the Company to repurchase shares at times that may otherwise be prohibited under the Company's insider trading policy. The stock repurchase program has no time limit and may be modified, suspended or terminated at any time by the board of directors.

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Expenditures to acquire shares under the share repurchase program are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
	(in millions)			
Share repurchases (a)	\$ —	\$ —	\$ —	\$ 160

(a) During the three and nine months ended September 30, 2021, no shares were repurchased under the share repurchase program, as compared to no shares repurchased and 1,511,930 shares repurchased for the three and nine months ended September 30, 2020, respectively.

As of September 30, 2021, \$1.1 billion remains available for use to repurchase shares under the Company's common stock repurchase program.

NOTE 17. Subsequent Events

Base Dividend. In November 2021, the board of directors declared a quarterly base dividend of \$0.62 per share on the Company's outstanding common stock, payable January 14, 2022 to stockholders of record at the close of business on December 31, 2021.

Variable Dividend. In November 2021, the board of directors declared a cash dividend of \$3.02 per share on the Company's outstanding common stock, payable December 14, 2021 to stockholders of record at the close of business on November 30, 2021.

Divestitures

Delaware Divestiture. In November 2021, the Company entered into a definitive agreement with Continental Resources, Inc. to sell all of its assets in the Delaware Basin for cash proceeds of \$3.25 billion, subject to normal closing adjustments. The Company expects to recognize a pretax loss of \$900 million to \$1.1 billion.

For tax purposes the Company expects to recognize a gain of \$1.1 billion to \$1.3 billion which is expected to be offset by the Company's existing federal net operating losses, resulting in no federal taxes and \$7 million to \$11 million of state taxes expected to be paid associated with the divestiture.

The transaction is expected to close in late December 2021, subject to the satisfaction of customary closing conditions, including regulatory approval. The Delaware Basin assets did not meet the criteria to be considered held-for-sale at September 30, 2021.

Glasscock Divestiture. In October 2021, the Company completed the sale of approximately 20,000 net acres in western Glasscock County to Laredo Petroleum, Inc. ("Laredo") in exchange for approximately \$160 million in cash and approximately 960 thousand shares of Laredo's common stock representing total consideration transferred of \$230 million. The sale of these assets is expected to result in a pretax gain of approximately \$5 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**Parsley Acquisition and DoublePoint Acquisition**

The Company regularly seeks to acquire or trade acreage that complements its operations, provides exploration and development opportunities, increases the lateral length of future horizontal wells and provides superior returns on investment.

On May 4, 2021, the Company completed the acquisition of Double Eagle III Midco 1 LLC ("DoublePoint") in exchange for 27 million shares of Pioneer common stock representing stock consideration transferred of \$4.2 billion, \$1.0 billion of cash and the assumption of \$890 million of debt (the "DoublePoint Acquisition"). The DoublePoint Acquisition was accounted for as a business combination, with the fair value of the acquisition consideration allocated to the acquisition date fair value of assets acquired and liabilities assumed. DoublePoint's results of operations were included in the Company's interim consolidated financial statements beginning in May 2021. See [Note 3](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

On January 12, 2021, the Company completed the acquisition of Parsley Energy, Inc., a Delaware corporation that previously traded on the NYSE under the symbol "PE" ("Parsley"), pursuant to the Agreement and Plan of Merger, dated as of October 20, 2020, among Pioneer, certain of its subsidiaries, Parsley and Parsley's subsidiary, Parsley Energy, LLC (the "Parsley Acquisition"). The Parsley Acquisition was accounted for as a business combination, with the fair value of the acquisition consideration allocated to the acquisition date fair value of assets acquired and liabilities assumed. As acquisition consideration, the Company issued 52 million shares of Pioneer common stock (representing stock consideration transferred of \$6.9 billion) and assumed \$3.2 billion of Parsley's debt. Parsley's post-acquisition date results of operations were included in the Company's interim consolidated financial statements beginning on January 12, 2021. See [Note 3](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Financial and Operating Performance

The Company's financial and operating performance for the three months ended September 30, 2021 included the following highlights:

- Net income attributable to common stockholders for the three months ended September 30, 2021 was \$1.0 billion (\$4.07 per diluted share) as compared to net loss of \$85 million (\$0.52 per diluted share) for the same period in 2020. The primary components of the \$1.1 billion increase in earnings attributable to common stockholders include:
 - a \$2.4 billion increase in oil and gas revenues due to an 87 percent increase in average realized commodity prices per BOE as a result of improved commodity prices due to the economic recovery from the COVID-19 pandemic and a 90 percent increase in daily sales volumes due to additional production from the Company's successful horizontal drilling program in the Permian Basin, the Parsley Acquisition and the DoublePoint Acquisition;
- partially offset by:
 - a \$360 million incremental net derivative loss, primarily due to changes in forward commodity prices and the cash settlement of derivative positions in accordance with their terms;
 - a \$311 million increase in DD&A expense, primarily due to the aforementioned increase in oil and gas sales volumes;
 - a \$306 million increase in the Company's income tax provision due to the increase in earnings during the three months ended September 30, 2021 as compared to the same period in 2020; and
 - a \$276 million increase in production costs, including taxes, primarily attributable to (i) increased costs attributable to the production added from the Parsley Acquisition and the DoublePoint Acquisition and (ii) an increase in production taxes as a result of the aforementioned 87 percent increase in average realized commodity prices.
- During the three months ended September 30, 2021, average daily sales volumes increased by 90 percent to 675,793 BOEPD, as compared to 354,968 BOEPD during the same period in 2020, due to additional production from Company's successful horizontal drilling program in the Permian Basin, the Parsley Acquisition and the DoublePoint Acquisition.

- Average oil and NGL prices per Bbl and average gas prices per Mcf increased to \$69.24, \$35.66 and \$4.05, respectively, during the three months ended September 30, 2021 as compared to \$39.22, \$16.93 and \$1.74, respectively, for the same period in 2020.
- Cash provided by operating activities increased during the three months ended September 30, 2021 to \$2.0 billion as compared to \$391 million for the same period in 2020. The increase was primarily due to an increase in oil and gas revenues due to the aforementioned increases in commodity prices and sales volumes, partially offset by (i) additional cash used in derivative activities and (ii) an increase in production costs due to the aforementioned increase in production added from the Parsley Acquisition and the DoublePoint Acquisition and production taxes attributable to the increase in commodity prices.
- As of September 30, 2021 and December 31, 2020, the Company's net debt to book capitalization was 21 percent and 14 percent, respectively.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic resulted in a severe worldwide economic downturn, significantly disrupting the demand for oil throughout the world, and created significant volatility, uncertainty and turmoil in the oil and gas industry. The decrease in demand for oil combined with pressures on the global supply-demand balance for oil and related products, resulted in oil prices declining significantly beginning in late February 2020. Oil demand and oil prices have continued to recover throughout 2021, but uncertainties remain regarding the recovery of oil demand to pre-COVID-19 levels, which will ultimately depend on various factors and consequences beyond the Company's control, such as the duration and scope of the pandemic, the ability of OPEC, Russia and other oil producing nations to manage the global oil supply, additional actions by businesses and governments in response to the pandemic, the global supply chain constraints associated with manufacturing delays, and the speed and effectiveness of responses to combat the virus.

The Company continues to assess the global impacts of the COVID-19 pandemic and may modify its plans as the economic and health impacts of COVID-19 continue to evolve.

Divestitures

Delaware Divestiture. In November 2021, the Company entered into a definitive agreement with Continental Resources, Inc. to sell all of its assets in the Delaware Basin for cash proceeds of \$3.25 billion, subject to normal closing adjustments. The Company expects to recognize a pretax loss of \$900 million to \$1.1 billion.

For tax purposes the Company expects to recognize a gain of \$1.1 billion to \$1.3 billion which is expected to be offset by the Company's existing federal net operating losses, resulting in no federal taxes and \$7 million to \$11 million of state taxes expected to be paid associated with the divestiture.

The transaction is expected to close in late December 2021, subject to the satisfaction of customary closing conditions, including regulatory approval. The Delaware Basin assets did not meet the criteria to be considered held-for-sale at September 30, 2021.

Glasscock Divestiture. In October 2021, the Company completed the sale of 20,000 net acres in western Glasscock County to Laredo Petroleum, Inc. ("Laredo") in exchange for \$160 million in cash and approximately 960 thousand shares of Laredo's common stock representing total consideration transferred of \$230 million. The sale of these assets is expected to result in a pretax gain of approximately \$5 million.

The Delaware divestiture will result in the loss of net production of approximately 50,000 BOE per day once the transaction is closed. The Glasscock divestiture closed in October 2021 resulting in a net loss of approximately 4,400 BOE per day. The cash received from the divestitures will be used to meet the Company's short-term and long-term liquidity requirements as discussed in Liquidity and Capital Resources.

Fourth Quarter 2021 Outlook

The Company's operating and financial results for the fourth quarter of 2021 and beyond are uncertain and will depend on various factors beyond the Company's control, such as: the duration of the COVID-19 pandemic and the speed and effectiveness of vaccine distributions to combat the virus; environmental and trade policies; fiscal challenges facing the United States federal government; geopolitical issues globally, especially in the Middle East; the extent to which OPEC members and some nonmembers, including Russia, adhere to and agree to extend cuts to their oil production quotas; the timing and supply impact of any Iranian sanction relief on Iran's ability to export oil and the uncertainty in oil demand fundamentals associated with governmental policy aimed at redirecting fossil fuel consumption towards lower carbon energy.

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Based on current estimates, the Company expects the following operating and financial results for the fourth quarter of 2021:

	Three Months Ending December 31, 2021
	Guidance
	(\$ in millions, except per BOE amounts)
Average daily production (MBOE) (a)	670 - 695
Average daily oil production volume (MBbl) (a)	388 - 403
Production costs per BOE	\$7.50 - \$9.00
DD&A per BOE	\$10.75 - \$12.75
Exploration and abandonments expense	\$10 - \$20
General and administrative expense	\$67 - \$77
Accretion of discount on asset retirement obligations	\$2 - \$5
Interest expense	\$39 - \$44
Other expense	\$15 - \$30
Cash flow impact from firm transportation (b)	\$(75) - \$(45)
Current income tax provision	\$5 - \$15
Effective tax rate	22% - 27%

(a) Reflects the impact of the Glasscock divestiture that closed during October 2021.

(b) The cash flow impact from firm transportation is primarily based on the forecasted differential between WTI oil prices and Brent oil prices less the costs to transport purchased oil from the areas of the Company's production to the Gulf Coast. To the extent that the Company's Gulf Coast sales of purchased oil does not cover the purchase price and associated firm transport costs, the Company's results of operations will reflect the negative cash flow impact attributable to its firm transportation commitments.

Operations and Drilling Highlights

Average daily oil, NGL and gas sales volumes are as follows:

	Nine Months Ended September 30, 2021
Oil (Bbls)	344,692
NGL (Bbls)	136,749
Gas (Mcf)	674,186
Total (BOE)	593,805

The Company's liquids production was 81 percent of total production, on a BOE basis, for the nine months ended September 30, 2021.

Costs incurred are as follows:

	Nine Months Ended September 30, 2021
	(in millions)
Proved property acquisition costs (a)	\$ 9,039
Unproved property acquisitions (a)	8,091
Exploration/extension costs	1,953
Development costs	504
Asset retirement obligations	7
	<u>\$ 19,594</u>

(a) Includes proved and unproved acquisition costs related to the Parsley Acquisition of \$5.1 billion and \$5.6 billion, respectively, and proved and unproved acquisition costs related to the DoublePoint Acquisition of \$3.9 billion and \$2.4 billion, respectively.

Development and exploration/extension drilling activity is as follows:

	Nine Months Ended September 30, 2021	
	Development	Exploration/Extension
Beginning wells in progress	9	210
Wells spud	18	342
Acquired wells in progress	22	104
Successful wells	(28)	(378)
Ending wells in progress	21	278

The Company is currently operating 19 drilling rigs and seven frac fleets in the Midland Basin, as well as three drilling rigs in the Delaware basin. The Company will continue to evaluate its drilling and completions program with future activity levels assessed regularly.

During the nine months ended September 30, 2021, the Company successfully completed 318 horizontal wells in the northern portion of the Midland Basin, 71 horizontal wells in the southern portion of the Midland Basin and 17 horizontal wells in the Delaware Basin. In the northern portion of the Midland Basin, 40 percent of the horizontal wells placed on production were Wolfcamp A interval wells, 37 percent were primarily Wolfcamp B interval wells and the remaining 23 percent were Spraberry interval wells. In the southern portion of the Midland Basin, the majority of the wells placed on production were Wolfcamp A and B interval wells. In the Delaware Basin, approximately 65 percent were Wolfcamp A and B interval wells and the remaining 35 percent were in the Bone Spring interval.

Results of Operations

Oil and gas revenues.

Average daily sales volumes are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Oil (Bbls)	388,829	200,670	94 %	344,692	212,718	62 %
NGL (Bbls)	156,873	82,614	90 %	136,749	85,707	60 %
Gas (Mcf)	780,547	430,106	81 %	674,186	418,547	61 %
Total (BOEs)	675,793	354,968	90 %	593,805	368,183	61 %

The increase in average daily BOE sales volumes for the three and nine months ended September 30, 2021, as compared to the same periods in 2020 was due to the Company's successful Spraberry/Wolfcamp horizontal drilling program, combined with the production added from the Parsley Acquisition and the DoublePoint Acquisition.

The oil, NGL and gas prices that the Company reports are based on the market prices received for each commodity. Commodity prices for the three and nine months ended September 30, 2021, as compared to the same respective periods in 2020, increased due to the continued recovery in oil, NGL and gas demand from the COVID-19 pandemic. The average prices are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Oil per Bbl	\$ 69.24	\$ 39.22	77 %	\$ 64.22	\$ 36.05	78 %
NGL per Bbl	\$ 35.66	\$ 16.93	111 %	\$ 30.41	\$ 14.64	108 %
Gas per Mcf	\$ 4.05	\$ 1.74	133 %	\$ 3.31	\$ 1.50	121 %
Total per BOE	\$ 52.79	\$ 28.22	87 %	\$ 48.04	\$ 25.94	85 %

Purchased commodities.

The Company enters into pipeline capacity commitments in order to secure available oil, NGLs and gas transportation capacity from the Company's areas of production and secure diesel supply from the Gulf Coast to the Company's operations in the Permian Basin. The Company enters into purchase transactions with third parties and separate sale transactions with third parties to diversify a portion of the Company's oil and gas sales to (i) Gulf Coast refineries, (ii) Gulf Coast and West Coast gas markets and (iii) international oil markets, and to satisfy unused gas pipeline capacity commitments.

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Revenues and expenses from these transactions are generally presented on a gross basis in sales of purchased commodities and purchased commodities in the accompanying consolidated statements of operations as the Company acts as a principal in the transaction by assuming both the risks and rewards of ownership, including credit risk, of the commodities purchased and the responsibility to deliver the commodities sold. In conjunction with the Company's downstream sales, the Company also enters into pipeline capacity commitments in order to secure available oil, NGL and gas transportation capacity from the Company's areas of production to downstream sales points. The transportation costs associated with sales of purchased commodities are included in purchased commodities expense.

The net effects of third party purchases and sales of commodities are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Sales of purchased commodities	\$ 1,679	\$ 935	\$ 744	\$ 4,507	\$ 2,391	\$ 2,116
Purchased commodities	1,762	998	764	4,644	2,598	2,046
	\$ (83)	\$ (63)	\$ (20)	\$ (137)	\$ (207)	\$ 70

The change in net sales of purchased commodities for the three months ended September 30, 2021, as compared to the same period in 2020, was primarily due to a decrease in 2021 downstream oil margins on the Company's Gulf Coast refinery and export sales. The change in net sales of purchased commodities for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to a \$74 million loss during the first quarter of 2020 attributable to oil that was purchased and in transit via pipeline to the Gulf Coast or in Gulf Coast storage at the end of January and February, which was subsequently sold in February 2020 and March 2020, respectively, at lower prices. This oil inventory is sold in the month following purchase at contracted prices that are generally tied to monthly average index oil prices (typically Brent oil prices).

Firm transportation payments on excess pipeline capacity are included in other expense in the accompanying consolidated statements of operations. See [Note 14](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Interest and other income (loss), net.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Interest and other income (loss), net	\$ 2	\$ 13	\$ (11)	\$ 42	\$ (145)	\$ 187

The decrease in net interest and other income (loss) for the three months ended September 30, 2021, as compared to the same period in 2020, was primarily due to a \$22 million noncash gain in 2020 attributable to the increase in fair value of contingent consideration associated with the South Texas Divestiture, partially offset by a \$10 million reduction in noncash losses between periods attributable to the decrease in the fair value of the Company's investment in affiliate. The increase in net interest and other income (loss) for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to (i) a noncash gain of \$21 million attributable to the change in fair value of the Company's investment in affiliate in 2021 compared to a noncash loss of \$119 million in 2020 and (ii) a \$42 million noncash loss in 2020 attributable to the decrease in fair value of contingent consideration associated with the South Texas Divestiture.

See [Note 13](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

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Derivative loss, net.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
(in millions)						
Commodity derivatives:						
Noncash derivative gain (loss), net	\$ (10)	\$ 25	\$ (35)	\$ (639)	\$ (29)	\$ (610)
Cash receipts (payments) on settled derivative instruments, net	(486)	(81)	(405)	(1,357)	110	(1,467)
Total commodity derivative gain (loss), net	(496)	(56)	(440)	(1,996)	81	(2,077)
Marketing derivatives:						
Noncash derivative gain (loss), net	6	(85)	91	3	(100)	103
Cash payments on settled derivative instruments, net	(11)	—	(11)	(31)	—	(31)
Total marketing derivative loss, net	(5)	(85)	80	(28)	(100)	72
Interest rate derivatives:						
Cash payments on settled derivative instruments, net	—	—	—	—	(22)	22
Derivative loss, net	\$ (501)	\$ (141)	\$ (360)	\$ (2,024)	\$ (41)	\$ (1,983)

The Company primarily utilizes commodity swap contracts, collar contracts, collar contracts with short puts and basis swap contracts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's capital budgeting and expenditure plans and (iii) support the payment of contractual obligations and dividends. The Company uses marketing derivatives to diversify its oil pricing to Gulf Coast and international markets. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness.

Commodity derivative settlements and the related price impact (per Bbl or Mcf) are as follows:

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
	Net cash payments (in millions)	Price impact		Net cash payments (in millions)	Price impact	
Oil derivative payments (a)	\$ (427)	\$ (11.96)	per Bbl	\$ (1,270)	\$ (13.48)	per Bbl
Gas derivative payments (b)	(59)	(0.82)	Mcf	(74)	(0.41)	per Mcf
Total net commodity derivative payments	<u>\$ (486)</u>			<u>\$ (1,344)</u>		

(a) Excludes the effect of liquidating certain of the Company's 2022 WTI swap contracts for cash payments of \$13 million during the nine months ended September 30, 2021.

(b) Excludes the effect of liquidating certain of the Company's 2021 NYMEX swap contracts for cash receipts of \$447 thousand for the nine months ended September 30, 2021.

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	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
	Net cash payments	Price impact	Net cash receipts	Price impact
	(in millions)		(in millions)	
Oil derivative receipts (payments) (a)	\$ (36)	\$ (1.93) per Bbl	\$ 123	\$ 2.12 per Bbl
Gas derivative payments	(2)	(0.04) per Mcf	(2)	(0.02) per Mcf
Total net commodity derivative receipts (payments)	\$ (38)		\$ 121	

(a) Excludes the effect of liquidating certain of the Company's 2021 Brent collar contracts with short puts and Brent swap contracts for cash payments of \$43 million for the three months ended September 30, 2020 and certain of the Company's 2020 and 2021 Brent collar contracts with short puts for net cash payments of \$11 million during the nine months ended September 30, 2020.

The Company's open derivative contracts are subject to continuing market risk. See "Item 3. Quantitative and Qualitative Disclosures About Market Risk" and [Note 4](#) and [Note 5](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Gain on disposition of assets, net

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Gain on disposition of assets, net	\$ 1	\$ 2	\$ (1)	\$ 14	\$ 7	\$ 7

The increase in gain on disposition of assets for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to recognizing a gain of \$9 million in 2021 associated with the sale of the Company's well services business to a third party for net cash proceeds of \$20 million. See [Note 3](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Oil and gas production costs.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Oil and gas production costs	\$ 323	\$ 163	\$ 160	\$ 890	\$ 506	\$ 384

Oil and gas production costs per BOE are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Lease operating expense per BOE (a)	\$ 2.49	\$ 3.00	(17) %	\$ 2.95	\$ 3.03	(3) %
Gathering, processing and transportation expense per BOE (b)	3.15	2.55	24 %	2.95	2.48	19 %
Workover costs per BOE (a)	0.56	0.19	195 %	0.46	0.24	92 %
Net natural gas plant income per BOE (c)	(1.02)	(0.75)	36 %	(0.87)	(0.74)	18 %
	\$ 5.18	\$ 4.99	4 %	\$ 5.49	\$ 5.01	10 %

(a) Lease operating expense and workover expense represent the components of oil and gas production costs over which the Company has management control.

(b) Gathering, processing and transportation expense represents the costs to (i) gather, process, transport and fractionate the Company's gas and NGLs to a point of sale and, to a lesser extent, (ii) gather and transport for certain of the Company's oil production to a point of sale.

(c) Net natural gas plant income represents the earnings from the Company's ownership share of gas processing facilities that gather and process the Company's and third party gas.

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The Company recognized higher production costs per BOE during the three and nine months ended September 30, 2021, as compared to the same periods in 2020, due to the following:

- Lease operating expense per BOE decreased for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, primarily due to (i) operational synergies achieved from the Parsley Acquisition beginning in January 2021 and the DoublePoint Acquisition beginning in May 2021, (ii) an increase in daily sales volumes due to additional production from the Company's successful horizontal drilling program in the Permian Basin and (iii) realized electricity credits for the three months ended September 30, 2021 as a result of Winter Storm Uri in February 2021;
- Gathering, processing and transportation expense per BOE increased for the three months ended September 30, 2021, as compared to the same period in 2020 primarily due to (i) transportation costs related to new pipeline takeaway capacity for the Company's gas production, (ii) increased gas and NGL prices during the third quarter of 2021 that resulted in increased gas processing costs for those contractual volumes retained by the processor as payment for their services and (iii) the assumption of Parsley Acquisition and DoublePoint Acquisition marketing contracts that have higher marketing costs on a per BOE basis. Gathering, processing and transportation expense per BOE increased for the nine months ended September 30, 2021, as compared to the same period in 2020 primarily due to (i) transportation costs related to new pipeline takeaway capacity for the Company's gas production, (ii) increased gas processing and transportation costs as a result of higher electricity costs during Winter Storm Uri in February 2021, (iii) increased gas and NGL prices during 2021 that resulted in increased gas processing costs for those contractual volumes retained by the processor as payment for their services and (iv) the assumption of Parsley Acquisition and DoublePoint Acquisition marketing contracts that have higher marketing costs on a per BOE basis;
- Workover costs per BOE increased for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, due to an increase in workover activity as a result of improved commodity prices being realized in 2021, which increased the economic benefit of repairing certain of the Company's oil and gas wells; and
- Net natural gas plant income per BOE increased for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, primarily due to improved gas and NGL prices.

Production and ad valorem taxes.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Production and ad valorem taxes	\$ 179	\$ 63	\$ 116	\$ 445	\$ 182	\$ 263

In general, production taxes and ad valorem taxes are directly related to commodity price changes; however, Texas ad valorem taxes are based upon prior year commodity prices, whereas production taxes are based upon current year commodity prices.

Production and ad valorem taxes per BOE are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Production taxes per BOE	\$ 2.53	\$ 1.20	111 %	\$ 2.25	\$ 1.11	103 %
Ad valorem taxes per BOE	0.38	0.70	(46 %)	0.50	0.69	(28 %)
	\$ 2.91	\$ 1.90	53 %	\$ 2.75	\$ 1.80	53 %

The increase in production taxes per BOE for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to increases in oil, NGL and gas commodity prices. The decrease in ad valorem taxes per BOE for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to lower prior year commodity prices that are used to determine current year ad valorem taxes.

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Depletion, depreciation and amortization expense.

	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2021	2020			2021	2020		
	(in millions)							
Depletion, depreciation and amortization	\$ 704	\$ 393	\$ 311	\$ 1,825	\$ 1,243	\$ 582		

Total DD&A and depletion expense per BOE is as follows:

	Three Months Ended September 30,			% Change	Nine Months Ended September 30,			% Change
	2021	2020			2021	2020		
DD&A per BOE	\$ 11.32	\$ 12.04	(6 %)	\$ 11.26	\$ 12.32	(9 %)		
Depletion expense per BOE	\$ 11.13	\$ 11.38	(2 %)	\$ 10.95	\$ 11.68	(6 %)		

The decrease in DD&A per BOE and depletion expense per BOE for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to incremental additions to proved reserves attributable to (i) new wells placed on production from the Company's successful Spraberry/Wolfcamp horizontal drilling program and (ii) improved commodity prices (which has the effect of extending the economic life of producing wells). In addition, the DD&A per BOE and depletion expense per BOE attributable to the Parsley Acquisition and the DoublePoint Acquisition were lower than the Company's respective 2020 per BOE amounts.

Exploration and abandonments expense. Geological and geophysical costs and lease abandonments and other exploration expenses are as follows:

	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2021	2020			2021	2020		
	(in millions)							
Geological and geophysical	\$ 10	\$ 10	\$ —	\$ 36	\$ 26	\$ 10		
Leasehold abandonments and other	—	6	(6)	4	9	(5)		
	\$ 10	\$ 16	\$ (6)	\$ 40	\$ 35	\$ 5		

The increase in geological and geophysical costs for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to relicensing certain seismic data in connection with the Parsley Acquisition.

The decrease in leasehold abandonment costs for the three and nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to the abandonment of certain unproved properties during 2020 that the Company no longer planned to drill before the leases expired.

During the nine months ended September 30, 2021, the Company drilled and evaluated 378 exploration/extension wells, of which 100 percent were successfully completed as discoveries. During the same period in 2020, the Company drilled and evaluated 191 exploration/extension wells, of which 100 percent were successfully completed as discoveries.

General and administrative expense.

	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2021	2020			2021	2020		
	(in millions)							
Noncash general and administrative expense	\$ 13	\$ 15	\$ (2)	\$ 37	\$ 30	\$ 7		
Cash general and administrative expense	59	49	10	179	150	29		
	\$ 72	\$ 64	\$ 8	\$ 216	\$ 180	\$ 36		

The change in noncash general and administrative expense for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to market fluctuations in the Company's deferred compensation obligation as a result of mark-to-market valuation changes attributable to the Company's deferred compensation plan assets.

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The change in cash general and administrative expense for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to the reinstatement of certain employee benefits during 2021 that were temporarily suspended during 2020 in response to the COVID-19 pandemic.

Total general and administrative expense per BOE is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	% Change	2021	2020	% Change
Noncash general and administrative expense per BOE	\$ 0.21	\$ 0.47	(55 %)	\$ 0.23	\$ 0.30	(23 %)
Cash general and administrative expense per BOE	0.95	1.49	(36 %)	1.10	1.49	(26 %)
	<u>\$ 1.16</u>	<u>\$ 1.96</u>	<u>(41 %)</u>	<u>\$ 1.33</u>	<u>\$ 1.79</u>	<u>(26 %)</u>

The decrease in general and administrative expense per BOE for the three and nine months ended September 30, 2021, as compared to the same periods in 2020, reflect the general and administrative synergies achieved from the Parsley Acquisition beginning in January 2021 and the DoublePoint Acquisition beginning in May 2021. The Company added the production volumes from the acquisitions, with limited associated general and administrative costs.

Interest expense.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2021	2020	Change	2021	2020	Change
	(in millions)					
Noncash interest expense	\$ 7	\$ 16	\$ (9)	\$ 19	\$ 34	\$ (15)
Cash interest expense	34	18	16	103	60	43
	<u>\$ 41</u>	<u>\$ 34</u>	<u>\$ 7</u>	<u>\$ 122</u>	<u>\$ 94</u>	<u>\$ 28</u>

The Company early adopted ASU 2020-06 effective January 1, 2021. As a result of this early adoption, the Company reversed the debt discount recorded to additional paid-in capital upon issuance of the Company's \$1.3 billion principal amount of Convertible Notes to long-term debt. Therefore, noncash interest expense during the three and nine months ended September 30, 2021 decreased as compared to the same respective periods in 2020, primarily due to \$11 million and \$18 million decreases, respectively, in amortization associated with the discount attributable to the issuance of the Convertible Notes prior to the adoption of ASU 2020-06. See [Note 7](#) of Notes to Consolidated Financial Statements in "Item 1. Financial Statements" for additional information.

The increase in cash interest expense during the three and nine months ended September 30, 2021, as compared to the same respective periods in 2020, is primarily due to (i) the changes in long-term debt as a result of the Parsley Acquisition and DoublePoint Acquisition (see "Liquidity and Capital Resources" below for further information) and (ii) the issuance in May 2020 and August 2020, respectively, of \$1.3 billion of the Convertible Notes and \$1.1 billion of 1.90% senior notes due 2030, partially offset by (i) the partial repayment of \$360 million of the Company's 3.45% senior notes due 2021, \$356 million of its 3.95% senior notes due 2022 and \$9 million of its 7.20% senior notes due 2028 as a result of the Company's tender offer for these notes in May 2020 and (ii) the repayment of its 3.45% senior notes that matured in January 2021.

The annual weighted average cash interest rate on the Company's indebtedness as of September 30, 2021 and 2020 was 1.9 percent and 2.2 percent, respectively. See [Note 7](#) of Notes to Consolidated Financial Statements in "Item 1. Financial Statements" for additional information.

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Other expense.

	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2021	2020			2021	2020		
	(in millions)							
Other expense	\$ 34	\$ 98	\$ (64)	\$ 384	\$ 273	\$ 111		

The decrease in other expense for the three months and the increase for the nine months ended September 30, 2021, as compared to the same respective periods in 2020, was primarily due to the following:

- \$8 million and \$241 million of transaction-related costs for the three and nine months ended September 30, 2021, respectively, associated with the Parsley Acquisition and DoublePoint Acquisition;
- \$80 million of losses for the nine months ended September 30, 2021 related to the Company's fulfillment of certain firm gas purchase commitments during Winter Storm Uri in February 2021; and
- \$10 million and \$26 million of costs primarily related to unoccupied facilities acquired through the Parsley Acquisition for the three and nine months ended September 30, 2021, respectively; as compared to
- a \$69 million charge for estimated deficiency payments related to the Company's South Texas Divestiture for the nine months ended September 30, 2020;
- \$74 million and \$75 million of employee-related charges associated with the 2020 corporate restructuring and the Company's staffing reduction in its well services for the three and nine months ended September 30, 2020, respectively;
- \$16 million and \$69 million of idle frac fleet fees, stacked drilling rig charges and drilling rig early termination charges for the three and nine months ended September 30, 2020, respectively; and
- \$27 million of early extinguishment of debt charges for the nine months ended September 30, 2020 associated with the Company's refinancing activities during the second quarter of 2020.

See [Note 14](#) of Notes to Consolidated Financial Statements in "Item 1. Financial Statements" for additional information.

Income tax benefit (provision).

	Three Months Ended September 30,			Change	Nine Months Ended September 30,			Change
	2021	2020			2021	2020		
	(in millions)							
Income tax benefit (provision)	\$ (291)	\$ 15	\$ (306)	\$ (400)	\$ 46	\$ (446)		
Effective tax rate	22 %	15 %	7 %	23 %	16 %	7 %		

The change in income tax benefit (provision) during the three and nine months ended September 30, 2021, as compared to the same periods in 2020, was primarily due to a \$1.4 billion and \$2.0 billion increase, respectively, in income before income taxes. The Company evaluates and updates its annual effective income tax rate on an interim basis based on current and forecasted earnings and tax laws. The mix and timing of the Company's actual earnings compared to annual projections can cause interim effective tax rate fluctuations. The Company's interim effective tax rate for the three and nine months ended September 30, 2021 differed from the U.S. statutory rate of 21 percent primarily due to forecasted state income taxes. See [Note 15](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Liquidity and Capital Resources

Liquidity. The Company's primary sources of short-term liquidity are (i) cash and cash equivalents, (ii) net cash provided by operating activities, (iii) sales of investments, (iv) unused borrowing capacity under its Credit Facility, (v) issuances of debt or equity securities and (vi) other sources, such as sales of nonstrategic assets. In January 2021, Pioneer entered into the First Amendment to Credit Agreement, with the primary changes being to increase the aggregate loan commitments from \$1.5 billion to \$2.0 billion, extend the maturity of the Credit Facility to January 12, 2026 and to nominally adjust the drawn and undrawn pricing.

The Company's short-term and long-term liquidity requirements consist primarily of (i) capital expenditures, (ii) acquisitions of oil and gas properties, (iii) payments of contractual obligations, including debt maturities, (iv) dividends and

share repurchases and (v) working capital obligations. Funding for these requirements may be provided by any combination of the Company's sources of liquidity. Although the Company expects that its sources of funding will be adequate to fund its 2021 liquidity requirements, no assurance can be given that such funding sources will be adequate to meet the Company's future needs.

During the nine months ended September 30, 2021, the Company enhanced its liquidity position by refinancing a portion of the debt acquired in the Parsley Acquisition and the DoublePoint Acquisition, issuing new debt and increasing borrowing capacity under the Company's Credit Facility, with the combined objective of increasing liquidity, extending the Company's debt maturities and lowering the Company's future cash interest expense on long-term debt.

2021 revised capital budget. With the completion of the Parsley Acquisition and the DoublePoint Acquisition, the Company's capital budget for 2021 was revised and is expected to be in the range of \$3.1 billion to \$3.4 billion, consisting of \$2.95 billion to \$3.25 billion for drilling and completion related activities, including additional tank batteries, saltwater disposal facilities, water infrastructure additions and vehicles, and \$150 million of estimated Parsley and DoublePoint integration costs. The Company's capital expenditures for the nine months ended September 30, 2021 were \$2.5 billion. The 2021 capital budget and actual capital expenditures for the nine months ended September 30, 2021 excludes acquisitions, asset retirement obligations, capitalized interest, geological and geophysical general and administrative expense and corporate facilities.

Capital resources. As of September 30, 2021, the Company had no outstanding borrowings under its Credit Facility, leaving \$2.0 billion of unused borrowing capacity. The Company was in compliance with all of its debt covenants as of September 30, 2021. The Company also had unrestricted cash on hand of \$581 million as of September 30, 2021.

Cash flows from operating, investing and financing activities are summarized below.

	Nine Months Ended September 30,		Change
	2021	2020	
	(in millions)		
Net cash provided by operating activities	\$ 3,835	\$ 1,546	\$ 2,289
Net cash used in investing activities	\$ (3,035)	\$ (1,342)	\$ 1,693
Net cash provided by (used in) financing activities	\$ (1,674)	\$ 482	\$ 2,156

Operating activities. The increase in net cash flow provided by operating activities for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily due to an increase in oil and gas revenues as a result of higher commodity prices and sales volumes partially offset by (i) additional cash used in derivative activities, (ii) an increase in production costs due to an increase in costs attributable to the production added by the Parsley Acquisition and the DoublePoint Acquisition and production taxes attributable to higher commodity prices, (iii) one-time Parsley Acquisition and DoublePoint Acquisition cash transaction-related costs and (iv) cash paid to fulfill certain gas commitments during Winter Storm Uri.

Investing activities. The increase in net cash used in investing activities for the nine months ended September 30, 2021, as compared to the same period in 2020, was primarily a result of \$943 million of net cash used in the DoublePoint Acquisition and an increase in additions to oil and gas properties of \$894 million, partially offset by \$117 million of net cash acquired in the Parsley Acquisition and a decrease between periods in additions to other assets and other property and equipment of \$26 million.

Financing activities. The Company's significant financing activities are as follows:

- 2021: The Company (i) received proceeds from the May 2021 Senior Notes Offering, net of \$4 million of issuance costs and discounts, of \$746 million, (ii) received proceeds from the January 2021 Senior Notes Offering, net of \$24 million of issuance costs and discounts, of \$2.5 billion, (iii) borrowed and repaid \$650 million on the Company's Credit Facility, (iv) repaid the Parsley and DoublePoint credit facilities, which had outstanding balances of \$397 million and \$240 million, respectively, (v) repaid \$140 million associated with the maturity of its 3.450% senior notes due in January 2021, (vi) used proceeds from the May 2021 Senior Notes Offering to pay \$731 million to redeem DoublePoint's 7.750% senior notes due 2025, (vii) used proceeds from the January 2021 Senior Notes Offering to pay \$1.6 billion to redeem Parsley's 5.250% senior notes due 2025, Parsley's 5.375% senior notes due 2025 and Jagged Peak's 5.875% senior notes due 2026, (viii) paid \$852 million to purchase a portion of Parsley's 5.625% senior notes due 2027 and Parsley's 4.125% senior notes due 2028 pursuant to a cash tender offer, (ix) paid \$153 million of other liabilities and (x) paid dividends of \$720 million.
- 2020: The Company (i) received \$1.1 billion from the issuance of 1.900% senior notes, net of issuance costs and discounts, (ii) received \$1.3 billion from the issuance of the Convertible Notes, net of issuance fees, (iii) paid \$113 million to enter into the Capped Call transactions associated with the Convertible Notes issuance, (iv) repaid an aggregate total of \$748 million associated with the early repayment of a portion of the 3.45% senior notes due 2021, 3.950% senior notes due 2022 and 7.200% senior notes due 2028, (v) repaid \$450 million associated with the maturity of its 7.500% senior notes in January 2020, (vi) paid dividends of \$255 million, (vii) purchased \$174 million of treasury stock and (viii) paid \$162 million of other liabilities.

Dividends/distributions. During the nine months ended September 30, 2021, the Company paid base dividends of \$350 million, or \$1.67 per share. In August 2021, the board of directors declared a quarterly cash dividend of \$0.56 per share on the Company's outstanding common stock, payable on October 14, 2021, to stockholders of record on September 30, 2021.

In addition to its base dividend program, the Company has initiated a variable dividend strategy whereby the Company may pay a quarterly variable dividend of up to 75 percent of the prior quarter free cash flow remaining after the payment of the base dividend. During the nine months ended September 30, 2021, the Company paid variable dividends of \$370 million, or \$1.51 per share. On November 3, 2021, the Company declared a quarterly base dividend of \$0.62 per share for shareholders of record on December 31, 2021, with a payment date of January 14, 2022 and a quarterly variable dividend of \$3.02 per share for shareholders of record on November 30, 2021, with a payment date of December 14, 2021.

Free cash flow is a non-GAAP financial measure. As used by the Company, free cash flow is defined as net cash provided by operating activities, adjusted for changes in operating assets and liabilities and cash transaction costs associated with acquisitions, less capital expenditures. The Company believes this non-GAAP measure is a financial indicator of the Company's ability to internally fund acquisitions, debt maturities, dividends and share repurchases after capital expenditures. Capital expenditures exclude acquisitions, asset retirement obligations, capitalized interest, geological and geophysical general and administrative expenses, information technology capital and additions to corporate facilities.

Future base and variable dividends are at the discretion of the Company's board of directors, and, if declared, the board of directors may change the dividend amount based on the Company's outlook for commodity prices, liquidity, debt levels, capital resources, free cash flow and other factors. The Company can provide no assurance that dividends will be authorized or declared in the future or as to the amount of any future dividends. Any future variable dividends, if declared and paid, will by their nature fluctuate based on the Company's free cash flow, which will depend on a number of factors beyond the Company's control, including commodity prices.

Off-balance sheet arrangements. From time to time, the Company enters into arrangements and transactions that can give rise to material off-balance sheet obligations. As of September 30, 2021, the material off-balance sheet arrangements and transactions that the Company had entered into included (i) firm purchase, transportation, storage and fractionation commitments, (ii) open purchase commitments and (iii) contractual obligations for which the ultimate settlement amounts are not fixed and determinable. The contractual obligations for which the ultimate settlement amounts are not fixed and determinable include (a) derivative contracts that are sensitive to future changes in commodity prices or interest rates, (b) gathering, processing (primarily treating and fractionation) and transportation commitments on uncertain volumes of future throughput and (c) indemnification obligations following certain divestitures.

In connection with its divestiture transactions, the Company may retain certain liabilities and provide the purchaser certain indemnifications, subject to defined limitations, which may apply to identified pre-closing matters, including matters of litigation, environmental contingencies, royalty and income taxes. Also associated with its divestiture transactions, the Company has issued and received guarantees to facilitate the transfer of contractual obligations, such as firm transportation

agreements or gathering and processing arrangements. The Company does not recognize a liability if the fair value of the obligation is immaterial and the likelihood of making payments under these guarantees is remote.

Other than the off-balance sheet arrangements described above, the Company has no transactions, arrangements or other relationships with unconsolidated entities or other persons that are reasonably likely to materially affect the Company's liquidity or availability of or requirements for capital resources. The Company expects to enter into similar contractual arrangements in the future, including incremental derivative contracts and additional firm purchase, transportation, storage and fractionation arrangements, in order to support the Company's business plans. See "Contractual obligations" below and [Note 10](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Convertible senior notes. In May 2020, the Company issued \$1.3 billion principal amount of convertible senior notes due 2025. The Convertible Notes bear a fixed interest rate of 0.250% per year, with interest payable on May 15 and November 15 of each year. The Convertible Notes will mature on May 15, 2025, unless earlier redeemed, repurchased or converted. The Convertible Notes are unsecured obligations ranking equally in right of payment with all other senior unsecured indebtedness of the Company.

The Convertible Notes are convertible into shares of the Company's common stock at an adjusted conversion rate of 9.2055 shares of the Company's common stock per \$1,000 principal amount of the Convertible Notes (subject to further adjustment pursuant to the terms of the notes indenture), which represents an adjusted conversion price of \$108.63 per share (subject to further adjustment pursuant to the terms of the notes indenture) as of September 30, 2021. As a result of the quarterly base and variable dividends declared through September 30, 2021, the Conversion Rate increased from the initial rate of 9.1098 shares of the Company's common stock per \$1,000 principal amount of the Convertible Notes and the Conversion Price decreased from \$109.77. Future changes to the Company's base dividend program or the declaration of a variable dividend, as previously described, will cause an adjustment to the Conversion Rate and the Conversion Price pursuant to the terms of the notes indenture. Upon conversion, the Convertible Notes may be settled in cash, shares of the Company's common stock or a combination thereof, at the Company's election.

Holders of the Convertible Notes may convert their notes at their option prior to February 15, 2025 under the following circumstances:

- during the quarter following any quarter during which the last reported sales price of the Company's common stock for at least 20 of the last 30 consecutive trading days of such quarter exceeds 130 percent of the Conversion Price;
- during the five-day period following any five consecutive trading day period when the trading price of the Convertible Notes is less than 98 percent of the price of the Company's common stock times the Conversion Rate;
- upon notice of redemption by the Company; or
- upon the occurrence of specified corporate events, including certain consolidations or mergers.

On or after February 15, 2025, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their notes at any time. The Company may not redeem the Convertible Notes prior to May 20, 2023, and after such date, may redeem the Convertible Notes only if the last reported sale price of the Company's common stock has been at least 130 percent of the Conversion Price for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides the notice of redemption. The redemption price is equal to 100 percent of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest.

During the last 30 consecutive trading days of the third quarter of 2021, the last reported sales prices of the Company's common stock exceeded 130 percent of the Conversion Price for at least 20 trading days, causing the Convertible Notes to become convertible at the option of the holders during the three month period ending December 31, 2021. As of September 30, 2021, if converted by the holder, the Company intends to settle the Convertible Notes in cash with cash on hand or through borrowings under its Credit Facility. The Company reserves its right under the notes indenture to elect to settle the Convertible Notes in shares of the Company's common stock or a combination of cash and common stock.

Contractual obligations. The Company's contractual obligations include long-term debt, leases (primarily related to contracted drilling rigs, equipment and office facilities), capital funding obligations, derivative obligations, firm transportation, storage and fractionation commitments, minimum annual gathering, processing and transportation commitments and other liabilities (including postretirement benefit obligations). Other joint owners in the properties operated by the Company could incur portions of the costs represented by these commitments.

The Company has short-term and long-term firm purchase, gathering, processing, transportation, fractionation and storage commitments representing take-or-pay agreements, which include contractual commitments (i) to purchase sand, water and diesel for use in the Company's drilling and completion operations, (ii) with midstream service companies and pipeline carriers for future gathering, processing, transportation, fractionation and storage and (iii) with oilfield services companies that provide drilling and pressure pumping services. The Company does not expect to be able to fulfill all of its short-term and long-term firm transportation volume obligations from projected production of available reserves; consequently, the Company plans to purchase third party volumes to satisfy its firm transportation commitments if it is economic to do so; otherwise, it will pay demand fees for any commitment shortfalls.

The Company's commodity and marketing derivative contracts are periodically measured and recorded at fair value and continue to be subject to market and credit risk. As of September 30, 2021, these contracts represented net liabilities of \$1.3 billion. The ultimate liquidation value of the Company's commodity derivatives will be dependent upon actual future commodity prices, which may differ materially from the inputs used to determine the derivatives' fair values as of September 30, 2021. See [Note 4](#) and [Note 5](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" and "[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)" for additional information.

New Accounting Pronouncements

The effects of new accounting pronouncements are discussed in [Note 2](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, the Company's financial position is routinely subject to a variety of risks, including market risks associated with changes in commodity prices, interest rate movements on outstanding debt and credit risks. These risks are mitigated through the Company's risk management program, which includes the use of derivative financial instruments and selling purchased oil and gas outside of the Permian Basin. The following quantitative and qualitative information is provided about financial instruments to which the Company was a party as of September 30, 2021, and from which the Company may incur future gains or losses from changes in commodity prices or interest rates. The Company does not enter into any financial instruments, including derivatives, for speculative or trading purposes.

Interest rate risk. As of September 30, 2021, the Company had no variable rate debt outstanding under the Credit Facility and, consequently, no related exposure to interest rate risk. As of September 30, 2021, the Company had \$6.9 billion of fixed rate long-term debt outstanding with a weighted average cash interest rate of 1.9 percent. Although changes in interest rates may affect the fair value of the Company's fixed rate long-term debt, any changes would not impact earnings or expose the Company to the risk of cash flow losses. The Company did not have any interest rate derivative instruments outstanding as of September 30, 2021; however, it may enter into such instruments in the future to mitigate interest rate risk. See [Note 4](#) and [Note 7](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

Commodity price risk. The Company's primary market risk exposure is related to the price it receives from the sale of its oil, NGLs and gas production. Realized pricing is volatile and is determined by market prices that fluctuate with changes in supply and demand for these products throughout the world. The price the Company receives for its production depends on many factors outside of the control of the Company, including differences in commodity pricing at the point of sale versus market index prices. Reducing the Company's exposure to price volatility helps secure funds to be used in its capital program and to fund general working capital needs, debt obligations, dividends and share repurchases, among other uses. The Company mitigates its commodity price risk through the use of derivative financial instruments and sales of purchased oil and gas.

Derivative financial instruments. The Company's decision on the quantity and price at which it executes derivative contracts is based in part on its view of current and future market conditions. The Company may choose not to enter into derivative positions for expected production if the commodity price forecast for certain time periods is deemed to be unfavorable. Additionally, the Company may choose to liquidate existing derivative positions prior to the expiration of their contractual maturity in order to monetize gain positions or minimize loss positions if it is anticipated that the commodity price forecast is expected to improve. Proceeds, if any, can be used for the purpose of funding the Company's capital program, general working capital needs, debt obligations, dividends and share repurchases, among other uses. While derivative positions limit the downside risk of adverse price movements, they also limit future revenues from upward price movements. The Company manages commodity price risk with the following types of commodity derivative contracts:

- **Swaps.** The Company receives a fixed price and pays a floating market price to the counterparty on a notional amount of sales volumes, thereby fixing the price for the commodity sold.

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- *Collars.* Collar contracts provide minimum ("floor" or "long put") and maximum ("ceiling") prices on a notional amount of sales volumes, thereby allowing some price participation if the relevant index price closes above the floor price but below the ceiling price.
- *Collar contracts with short put options.* Collar contracts with short put options differ from other collar contracts by virtue of the short put option price, below which the Company's realized price will exceed the variable market prices by the long put-to-short put price differential.
- *Basis swaps.* Basis swap contracts fix the basis differentials between the index price at which the Company sells its production and the index price used in swap or collar contracts.
- *Rollfactor swaps.* Rollfactor swaps are utilized to match the derivative contracts to the physical oil sales. Physical oil sales typically use trade month averages whereas derivative contracts utilize calendar month averages. The rollfactor swaps convert the calendar month into a trade month.
- *Options.* Selling individual call options can enhance the market price by the premium received or, alternatively, the premium received can be utilized to improve swap or collar contract prices. Purchased put options establish a minimum floor price (less any premiums paid) and allow participation in higher prices when prices close above the floor price.

The Company has entered into commodity derivative contracts for a portion of its forecasted 2021 and 2022 production; consequently, if commodity prices decline, the Company could realize lower prices for volumes not protected by the Company's derivative activities and could see a reduction in derivative contract prices 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.

The average forward prices based on September 30, 2021 market quotes were as follows:

	2021	
	Fourth Quarter	Year Ending December 31, 2022
Average forward Brent oil price	\$ 77.53	\$ 73.07
Average forward WTI Midland oil price	\$ 74.59	\$ 69.97
Average forward MEH oil price	\$ 75.08	\$ 70.65
Average forward NYMEX WTI oil price	\$ 74.87	\$ 70.87
Average forward NYMEX gas price	\$ 5.93	\$ 4.41
Average forward DUTCH TTF gas price	\$ 33.32	\$ 19.70
Average forward WAHA gas price	\$ 5.74	\$ 4.14
WTI Midland/Brent oil basis differentials:		
Average forward basis differential price (a)	\$ (2.94)	\$ (3.10)

The average forward prices based on November 1, 2021 market quotes are as follows:

	2021	
	Fourth Quarter	Year Ending December 31, 2022
Average forward Brent oil price	\$ 84.04	\$ 77.83
Average forward WTI Midland oil price	\$ 81.73	\$ 74.63
Average forward MEH oil price	\$ 82.08	\$ 75.22
Average forward NYMEX WTI oil price	\$ 84.05	\$ 76.12
Average forward NYMEX gas price	\$ 5.19	\$ 4.22
Average forward DUTCH TTF gas price	\$ 22.31	\$ 15.22
Average forward WAHA gas price	\$ 5.27	\$ 3.89
WTI Midland/Brent oil basis differentials:		
Average forward basis differential price (a)	\$ (2.31)	\$ (3.20)

(a) Based on market quotes for basis differentials between Midland oil index prices and the Brent oil index price.

See [Note 4](#) and [Note 5](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for a description of the Company's open derivative positions and additional information.

Sales of purchased commodities. The Company enters into purchase transactions with third parties and separate sale transactions with third parties to diversify a portion of the Company's oil and gas sales to (i) Gulf Coast refineries, (ii) Gulf Coast and West Coast gas markets and (iii) international oil markets and to satisfy unused gas pipeline capacity commitments. The Company also enters into pipeline capacity commitments to secure diesel supply from the Gulf Coast to the Company's operations in the Permian Basin. The Company enters into separate sales transactions with third parties related to diesel volumes that exceed the Company's operational needs.

Marketing derivatives. The Company's marketing derivatives reflect two long-term marketing contracts that were entered in October 2019 whereby the Company agreed to purchase and simultaneously sell 50 thousand barrels of oil per day at an oil terminal in Midland, Texas for a six-year term that began on January 1, 2021 and ends on December 31, 2026. The price the Company pays to purchase the oil volumes under the purchase contract is based on a Midland WTI price and the price the Company receives for the oil volumes sold is a WASP that a non-affiliated counterparty receives for selling oil through their Gulf Coast storage and export facility at prices that are highly correlated with Brent oil prices during the same month of the purchase. Based on the form of the marketing contracts, the Company determined that the marketing contracts should be accounted for as derivative instruments. Similar to sales of purchased commodities, these marketing derivatives allow the Company to diversify a portion of its oil pricing from its area of production to Gulf Coast and international markets.

The average forward prices based on September 30, 2021 market quotes are as follows:

	Year Ending					
	December 31, 2021	December 31, 2022	December 31, 2023	December 31, 2024	December 31, 2025	December 31, 2026
Average forward Brent oil price	\$ 77.53	\$ 73.07	\$ 68.03	\$ 64.35	\$ 61.68	\$ 59.96
Average forward WTI Midland oil price	74.59	69.97	64.08	59.91	56.92	54.95
Average forward basis differential price (a)	\$ 2.94	\$ 3.10	\$ 3.95	\$ 4.44	\$ 4.76	\$ 5.01

The average forward prices based on November 1, 2021 market quotes are as follows:

	Year Ending					
	December 31, 2021	December 31, 2022	December 31, 2023	December 31, 2024	December 31, 2025	December 31, 2026
Average forward Brent oil price	\$ 84.04	\$ 77.83	\$ 71.44	\$ 67.20	\$ 64.46	\$ 62.96
Average forward WTI Midland oil price	81.73	74.63	67.76	63.21	60.12	58.12
Average forward basis differential price (a)	\$ 2.31	\$ 3.20	\$ 3.68	\$ 3.99	\$ 4.34	\$ 4.84

(a) Based on market quotes for basis differentials between Midland oil index prices and the Brent oil index price.

Credit risk. The Company's primary concentration of credit risks are associated with the collection of receivables resulting from the sale of oil and gas production and purchased oil and gas, and the risk of a counterparty's failure to meet its obligations under derivative contracts with the Company.

The Company's commodities are sold to various purchasers who must be prequalified under the Company's credit risk and procedures. The Company monitors exposure to counterparties primarily by reviewing credit ratings, financial criteria and payment history. Where appropriate, the Company obtains assurances of payment, such as a guarantee by the parent company of the counterparty, a letter of credit or other credit support. Historically, the Company's credit losses on commodities receivables have not been material.

The Company uses credit and other financial criteria to evaluate the credit standing of, and to select, counterparties to its derivative instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

The Company has entered into International Swap Dealers Association Master Agreements ("ISDA Agreements") with each of its derivative counterparties. The terms of the ISDA Agreements provide the Company and the counterparties with right of set off upon the occurrence of defined acts of default by either the Company or a counterparty to a derivative contract, whereby the party not in default may set off all derivative liabilities owed to the defaulting party against all derivative asset receivables from the defaulting party. See [Note 5](#) of Notes to Consolidated Financial Statements included in "Item 1. Financial Statements" for additional information.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures. The Company's management, with the participation of its principal executive officer and principal financial officer, have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this Report. Based on that evaluation, the principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this Report, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including that such information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in internal control over financial reporting. There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended September 30, 2021 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is party to various proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to these proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this Report, the risks that are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020, under the headings "Part I, Item 1. Business – Competition," "Part I, Item 1. Business - Regulation," "Part I, Item 1A. Risk Factors," "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" as updated by the discussion in Part II of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, should be carefully considered, as such risks could materially affect the Company's business, financial condition or future results. There has been no material change in the Company's risk factors that were described in the Company's 2020 Annual Report on Form 10-K except as updated by the referenced Form 10-Q.

These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may have a material adverse effect on the Company's business, financial condition or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Purchases of the Company's common stock are as follows:

Period	Three Months Ended September 30, 2021			
	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Approximate Dollar Amount of Shares that May Yet Be Purchased under Plans or Programs (b)
July 2021	—	\$ —	—	1,090,693,887
August 2021	34,016	\$ 141.38	—	1,090,693,887
September 2021	139	\$ 154.26	—	1,090,693,887
	<u>34,155</u>		<u>—</u>	

(a) Includes shares purchased from employees in order for employees to satisfy income tax withholding payments related to share-based awards that vested during the period.

(b) In December 2018, the Company's board of directors authorized a \$2 billion common stock repurchase program. The stock repurchase program has no time limit and may be modified, suspended or terminated at any time by the board of directors.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1 (a)	Indemnification Agreement, dated as of September 21, 2021, between the Company and Maria S. Jelescu Dreyfus.
31.1 (a)	Chief Executive Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
31.2 (a)	Chief Financial Officer certification under Section 302 of Sarbanes-Oxley Act of 2002.
32.1 (b)	Chief Executive Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
32.2 (b)	Chief Financial Officer certification under Section 906 of Sarbanes-Oxley Act of 2002.
101.INS (a)	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH (a)	Inline XBRL Taxonomy Extension Schema Document.
101.CAL (a)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF (a)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB (a)	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE (a)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

(a) Filed herewith.

(b) Furnished herewith.

* Schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish to the SEC a copy of any omitted schedule upon request.

**PIONEER NATURAL RESOURCES COMPANY
INDEMNIFICATION AGREEMENT**

This Agreement (“Agreement”) is made and entered into as of the 21st day of September, 2021, by and between Pioneer Natural Resources Company, a Delaware corporation (the “Company”), and Maria S. Dreyfus (“Indemnitee”).

RECITALS

A. Highly competent and experienced persons are reluctant to serve corporations as directors, executive officers or in other capacities unless they are provided with adequate protection through insurance and indemnification against claims and actions against them arising out of their service to and activities on behalf of the Company.

B. The Board of Directors of the Company (the “Board”) has determined that the inability to attract and retain such persons would be detrimental to the best interests of the Company and its stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future.

C. The Board has also determined that it is reasonable, prudent and necessary for the Company, in addition to purchasing and maintaining directors’ and officers’ liability insurance (or otherwise providing for adequate arrangements of self-insurance), to contractually obligate itself to indemnify, hold harmless, and exonerate and to advance expenses on behalf of such persons to the fullest extent permitted by applicable law so that they will serve or continue to serve the Company free from undue concern that they will not be adequately protected.

D. Indemnitee is willing to serve, to continue to serve and to take on additional service for or on behalf of the Company on the condition that Indemnitee be so indemnified to the fullest extent permitted by law.

E. Article Twelfth of the Amended and Restated Certificate of Incorporation of the Company (as it may be amended or restated from time to time, the “Certificate of Incorporation”) provides for indemnification of directors and officers to the fullest extent permitted by law.

F. This Agreement is supplemental to and in furtherance of the Certificate of Incorporation and any resolutions adopted pursuant thereto, as well as any rights of Indemnitee under any directors’ and officers’ liability insurance policy, and this Agreement shall not be deemed a substitute therefor, nor to diminish or abrogate any rights of Indemnitee thereunder.

In consideration of the foregoing and the mutual covenants herein contained, and other good and valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I

Certain Definitions

As used herein, the following words and terms shall have the following respective meanings (whether singular or plural):

**PIONEER NATURAL RESOURCES COMPANY
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“Change in Control” means the occurrence of any of the following events:

(i) The acquisition by any Person of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 40% or more of either (x) the then outstanding shares of common stock of the Company (the “Outstanding Company Common Stock”) or (y) the combined voting power of the then outstanding Voting Securities of the Company (the “Outstanding Company Voting Securities”); provided, however, that for purposes of this Subparagraph (i), any acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of paragraph (iii) below shall not constitute a Change of Control; or

(ii) Members of the Incumbent Board cease for any reason to constitute at least a majority of the Board; or

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or an acquisition of assets of another entity (a “Business Combination”), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common equity and the combined voting power of the then outstanding Voting Securities of the entity resulting from such Business Combination (including an entity that as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more Subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or the entity resulting from such Business Combination) beneficially owns, directly or indirectly, 40% or more of, respectively, the then outstanding shares of common equity of the entity resulting from such Business Combination or the combined voting power of the then outstanding Voting Securities of such entity except to the extent that such ownership results solely from ownership of the Company that existed prior to the Business Combination and (C) at least a majority of the members of the board of directors or other similar governing body of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

“Claim” means an actual or threatened claim or request for relief that was, is or may be made by reason of anything done or not done by Indemnitee in, or by reason of any event or occurrence related to, Indemnitee’s Corporate Status.

“Corporate Status” means the status of a person who is, becomes or was a director, officer, employee, agent or fiduciary of the Company or is, becomes or was serving at the request of the Company as a director, officer, partner, member, venturer, proprietor, trustee, employee, agent, fiduciary or similar functionary of another foreign or domestic corporation, partnership, limited liability company, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise. For purposes of this Agreement, the Company agrees that Indemnitee’s service on behalf of or with respect to any Subsidiary of the Company shall be deemed to be at the request of the Company.

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“DGCL” means the General Corporation Law of the State of Delaware and any successor statute thereto, as either of them may from time to time be amended.

“Disinterested Director” with respect to any request by Indemnitee for indemnification hereunder, means a director of the Company who at the time of the vote is not a named defendant or respondent in the Proceeding in respect of which indemnification is sought by Indemnitee.

“Exchange Act” means the Securities Exchange Act of 1934.

“Expenses” means all attorneys’ fees and disbursements, retainers, accountants’ fees and disbursements, private investigator fees and disbursements, other professionals’ fees and disbursements, court costs, transcript costs, fees and expenses of experts, witness fees and expenses, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, penalties and all other disbursements, costs or expenses of the types customarily incurred in connection with prosecuting, defending (including affirmative defenses and counterclaims), preparing to prosecute or defend, investigating, being or preparing to be a witness in, or participating in or preparing to participate in a Proceeding and all interest or finance charges attributable to any thereof. Without limiting the foregoing, “Expenses” also shall include

Expenses incurred in connection with any appeal resulting from any Proceeding (as defined below), including the principal, premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent. Should any payments by the Company under this Agreement be determined to be subject to any federal, state or local income or excise tax, “Expenses” shall also include such amounts as are necessary to place Indemnitee in the same after-tax position (after giving effect to all applicable taxes) as Indemnitee would have been in had no such tax been determined to apply to such payments. Also, in this Agreement “witness” includes responding (or objecting) to a discovery request, whether in writing or in an oral deposition, in any Proceeding.

“Incumbent Board” means the individuals who, as of the date of this Agreement, constitute the Board and any other individual who becomes a director of the Company after that date and whose election or appointment by the Board or nomination for election by the Company’s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Incumbent Board.

“Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither contemporaneously is, nor in the five years theretofore has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party (other than as Independent Counsel under this Agreement or similar agreements), (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder, or (iii) the beneficial owner, directly or indirectly, of securities of the Company representing 5% or more of the combined voting power of the Company’s then outstanding Voting Securities (other than, in each such case, with respect to matters concerning the rights of Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements). Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

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“Independent Directors” means the directors on the Board who are independent directors as defined in Section 303A of the New York Stock Exchange Listed Company Manual or successor provision, or, if the Company’s common stock is not then quoted on the NYSE, who qualify as independent, disinterested, or a similar term as defined in the rules of the principal securities exchange or inter-dealer quotation system on which the Company’s common stock is then listed or quoted.

“Person” means any individual, entity or group (within the meaning of Sections 13(d)(3) and 14(d)(2) of the Exchange Act).

“Potential Change in Control” shall be deemed to have occurred if (i) any Person shall have announced publicly an intention to effect a Change in Control, or commenced any action (such as the commencement of a tender offer for the Company’s common stock or the solicitation of proxies for the election of any of the Company’s directors) that, if successful, could reasonably be expected to result in the occurrence of a Change in Control; (ii) the Company enters into an agreement, the consummation of which would constitute a Change in Control; or (iii) any other event occurs that the Board declares to be a Potential Change of Control.

“Proceeding” means any threatened, pending or completed action, suit, arbitration, mediation, alternative dispute resolution mechanism, investigation, inquiry, administrative or legislative hearing, or any other proceeding (including any securities laws action, suit, arbitration, alternative dispute resolution mechanism, hearing or procedure) whether civil, criminal, administrative, arbitral, regulatory or investigative (formal or informal) and whether or not based upon events occurring, or actions taken, before the date hereof; any appeal in or related to any such action, suit, arbitration, mediation, alternative dispute resolution mechanism, investigation, hearing or proceeding; and any inquiry or investigation (including discovery), whether conducted by or in the right of the Company or any other Person, that Indemnitee in good faith believes could lead to any such action, suit, arbitration, mediation, investigation, inquiry, alternative dispute resolution mechanism, hearing or other proceeding or appeal thereof.

“Subsidiary” means, with respect to any Person, any corporation or other entity of which a majority of the voting power of the voting equity securities or equity interest is owned, directly or indirectly, by that Person.

“Voting Securities” means any securities that vote generally in the election of directors, in the admission of general partners, or in the selection of any other similar governing body.

ARTICLE II

Services by Indemnitee

Indemnitee is serving as a director of the Company. Indemnitee may from time to time also agree to serve, as the Company may request from time to time, in another capacity for the Company (including an officer position) or as a director, officer, partner, member, venturer, proprietor, trustee, employee, agent, fiduciary or similar functionary of another foreign or domestic corporation, partnership, joint venture, limited liability company, sole proprietorship, trust, employee benefit plan or other enterprise. Indemnitee and the Company each acknowledge that they have entered into this Agreement as a means of inducing Indemnitee to serve, or continue to serve, the Company in such

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capacities. Indemnitee may at any time and for any reason resign from such position or positions (subject to any other contractual obligation or any obligation imposed by operation of law).

The Company shall have no obligation under this Agreement to continue Indemnitee in any such position or positions. This Agreement shall continue in full force and effect after Indemnitee has ceased to serve as an officer or director of the Company as provided in Section 7.5.

ARTICLE III

Indemnification

Section 3.1 General.

Subject to the provisions set forth in Article IV, the Company shall indemnify, and advance Expenses to, Indemnitee as set forth in this Article III to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit. The other provisions set forth in this Agreement are provided in addition to and as a means of furtherance and implementation of, and not in limitation of, the obligations expressed in this Article III. No requirement, condition to or limitation of any right to indemnification or to advancement of Expenses under this Article III shall in any way limit the rights of Indemnitee under Article VII.

Section 3.2 Indemnification in Third-Party Proceedings.

To the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, the Company shall indemnify, hold harmless, and exonerate Indemnitee if, by reason of anything done or not done by Indemnitee in, or by reason of, Indemnitee's Corporate Status, Indemnitee is, was or becomes, or is threatened to be made, a party to, or witness or other participant in, any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor.

Pursuant to this Section 3.2, Indemnitee shall be indemnified against any and all Expenses, judgments, penalties (including excise or similar taxes), fines and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of any such Expenses, judgments, penalties, fines and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any Claim, issue or matter therein. Notwithstanding the foregoing, the obligations of the Company under this Section 3.2 shall be subject to the condition that no determination (which, in any case in which Independent Counsel is involved, shall be in a form of a written opinion) shall have been made pursuant to Article IV that Indemnitee would not be permitted to be indemnified under applicable law. Nothing in this Section 3.2 shall limit the benefits of Section 3.1, Section 3.4 or any other Section hereunder.

Section 3.3 Indemnification in Proceedings By or In the Right of the Company.

To the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may hereafter from time to time permit, the Company shall indemnify, hold harmless, and exonerate Indemnitee if, by reason of anything done or not done by Indemnitee in, or by reason of, Indemnitee's Corporate Status, Indemnitee is, was or becomes, or is threatened to be made, a party to, or witness or other participant in, any Proceeding by or in the right of the Company to procure a judgment in its favor.

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Pursuant to this Section 3.3, Indemnitee shall be indemnified against any and all Expenses and amounts paid in settlement (including all interest, assessments and other charges paid or payable in connection with or in respect of any such Expenses and amounts paid in settlement) actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any Claim, issue or matter therein.

No indemnification, hold harmless or exoneration for Expenses or amounts paid in settlement shall be made under this Section 3.3 in respect of any claim, issue or matter as to which Indemnitee shall have been finally adjudged by a court to be liable to the Company, unless and only to the extent that any court in which the Proceeding was brought or the Delaware Court shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification, to be held harmless or to exoneration. Notwithstanding the foregoing, the obligations of the Company under this Section 3.3 shall be subject to the condition that no determination (which, in any case in which Independent Counsel is involved, shall be in a form of a written opinion) shall have been made pursuant to Article IV that Indemnitee would not be permitted to be indemnified under applicable law. Nothing in this Section 3.3 shall limit the benefits of Section 3.1, Section 3.4 or any other Section hereunder.

Section 3.4 Advancement of Expenses.

The Company shall pay all Expenses reasonably incurred by, or in the case of retainers to be incurred by, or on behalf of Indemnitee (or, if applicable, reimburse Indemnitee for any and all Expenses reasonably incurred by Indemnitee and previously paid by Indemnitee) in connection with any Claim or Proceeding, whether brought by or in the right of the Company or otherwise, in advance of any determination respecting entitlement to indemnification pursuant to Article IV hereof (and shall continue to pay such Expenses after such determination and until it shall ultimately be determined (in a final adjudication by a court from which there is no further right of appeal or in a final adjudication of an arbitration pursuant to Section 5.1 if Indemnitee elects to seek such arbitration) that Indemnitee is not entitled to be indemnified by the Company against such Expenses) within 10 days after the receipt by the Company of (a) a written request from Indemnitee requesting such payment or payments from time to time, whether prior to or after final disposition of such Claim or Proceeding, and (b) a written affirmation from Indemnitee of Indemnitee's good faith belief that Indemnitee has met the standard of conduct necessary for Indemnitee to be permitted to be indemnified under applicable law.

Any such payment by the Company is referred to in this Agreement as an "Expense Advance." In connection with any request for an Expense Advance, if requested by the Company, Indemnitee or Indemnitee's counsel shall also submit an affidavit stating that the Expenses incurred were, or in the case of retainers to be incurred are, reasonably incurred.

Any dispute as to the reasonableness of the incurrence of any Expense shall not delay an Expense Advance by the Company, and the Company agrees that any such dispute shall be resolved only upon the disposition or conclusion of the underlying Claim against Indemnitee. Indemnitee hereby undertakes and agrees that Indemnitee will reimburse and repay the Company without interest for any Expense Advances to the extent that it shall ultimately be determined (in a final adjudication by a court from which there is no further right of appeal or in a final adjudication of an arbitration pursuant to Section 5.1 if Indemnitee elects to seek such arbitration) that Indemnitee is not entitled to be indemnified by the Company against such Expenses. Indemnitee shall not be required to provide collateral or otherwise secure the undertaking and agreement described in the prior sentence.

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The Company shall make all Expense Advances pursuant to this Section 3.4 without regard to the financial ability of Indemnitee to make repayment and without regard to the prospect of whether Indemnitee may ultimately be found to be entitled to indemnification under the provisions of this Agreement.

Section 3.5 Indemnification for Additional Expenses.

The Company shall indemnify Indemnitee against any and all costs and expenses (of the types described in the definition of Expenses in Article I) and, if requested by Indemnitee, shall (within two business days of that request) advance those costs and expenses to Indemnitee, that are incurred by Indemnitee in connection with any claim asserted against, or action brought by, Indemnitee for (i) indemnification or an Expense Advance by the Company under this Agreement or any other agreement or provision of the Company's Certificate of Incorporation or the Company's Fifth Amended and Restated Bylaws (as they may be amended or restated from time to time, the "Bylaws") now or hereafter in effect relating to any Claim or Proceeding, (ii) recovery under any directors' and officers' liability insurance policies maintained by the Company, or (iii) enforcement of, or claims for breaches of, any provision of this Agreement, in each of the foregoing situations regardless of whether Indemnitee ultimately is determined to be entitled to that indemnification, Expense Advance payment, insurance recovery, enforcement, or damage claim, as the case may be, and regardless of whether the nature of the proceeding with respect to such matters is judicial, by arbitration, or otherwise.

Section 3.6 Indemnification for Expenses of a Party Who Is Wholly or Partly Successful.

Notwithstanding any other provisions of this Agreement, to the extent that Indemnitee was or is, by reason of Indemnitee's Corporate Status, a party to (or a participant in) and is successful, on the merits or otherwise, in any Proceeding or in defense of any claim, issue or matter therein, in whole or in part, the Company shall, to the fullest extent permitted by applicable law, indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by Indemnitee in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall, to the fullest extent permitted by applicable law, indemnify, hold harmless and exonerate Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. If Indemnitee is not wholly successful in such Proceeding, the Company also shall, to the fullest extent permitted by applicable law, indemnify, hold harmless and exonerate Indemnitee against all Expenses reasonably incurred in connection with a claim, issue or matter related to any claim, issue or matter on which Indemnitee was successful. For purposes of this Section 3.6 and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

Section 3.7 Partial Indemnity.

If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of the Expenses, judgments, fines, penalties, and amounts paid in settlement of a Claim or Proceeding but not, however, for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

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ARTICLE IV

Procedure for Determination of Entitlement to Indemnification

Section 4.1 Request by Indemnitee.

To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request in accordance with Section 7.6, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary or an Assistant Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification. Nevertheless, any failure of Indemnitee to provide a request to the Company, or to provide such a request timely, shall not relieve the Company of any obligation that it may have to Indemnitee hereunder except, and to the extent that, such failure actually and materially prejudices the interests of the Company.

Section 4.2 Determination of Request.

Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 4.1 hereof, a determination, if required by applicable law, with respect to whether Indemnitee is permitted under applicable law to be indemnified shall be made, in accordance with the terms of Section 4.5, in the specific case as follows:

(a) If a Potential Change in Control or a Change in Control shall have occurred, by Independent Counsel (selected in accordance with Section 4.3) in a written opinion to the Board and Indemnitee, unless Indemnitee shall request that such determination be made by the Board, or a committee of the Board, in which case by the person or persons or in the manner provided for in clause (i) or (ii) of paragraph (b) below; or

(b) If a Potential Change in Control or a Change in Control shall not have occurred, (i) by the Board by a majority vote of the Disinterested Directors even though less than a quorum of the Board, (ii) by a majority vote of a committee solely of two or more Disinterested Directors designated to act in the matter by a majority vote of all Disinterested Directors even though less than a quorum of the Board, (iii) by Independent Counsel selected by the Board or a committee of the Board by a vote as set forth in clauses (i) or (ii) of this paragraph (b), or if such vote is not obtainable or such a committee cannot be established, by a majority vote of all directors, or (iv) if Indemnitee and the Company agree, by the stockholders of the Company in a vote that excludes the shares held by directors who are not Disinterested Directors.

If it is so determined that Indemnitee is permitted to be indemnified under applicable law, payment to Indemnitee shall be made within 10 days after such determination. Nothing contained in this Agreement shall require that any determination be made under this Section 4.2 prior to the disposition or conclusion of a Claim or Proceeding against Indemnitee; provided, however, that Expense Advances shall continue to be made by the Company pursuant to, and to the extent required by, the provisions of Article III. Indemnitee shall reasonably cooperate with the person or persons making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements)

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incurred by Indemnitee in so cooperating with the person or persons making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification), and the Company shall indemnify and hold harmless Indemnitee therefrom.

Section 4.3 Independent Counsel.

If a Potential Change in Control or a Change in Control shall not have occurred and the determination of entitlement to indemnification is to be made by Independent Counsel, the Independent Counsel shall be selected by (a) a majority vote of the Disinterested Directors, even though less than a quorum of the Board or (b) if there are no Disinterested Directors, by a majority vote of the Board, and the Company shall give written notice to Indemnitee, within 10 days after receipt by the Company of Indemnitee's request for indemnification, specifying the identity and address of the Independent Counsel so selected.

If a Potential Change in Control or a Change in Control shall have occurred and the determination of entitlement to indemnification is to be made by Independent Counsel, the Independent Counsel shall be selected by Indemnitee, and Indemnitee shall give written notice to the Company, within 10 days after submission of Indemnitee's request for indemnification, specifying the identity and address of the Independent Counsel so selected (unless Indemnitee shall request that such selection be made by the Disinterested Directors or a committee of the Board, in which event the Company shall give written notice to Indemnitee within 10 days after receipt of Indemnitee's request for the Board or a committee of the Disinterested Directors to make such selection, specifying the identity and address of the Independent Counsel so selected). In either event, (i) such notice to Indemnitee or the Company, as the case may be, shall be accompanied by a written affirmation of the Independent Counsel so selected that it satisfies the requirements of the definition of "Independent Counsel" in Article I and that it agrees to serve in such capacity and (ii) Indemnitee or the Company, as the case may be, may, within seven days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection.

Any objection to the selection of Independent Counsel pursuant to this Section 4.3 may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of the definition of "Independent Counsel" in Article I, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is timely made, the Independent Counsel so selected may not serve as Independent Counsel unless and until a court of competent jurisdiction (the "Court") has determined that such objection is without merit or such objection is withdrawn. In the event of a timely written objection to a choice of Independent Counsel, the party originally selecting the Independent Counsel shall have seven days to make an alternate selection of Independent Counsel and to give written notice of such selection to the other party, after which time such other party shall have five days to make a written objection to such alternate selection.

If, within 30 days after submission of Indemnitee's request for indemnification pursuant to Section 4.1, no Independent Counsel shall have been selected and not objected to, either the Company or Indemnitee may petition the Court for resolution of any objection that shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Independent Counsel under Section 4.2. The Company shall pay any and all fees of, and expenses reasonably incurred by, such Independent Counsel in connection with acting pursuant to Section 4.2, and the Company shall pay all fees and expenses reasonably incurred incident to the procedures of this Section 4.3, regardless of the manner in which such Independent Counsel was

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selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 5.1, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

Section 4.4 Establishment of a Trust.

In the event of a Potential Change in Control or a Change in Control, the Company shall, upon written request by Indemnitee, create a trust for the benefit of Indemnitee (the "Trust") and from time to time upon written request of Indemnitee shall fund the Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated at the time of each such request to be incurred in connection with investigating, preparing for, and defending any Claim, and any and all judgments, fines, penalties, and settlement amounts of any and all Claims from time to time actually paid or claimed, reasonably anticipated, or proposed to be paid. The amount to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the Independent Counsel (or other person(s) making the determination of whether Indemnitee is permitted to be indemnified by applicable law).

The terms of the Trust shall provide that, upon a Change in Control, (i) the Trust shall not be revoked or the principal thereof invaded, without the written consent of Indemnitee; (ii) the trustee of the Trust shall advance to Indemnitee, within ten days of a request by Indemnitee, any and all Expenses reasonably incurred by, or in case of retainer to be incurred by, or on behalf of Indemnitee (or, if applicable, reimburse Indemnitee for any Expense reasonably incurred by Indemnitee and previously paid by Indemnitee), with any required determination concerning the reasonableness of the Expenses to be made by the Independent Counsel (and Indemnitee hereby agrees to reimburse the Trust under the circumstances in which Indemnitee would be required to reimburse the Company for Expense Advances under Section 3.4 of this Agreement); (iii) the Trust shall continue to be funded by the Company in accordance with the funding obligation set forth above; (iv) the trustee of the Trust shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to Expense Advances and indemnification pursuant to this Agreement; and (v) all unexpended funds in the Trust shall revert to the Company upon a final determination by the Independent Counsel or the Court, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The trustee of the Trust shall be chosen by Indemnitee and shall be an institution that is not affiliated with Indemnitee. Nothing in this Section 4.4 shall relieve the Company of any of its obligations under this Agreement.

Section 4.5 Presumptions and Effect of Certain Proceedings.

(a) Indemnitee shall be presumed to be entitled to indemnification under this Agreement upon submission of a request for indemnification under Section 4.1, and the Company shall have the burden of proof in overcoming that presumption in reaching a determination contrary to that presumption. Such presumption shall be used by Independent Counsel (or other person or persons determining entitlement to indemnification) as a basis for a determination of entitlement to indemnification unless the Company provides information sufficient to overcome such presumption by clear and convincing evidence or unless the investigation, review and analysis of Independent Counsel (or such other person or persons) convinces Independent Counsel by clear and convincing evidence that the presumption should not apply.

(b) If the person or persons empowered or selected under Article IV of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Company of the request by Indemnitee therefor,

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the determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating to such determination; and provided, further, that the 60-day limitation set forth in this Section 4.5(b) shall not apply and such period shall be extended as necessary (i) if within 30 days after receipt by the Company of the request for indemnification under Section 4.1 Indemnitee and the Company have agreed, and the Board has resolved, to submit such determination to the stockholders of the Company pursuant to Section 4.2(b) for their consideration at an annual meeting of stockholders to be held within 90 days after such agreement and such determination is made thereat, or at a special meeting of stockholders that is called within 30 days after such receipt for the purpose of making such determination, such meeting is held for such purpose within 60 days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.2(a) of this Agreement, in which case the applicable period shall be as set forth in Section 5.1(c).

(c) The termination of any Proceeding or of any Claim, issue or matter by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) by itself adversely affect the rights of Indemnitee to indemnification or create a presumption that Indemnitee failed to meet any particular standard of conduct, that Indemnitee had any particular belief, or that a court has determined that indemnification is not permitted by applicable law. Indemnitee shall be deemed to have been found liable in respect of any Claim, issue or matter only after Indemnitee shall have been so adjudged by the Court after exhaustion of all appeals therefrom.

(d) For purposes of Section 3.6, a settlement or other resolution of a Proceeding short of final judgment may be successful if it permits a party to avoid expense, delay, distraction, disruption and uncertainty. For purposes of Section 3.6, in the event that any Proceeding to which Indemnitee is a party is resolved in any manner other than by adverse judgment against Indemnitee (including settlement of such Proceeding with or without payment of money or other consideration), it shall be presumed that Indemnitee has been successful on the merits or otherwise in such Proceeding. Anyone seeking to overcome this presumption shall have the burden of proof by clear and convincing evidence.

(e) The failure of the Company (including by its directors or Independent Counsel) to have made a determination before the commencement of any action pursuant to this Agreement that indemnification is proper because Indemnitee has met the applicable standard of conduct shall not be a defense to the action or create a presumption that Indemnitee has not met the standard of conduct.

ARTICLE V

Certain Remedies of Indemnitee

Section 5.1 Indemnitee Entitled to Adjudication in an Appropriate Court.

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If (a) a determination is made pursuant to Article IV that Indemnitee is not entitled to indemnification under this Agreement; (b) there has been any failure by the Company to make timely payment or advancement of any amounts due hereunder (including any Expense Advances); or (c) the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 4.2 and such determination shall not have been made and delivered in a written opinion within 90 days after the latest of (i) such Independent Counsel's being appointed, (ii) the overruling by the Court of objections to such counsel's selection, or (iii) expiration of all periods for the Company or Indemnitee to object to such counsel's selection, Indemnitee shall be entitled to commence an action seeking an adjudication in the Court of Indemnitee's entitlement to such indemnification or advancements due hereunder, including Expense Advances. Alternatively, Indemnitee, at Indemnitee's option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the commercial arbitration rules of the American Arbitration Association. Indemnitee shall commence such action seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such action pursuant to this Section 5.1, or such right shall expire. The Company agrees not to oppose Indemnitee's right to seek any such adjudication or award in arbitration and it shall continue to pay Expense Advances pursuant to Section 3.4 until it shall ultimately be determined (in a final adjudication by a court from which there is no further right of appeal or in a final adjudication of an arbitration pursuant to this Section 5.1 if Indemnitee elects to seek such arbitration) that Indemnitee is not entitled to be indemnified by the Company against such Expenses.

Section 5.2 Adverse Determination Not to Affect any Judicial Proceeding.

If a determination shall have been made pursuant to Article IV that Indemnitee is not entitled to indemnification under this Agreement, any judicial proceeding or arbitration commenced pursuant to this Article V shall be conducted in all respects as a de novo trial or arbitration on the merits, and Indemnitee shall not be prejudiced by reason of such initial adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Article V, Indemnitee shall be presumed to be entitled to indemnification or advancement of Expenses, as the case may be, under this Agreement and the Company shall have the burden of proof in overcoming such presumption and to show by clear and convincing evidence that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

Section 5.3 Company Bound by Determination Favorable to Indemnitee in any Judicial Proceeding or Arbitration.

If a determination shall have been made or deemed to have been made pursuant to Article IV that Indemnitee is entitled to indemnification, the Company shall be irrevocably bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Article V, and shall be precluded from asserting that such determination has not been made or that the procedure by which such determination was made is not valid, binding and enforceable.

Section 5.4 Company Bound by the Agreement.

The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Article V that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. Without limiting the generality of the preceding sentence, the Company shall not seek from a court, or agree to, a "bar order" that would have the effect of prohibiting or limiting Indemnitee's rights to advancement of any Expenses under this Agreement.

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ARTICLE VI

Contribution

Section 6.1 Contribution Payment

(a) To the fullest extent permitted by law, whether or not the indemnification provided in Article III hereof is available, in respect of any threatened, pending or completed action, suit or Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, or Proceeding), the Company shall pay, in the first instance, the entire amount of any judgment or settlement of such action, suit or Proceeding without requiring Indemnitee to contribute to such payment, and the Company hereby waives and relinquishes any right of contribution it may have against Indemnitee. The Company shall not enter into any settlement of any action, suit or Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or Proceeding) unless such settlement provides for a full and final release of all claims asserted against Indemnitee.

(b) Without diminishing or impairing the obligations of the Company set forth in the preceding subparagraph, if, for any reason, Indemnitee shall elect or be required to pay all or any portion of any judgment or settlement in any threatened, pending or completed action, suit or Proceeding in which the Company is jointly liable with Indemnitee (or would be if joined in such action, suit or Proceeding), the Company shall contribute to the amount of Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in proportion to the relative benefits received by the Company and all officers, directors or employees of the Company, other than Indemnitee, who are jointly liable with Indemnitee (or would be if joined in such action, suit or Proceeding), on the one hand, and Indemnitee, on the other hand, from the transaction or events from which such action, suit or Proceeding arose; provided, however, that the proportion determined on the basis of relative benefit may, to the extent necessary to conform to law, be further adjusted by reference to the relative fault of the Company and all officers, directors or employees of the Company other than Indemnitee who are jointly liable with Indemnitee (or would be if joined in such action, suit or Proceeding), on the one hand, and Indemnitee, on the other hand, in connection with the transaction or events that resulted in such Expenses, judgments, fines or settlement amounts, as well as any other equitable considerations that applicable law may require to be considered.

(c) The Company hereby agrees, to the fullest extent permitted by applicable law, to fully indemnify and hold Indemnitee harmless from any claims of contribution that may be brought by officers, directors or employees of the Company, other than Indemnitee, who may be jointly liable with Indemnitee.

(d) To the fullest extent permissible under applicable law and without diminishing or impairing the obligations of the Company set forth in the preceding subparagraphs of this Section 6.1, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for judgments, fines, penalties, excise taxes, amounts paid or to be paid in settlement and/or for Expenses, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or

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transaction(s) giving cause to such Proceeding; and/or (ii) the relative fault of the Company (and its directors, officers, employees and agents) and Indemnitee in connection with such event(s) and/or transaction(s).

Section 6.2 Relative Fault.

The relative fault of Indemnitee, on the one hand, and of the Company and any and all other parties (including officers and directors of the Company other than Indemnitee) who may be at fault with respect to such matter shall be determined (i) by reference to the relative fault of Indemnitee as determined by the court or other governmental agency assessing the contribution amounts or (ii) to the extent such court or other governmental agency does not apportion relative fault, by the Independent Counsel (or such other party that makes a determination under Article IV) after giving effect to, among other things, the degree to which their actions were motivated by intent to gain personal profit or advantage, the degree to which their liability is primary or secondary, the degree to which their conduct is active or passive, the degree of the knowledge, access to information, and opportunity to prevent or correct the subject matter of the Proceedings and other relevant equitable considerations of each party. The Company and Indemnitee agree that it would not be just and equitable if contribution pursuant to this Section 6.2 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this Section 6.2.

ARTICLE VII

Miscellaneous

Section 7.1 Non-Exclusivity.

The rights of Indemnitee to receive indemnification and Expense Advances under this Agreement shall be in addition to, and shall not be deemed exclusive of, any other rights that Indemnitee may be entitled to under the DGCL or other applicable law, the Certificate of Incorporation or Bylaws, any other agreement, vote of stockholders or a resolution of directors, or otherwise. Every other right or remedy of Indemnitee shall be cumulative of the rights and remedies granted Indemnitee hereunder. No amendment or alteration of the Certificate of Incorporation or Bylaws or any provision thereof shall adversely affect Indemnitee's rights hereunder, and such rights shall be in addition to any rights Indemnitee may have under the Certificate of Incorporation, Bylaws and the DGCL or other applicable law. To the extent that there is a change in the DGCL or other applicable law (whether by statute or judicial decision) that allows greater indemnification by agreement than would be afforded currently under the Certificate of Incorporation or Bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by virtue of this Agreement the greater benefit so afforded by such change. Any amendment, alteration or repeal of the DGCL that adversely affects any right of Indemnitee shall be prospective only and shall not limit or eliminate any such right with respect to any Proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place before the effective date of such amendment or repeal. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

Section 7.2 Insurance and Subrogation.

(a) To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of the Company or for individuals serving at the request of the Company as directors, officers, partners,

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members, venturers, proprietors, trustees, employees, agents, fiduciaries or similar functionaries of another foreign or domestic corporation, partnership, limited liability company, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, Indemnatee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee, agent or fiduciary under such policy or policies; provided, however, that the Company shall not be in breach of this Section 7.2(a) by reason of obtaining any independent director liability insurance policies. If, at the time of the receipt of notice of a claim pursuant to the terms hereof, the Company has director and officer liability insurance in effect, the Company shall give prompt notice of such claim or of the commencement of a Proceeding, as the case may be, to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of the Indemnatee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(b) In the event of any payment by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnatee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights, provided that all Expenses relating to such action shall be borne by the Company.

(c) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnatee has otherwise actually received such payment under the Certificate of Incorporation or Bylaws or any insurance policy, contract, agreement or otherwise.

(d) If Indemnatee is a director of the Company, the Company will advise the Board of any proposed material reduction in the amount of coverage limits for Indemnatee to be provided by the Company's directors' and officers' liability insurance policy and will not effect such a reduction with respect to Indemnatee without the prior approval of at least 80% of the Independent Directors of the Company.

(e) If Indemnatee is a director of the Company during the term of this Agreement and if Indemnatee ceases to be a director of the Company for any reason, the Company shall procure a run-off directors' and officers' liability insurance policy with respect to claims arising from facts or events that occurred before the time Indemnatee ceased to be a director of the Company and covering Indemnatee, which policy, without any lapse in coverage, will provide coverage for a period of six years after the time Indemnatee ceased to be a director of the Company and will provide coverage (including amount and type of coverage and size of deductibles) that are substantially comparable to the Company's directors' and officers' liability insurance policy that was most protective of Indemnatee in the 12 months preceding the time Indemnatee ceased to be a director of the Company; provided, however, that:

(i) this obligation shall be suspended during the period immediately following the time Indemnatee ceases to be a director of the Company if and only so long as the Company has a directors' and officers' liability insurance policy in effect covering Indemnatee for such claims that, if it were a run-off policy, would meet or exceed the foregoing standards, but in any event this suspension period shall end when a Change in Control occurs; and

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(ii) no later than the end of the suspension period provided in the preceding clause (i) (whether because of failure to have a policy meeting the foregoing standards or because a Change in Control occurs), the Company shall procure a run-off directors' and officers' liability insurance policy meeting the foregoing standards and lasting for the remainder of the six-year period.

(f) Notwithstanding the preceding clause (e) including the suspension provisions therein, if Indemnitee ceases to be an officer or a director of the Company in connection with a Change in Control or at or during the one-year period following the occurrence of a Change in Control, the Company shall procure a run-off directors' and officers' liability insurance policy covering Indemnitee and meeting the foregoing standards in clause (e) and lasting for a six-year period upon Indemnitee's ceasing to be an officer or a director of the Company in such circumstances.

(g) If at the time of the receipt of a notice of a Claim or Proceeding pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of such Claim or Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Company shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Claim or Proceeding in accordance with the terms of such policies.

Section 7.3 Self Insurance of the Company; Other Arrangements.

The parties hereto recognize that the Company may, but except as provided in Section 7.2(d), Section 7.2(e), and Section 7.2(f) is not required to, procure or maintain insurance or other similar arrangements, at its expense, to protect itself and any person, including Indemnitee, who is or was a director, officer, employee, agent or fiduciary of the Company or who is or was serving at the request of the Company as a director, officer, partner, member, venturer, proprietor, trustee, employee, agent, fiduciary or similar functionary of another foreign or domestic corporation, partnership, limited liability company, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise against any expense, liability or loss asserted against or incurred by such person, in such a capacity or arising out of the person's status as such a person, whether or not the Company would have the power to indemnify such person against such expense or liability or loss.

Except as provided in Section 7.2(d), Section 7.2(e) and Section 7.2(f), in considering the cost and availability of such insurance, the Company (through the exercise of the business judgment of its directors and officers) may, from time to time, purchase insurance that provides for certain (i) deductibles or retentions, (ii) limits on payments required to be made by the insurer, or (iii) coverage that may not be as comprehensive as that previously included in insurance purchased by the Company or its predecessors. The purchase of insurance with deductibles or retentions, limits on payments and coverage exclusions, even if in the best interest of the Company, may not be in the best interest of Indemnitee. As to the Company, purchasing insurance with deductibles or retentions, limits on payments and coverage exclusions is similar to the Company's practice of self-insurance in other areas. In order to protect Indemnitee who would otherwise be more fully or entirely covered under such policies, the Company shall, to the maximum extent permitted by applicable law, indemnify and hold Indemnitee harmless to the extent (i) of such deductibles or retentions and (ii) of amounts exceeding payments made by an insurer, if by reason of Indemnitee's Corporate Status Indemnitee is or is

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threatened to be made a party to any Proceeding. The obligation of the Company in the preceding sentence shall be without regard to whether the Company would otherwise be required to indemnify such officer or director under the other provisions of this Agreement, or under any law, agreement, vote of stockholders or directors or other arrangement. Without limiting the generality of any provision of this Agreement, the procedures in Article IV hereof shall, to the extent applicable, be used for determining entitlement to indemnification under this Section 7.3.

Section 7.4 Certain Settlement Provisions.

The Company shall have no obligation to indemnify Indemnitee under this Agreement for amounts paid in settlement of a Proceeding or Claim without the Company's prior written consent. The Company shall not settle any Proceeding or Claim in any manner that would impose any fine or other obligation on Indemnitee without Indemnitee's prior written consent. Neither the Company nor Indemnitee shall unreasonably withhold their consent to any proposed settlement.

Section 7.5 Duration of Agreement.

This Agreement shall continue for so long as Indemnitee serves as a director, officer, employee, agent or fiduciary of the Company or, at the request of the Company, as a director, officer, partner, member, venturer, proprietor, trustee, employee, agent, fiduciary or similar functionary of another foreign or domestic corporation, partnership, limited liability company, joint venture, sole proprietorship, trust, employee benefit plan or other enterprise, and shall continue thereafter so long as Indemnitee shall be subject to any possible Proceeding (including any rights of appeal thereto and any Proceeding commenced by Indemnitee pursuant to Article V of this Agreement) by reason of Indemnitee's Corporate Status, whether or not Indemnitee is acting in any such capacity at the time any liability or expense is incurred for which indemnification or advancement can be provided under this Agreement.

Section 7.6 Notice by Each Party.

Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document or communication relating to any Proceeding or Claim for which Indemnitee may be entitled to indemnification or advancement of Expenses hereunder; provided, however, that any failure of Indemnitee to so notify the Company shall not adversely affect Indemnitee's rights under this Agreement except to the extent the Company shall have been materially prejudiced as a direct result of such failure. The Company shall promptly notify Indemnitee in writing as to the pendency of any Proceeding or Claim that may involve a claim against Indemnitee for which Indemnitee may be entitled to indemnification or advancement of Expenses hereunder.

Section 7.7 Amendment.

This Agreement may not be modified or amended except by a written instrument executed by or on behalf of each of the parties hereto.

Section 7.8 Waivers.

The observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) by the party entitled to enforce such term only by a

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writing signed by the party against which such waiver is to be asserted. Unless otherwise expressly provided herein, no delay on the part of any party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party hereto of any right, power or privilege hereunder operate as a waiver of any other right, power or privilege hereunder nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder.

Section 7.9 Entire Agreement.

This Agreement and the documents expressly referred to herein constitute the entire agreement between the parties hereto with respect to the matters covered hereby, and any other prior or contemporaneous oral or written understandings or agreements with respect to the matters covered hereby, including any prior indemnification agreements, are expressly superseded and replaced by this Agreement.

Section 7.10 Severability.

If any provision of this Agreement (including any provision within a single section, paragraph or sentence) or the application of such provision to any Person or circumstance, shall be judicially declared to be invalid, unenforceable or void, such decision will not have the effect of invalidating or voiding the remainder of this Agreement or affect the application of such provision to other Persons or circumstances, it being the intent and agreement of the parties that this Agreement shall be deemed amended by modifying such provision to the extent necessary to render it valid, legal and enforceable while preserving its intent, or if such modification is not possible, by substituting therefor another provision that is valid, legal and enforceable and that achieves the same objective. Any such finding of invalidity or unenforceability shall not prevent the enforcement of such provision in any other jurisdiction to the maximum extent permitted by applicable law.

Section 7.11 Notices.

All notices and other communications hereunder shall be in writing and shall be deemed given upon (a) transmitter's confirmation of a receipt of a facsimile transmission if during normal business hours of the recipient, otherwise on the next business day, (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of five business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to the Company, to it at:

Pioneer Natural Resources Company
5205 North O'Connor Blvd.
Suite 200
Irving, Texas 75039-3746
Attn: Corporate Secretary
Facsimile: (972) 969-3552

If to Indemnitee, to Indemnitee at:

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or to such other address or to such other individuals as any party shall have last designated by notice to the other parties. All notices and other communications given to any party in accordance with the provisions of this Agreement shall be deemed to have been given when delivered or sent to the intended recipient thereof in accordance with and as provided in the provisions of this Section 7.11.

Section 7.12 Governing Law.

This Agreement shall be construed in accordance with and governed by the laws of the State of Delaware without regard to the principles of conflict of laws.

Section 7.13 Certain Construction Rules.

(a) The article and section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. As used in this Agreement, unless otherwise provided to the contrary, (1) all references to days shall be deemed references to calendar days and (2) any reference to a "Section" or "Article" shall be deemed to refer to a section or article of this Agreement. The words "hereof," "herein" and "hereunder" and words of similar import referring to this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." Unless otherwise specifically provided for herein, the term "or" shall not be deemed to be exclusive. Whenever the context may require, any pronoun used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular form of nouns, pronouns and verbs shall include the plural and vice versa.

(b) For purposes of this Agreement, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; references to "serving at the request of the Company" shall include any service as a director, officer, employee or agent of the Company that imposes duties on, or involves services by, such director, nominee, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner the person reasonably believed to be in the interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interest of the Company" for purposes of this Agreement and the DGCL.

(c) In the event of a merger, consolidation or amalgamation of the Company with or into any other entity, references to the "Company" shall include the entity surviving or resulting from the merger, consolidation or amalgamation as well as the Company, and Indemnitee shall stand in the same position under this Agreement with respect to the surviving or resulting entity as Indemnitee would stand with respect to the Company if its existence had continued upon and after the merger, consolidation or amalgamation.

Section 7.14 Counterparts.

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This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument, notwithstanding that both parties are not signatories to the original or same counterpart.

Section 7.15 Certain Persons Not Entitled to Indemnification.

In addition, the Company shall not be obligated pursuant to the terms of this Agreement:

(a) To indemnify Indemnitee if (and to the extent that) a final decision by a court or arbitration body having jurisdiction in the matter shall determine that such indemnification is not lawful; or

(b) To indemnify Indemnitee for the payment to the Company of profits pursuant to Section 16(b) of the Exchange Act, or Expenses incurred by Indemnitee for Proceedings in connection with such payment under Section 16(b) of the Exchange Act.

Section 7.16 Indemnification for Negligence, Gross Negligence, etc.

Without limiting the generality of any other provision hereunder, it is the express intent of this Agreement that Indemnitee be indemnified and Expenses be advanced regardless of Indemnitee's acts of negligence, gross negligence, intentional or willful misconduct to the extent that indemnification and advancement of Expenses is allowed pursuant to the terms of this Agreement and under applicable law.

Section 7.17 Mutual Acknowledgments.

Both the Company and Indemnitee acknowledge that in certain instances, applicable law (including applicable federal law that may preempt or override applicable state law) or public policy may prohibit the Company from indemnifying the directors, officers, employees, agents or fiduciaries of the Company under this Agreement or otherwise. For example, the Company and Indemnitee acknowledge that the U.S. Securities and Exchange Commission has taken the position that indemnification of directors, officers and controlling Persons of the Company for liabilities arising under federal securities laws is against public policy and, therefore, unenforceable. Indemnitee understands and acknowledges that the Company has undertaken or may be required in the future to undertake with the U.S. Securities and Exchange Commission to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee. In addition, the Company and Indemnitee acknowledge that federal law prohibits indemnifications for certain violations of the Employee Retirement Income Security Act of 1974, as amended.

Section 7.18 Enforcement.

The Company agrees that its execution of this Agreement shall constitute a stipulation by which it shall be irrevocably bound in any court or arbitration in which a proceeding by Indemnitee for enforcement of Indemnitee's rights hereunder shall have been commenced, continued or appealed, that its obligations set forth in this Agreement are unique and special, and that failure of the Company to comply with the provisions of this Agreement will cause irreparable and irremediable injury to Indemnitee, for which a remedy at law will be inadequate. As a result, in addition to any other right or remedy Indemnitee may have at law or in equity with respect to breach of this Agreement, Indemnitee shall be entitled to injunctive or mandatory relief directing specific performance by the Company of its

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obligations under this Agreement. The Company agrees not to seek, and agrees to waive any requirement for the securing or posting of, a bond in connection with Indemnitee's seeking or obtaining such relief.

Section 7.19 Successors and Assigns.

All of the terms and provisions of this Agreement shall be binding upon, shall inure to the benefit of and shall be enforceable by the parties hereto and their respective successors, assigns, heirs, executors, administrators, and legal representatives.

Section 7.20 Period of Limitations.

No legal action shall be brought and no cause of action shall be asserted by or on behalf of the Company or any affiliate of the Company against Indemnitee or Indemnitee's spouse, heirs, executors, or personal or legal representatives after the expiration of one year from the date of accrual of that cause of action, and any claim or cause of action of the Company or its affiliate shall be extinguished and deemed released unless asserted by the timely filing of a legal action within that one-year period; provided, however, that for any claim based on Indemnitee's breach of fiduciary duties to the Company or its stockholders, the period set forth in the preceding sentence shall be three years instead of one year; and provided, further, that, if any shorter period of limitations is otherwise applicable to any such cause of action, the shorter period shall govern.

[signatures on following page]

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IN WITNESS WHEREOF, this Agreement has been duly executed and delivered to be effective as of the date first above written.
PIONEER NATURAL RESOURCES COMPANY

By: /s/ Mark H. Kleinman

Name: Mark H. Kleinman

Title: Executive Vice President, General Counsel and Assistant Secretary

INDEMNITEE:

/s/ Maria S. Dreyfus

Maria S. Dreyfus

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Scott D. Sheffield, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pioneer Natural Resources Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Scott D. Sheffield

Scott D. Sheffield

Chief Executive Officer

Date: November 5, 2021

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Neal H. Shah, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pioneer Natural Resources Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Neal H. Shah

Neal H. Shah

Senior Vice President and Chief Financial Officer

Date: November 5, 2021

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF PIONEER NATURAL RESOURCES COMPANY
PURSUANT TO 18 U.S.C. § 1350

I, Scott D. Sheffield, Chief Executive Officer of Pioneer Natural Resources Company (the "Company"), hereby certify that the accompanying Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 and filed with the Securities and Exchange Commission pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of that section.

I further certify that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Scott D. Sheffield

Scott D. Sheffield

Chief Executive Officer

Date: November 5, 2021

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF PIONEER NATURAL RESOURCES COMPANY
PURSUANT TO 18 U.S.C. § 1350

I, Neal H. Shah, Senior Vice President and Chief Financial Officer of Pioneer Natural Resources Company (the "Company"), hereby certify that the accompanying Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2021 and filed with the Securities and Exchange Commission pursuant to Section 13(a) of the Securities Exchange Act of 1934 (the "Report") by the Company fully complies with the requirements of that section.

I further certify that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Neal H. Shah

Neal H. Shah

Senior Vice President and Chief Financial Officer

Date: November 5, 2021