

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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 001-14039

Callon Petroleum Company

(Exact Name of Registrant as Specified in Its Charter)

Delaware

State or Other Jurisdiction of
Incorporation or Organization

**One Briarlake Plaza
2000 W. Sam Houston Parkway S., Suite 2000
Houston, Texas**

Address of Principal Executive Offices

64-0844345

I.R.S. Employer Identification No.

77042

Zip Code

(281) 589-5200

Registrant's Telephone Number, Including Area Code

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$0.01 par value	CPE	New York Stock Exchange

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, 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

The Registrant had 61,869,812 shares of common stock outstanding as of April 28, 2023.

For certain industry specific terms used in this Quarterly Report on Form 10-Q (this "Form 10-Q"), please see "Glossary of Certain Terms" in our Annual Report on Form 10-K for the year ended December 31, 2022 ("2022 Annual Report").

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Part I. Financial Information
Item 1. Financial Statements

Callon Petroleum Company
Consolidated Balance Sheets
(In thousands, except par and share amounts)
(Unaudited)

	March 31, 2023	December 31, 2022*
ASSETS		
Current assets:		
Cash and cash equivalents	\$3,370	\$3,395
Accounts receivable, net	210,107	237,128
Fair value of derivatives	25,761	21,332
Other current assets	35,406	35,783
Total current assets	274,644	297,638
Oil and natural gas properties, successful efforts accounting method:		
Proved properties, net	4,999,527	4,851,529
Unproved properties	1,227,575	1,225,768
Total oil and natural gas properties, net	6,227,102	6,077,297
Other property and equipment, net	28,719	26,152
Deferred income taxes	45,669	—
Deferred financing costs	17,152	18,822
Other assets, net	58,379	68,560
Total assets	\$6,651,665	\$6,488,469
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$550,923	\$536,233
Fair value of derivatives	570	16,197
Other current liabilities	146,195	150,384
Total current liabilities	697,688	702,814
Long-term debt	2,204,514	2,241,295
Asset retirement obligations	55,023	53,892
Fair value of derivatives	6,594	13,415
Other long-term liabilities	38,088	51,272
Total liabilities	3,001,907	3,062,688
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 130,000,000 shares authorized; 61,625,170 and 61,621,518 shares outstanding, respectively	616	616
Capital in excess of par value	4,025,533	4,022,194
Accumulated deficit	(376,391)	(597,029)
Total stockholders' equity	3,649,758	3,425,781
Total liabilities and stockholders' equity	\$6,651,665	\$6,488,469

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See "Note 2 - Summary of Significant Accounting Policies" for additional information.

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

Callon Petroleum Company
Consolidated Statements of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended March 31,	
	2023	2022*
Operating Revenues:		
Oil	\$409,556	\$553,249
Natural gas	23,586	43,976
Natural gas liquids	43,370	67,618
Sales of purchased oil and gas	83,534	112,375
Total operating revenues	560,046	777,218
Operating Expenses:		
Lease operating	75,102	67,328
Production and ad valorem taxes	32,721	37,678
Gathering, transportation and processing	25,977	20,775
Exploration	2,232	1,885
Cost of purchased oil and gas	86,061	111,271
Depreciation, depletion and amortization	125,965	113,643
General and administrative	27,798	27,057
Merger, integration and transaction	—	769
Total operating expenses	375,856	380,406
Income From Operations	184,190	396,812
Other (Income) Expenses:		
Interest expense	46,306	47,096
(Gain) loss on derivative contracts	(25,645)	358,300
Other (income) expense	(6,414)	(782)
Total other (income) expense	14,247	404,614
Income (Loss) Before Income Taxes	169,943	(7,802)
Income tax benefit	50,695	87
Net Income (Loss)	\$220,638	(\$7,715)
Net Income (Loss) Per Common Share:		
Basic	\$3.58	(\$0.13)
Diluted	\$3.57	(\$0.13)
Weighted Average Common Shares Outstanding:		
Basic	61,625	61,487
Diluted	61,874	61,487

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See "Note 2 - Summary of Significant Accounting Policies" for additional information.

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

Callon Petroleum Company
Consolidated Statements of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Stock		Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity
	Shares	\$			
Balance at December 31, 2022*	61,622	\$616	\$4,022,194	(\$597,029)	\$3,425,781
Net income	—	—	—	220,638	220,638
Restricted stock units	3	—	3,339	—	3,339
Balance at March 31, 2023	61,625	\$616	\$4,025,533	(\$376,391)	\$3,649,758
	Common Stock		Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity
	Shares	\$			
Previously reported at December 31, 2021	61,371	\$614	\$4,012,358	(\$2,147,204)	\$1,865,768
Effect of change in accounting principle	—	—	—	530,732	530,732
Balance at December 31, 2021 as recast*	61,371	614	4,012,358	(1,616,472)	2,396,500
Net loss	—	—	—	(7,715)	(7,715)
Restricted stock units	6	—	2,790	—	2,790
Common stock issued for Primexx Acquisition	117	1	6,294	—	6,295
Balance at March 31, 2022*	61,494	\$615	\$4,021,442	(\$1,624,187)	\$2,397,870

* Financial information for prior periods has been recast to reflect retrospective application of the successful efforts method of accounting. See "Note 2 - Summary of Significant Accounting Policies" for additional information.

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

Callon Petroleum Company
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2023	2022*
Cash flows from operating activities:		
Net income (loss)	\$220,638	(\$7,715)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	125,965	113,643
Amortization of non-cash debt related items, net	2,631	3,749
Deferred income tax benefit	(51,977)	—
(Gain) loss on derivative contracts	(25,645)	358,300
Cash paid for commodity derivative settlements, net	(779)	(101,525)
Non-cash expense related to share-based awards	1,881	6,043
Other, net	(1,184)	2,894
Changes in current assets and liabilities:		
Accounts receivable	24,019	(109,830)
Other current assets	(1,618)	(4,180)
Accounts payable and accrued liabilities	(46,018)	(13,558)
Net cash provided by operating activities	247,913	247,821
Cash flows from investing activities:		
Capital expenditures	(204,900)	(168,270)
Acquisition of oil and gas properties	(5,991)	(9,168)
Proceeds from sales of assets	2,054	4,484
Cash paid for settlement of contingent consideration arrangement	—	(19,171)
Other, net	(1,072)	3,635
Net cash used in investing activities	(209,909)	(188,490)
Cash flows from financing activities:		
Borrowings on credit facility	669,500	673,000
Payments on credit facility	(707,200)	(746,000)
Payment of deferred financing costs	(42)	—
Other, net	(287)	7,937
Net cash used in financing activities	(38,029)	(65,063)
Net change in cash and cash equivalents	(25)	(5,732)
Balance, beginning of period	3,395	9,882
Balance, end of period	\$3,370	\$4,150

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See “Note 2 - Summary of Significant Accounting Policies” for additional information.

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

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Note 1 — Description of Business

Callon Petroleum Company is an independent oil and natural gas company focused on the acquisition, exploration and development of high-quality assets in the leading oil plays of South and West Texas. As used herein, the “Company,” “Callon,” “we,” “us,” and “our” refer to Callon Petroleum Company and its predecessors and subsidiaries unless the context requires otherwise.

The Company’s activities are primarily focused on horizontal development in the Midland and Delaware Basins, both of which are part of the larger Permian Basin in West Texas, as well as the Eagle Ford in South Texas. The Company’s primary operations in the Permian reflect a high-return, oil-weighted drilling inventory with multiple prospective horizontal development intervals and are complemented by a well-established, cash flow-generating business in the Eagle Ford.

Note 2 — Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements include the accounts of the Company after elimination of intercompany transactions and balances. These financial statements have been prepared pursuant to the rules and regulations of the SEC and therefore do not include all disclosures required for financial statements prepared in conformity with GAAP. In the opinion of management, these financial statements reflect all normal, recurring adjustments and accruals considered necessary to present fairly, in all material respects, the Company’s interim financial position, results of operations and cash flows. However, the results of operations for the periods presented are not necessarily indicative of the results of operations that may be expected for the full year. Certain reclassifications have been made to prior period amounts to conform to the current period presentation. Such reclassifications did not have a material impact on prior period financial statements.

Significant Accounting Policies

The Company’s significant accounting policies are described in “Note 2 — Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in its 2022 Annual Report and are supplemented by the notes included in this Form 10-Q. The financial statements and related notes included in this Form 10-Q should be read in conjunction with the Company’s 2022 Annual Report.

Recast Financial Information for Change in Accounting Principle

In the first quarter of 2023, the Company voluntarily changed its method of accounting for its oil and gas exploration and development activities from the full cost method to the successful efforts method of accounting. Accordingly, the financial information for prior periods has been recast to reflect retrospective application of the successful efforts method, as prescribed by the FASB Accounting Standards Codification (“ASC”) 932 “Extractive Activities — Oil and Gas.” Although the full cost method of accounting continues to be an accepted alternative, the successful efforts method of accounting is the generally preferred method of the SEC and, because it is more widely used in the industry, the Company expects the change to improve the comparability of its financial statements to its peers. The Company also believes the successful efforts method provides a more representational depiction of assets and operating results and provides for its investments in oil and natural gas properties to be assessed for impairment in accordance with ASC Topic 360 “Property Plant and Equipment,” rather than valuations based on prices and costs prescribed under the full cost method as of the balance sheet date. As required by ASC 250 “Accounting Changes and Error Corrections”, the Company has presented the accumulated effect of the change in accounting principle as a change in the beginning balance of retained earnings (accumulated deficit) of the earliest period presented in the consolidated financial statements. For detailed information regarding the effects of the change to the successful efforts method, see “Note 3 — Change in Accounting Principle.”

Oil and Gas Property

Proved oil and gas properties. The Company follows the successful efforts method of accounting for its oil and gas properties. Under this method, drilling and completion costs, including lease and well equipment, intangible development costs, and operational support facilities in the field, associated with development wells are capitalized to proved oil and gas properties and are depleted on an asset group basis (properties aggregated based on geographical and geological characteristics) using the units-of-production method based

on estimated proved developed oil and gas reserves. The calculation of depletion expense takes into consideration estimated asset retirement costs, net of estimated salvage values.

Proved oil and gas properties are assessed for impairment on an asset group basis whenever events and circumstances indicate that there could be a possible decline in the recoverability of the net book value of such property. The Company estimates the expected future net cash flows of its proved oil and gas properties and compares these undiscounted cash flows to the net book value of the proved oil and gas properties to determine if the net book value is recoverable. If the net book value exceeds the estimated undiscounted future net cash flows, the Company will recognize an impairment to reduce the net book value of the proved oil and gas properties to fair value. The factors used to determine fair value include, but are not limited to, estimates of reserves, future commodity prices, future production estimates, estimated future development costs and operating costs, and discount rates, which are based on a weighted average cost of capital. There were no impairments of proved oil and gas properties for the three months ended March 31, 2023 or 2022.

The partial sale of a proved property within an existing asset group is accounted for as a normal retirement and no net gain or loss on divestiture is recognized as long as the treatment does not significantly alter the units-of-production depletion rate. The sale of a partial interest in an individual proved property is accounted for as a recovery of cost. A net gain or loss on divestiture is recognized in the consolidated statements of operations for all other sales of proved properties.

Unproved oil and gas properties. Unproved oil and gas properties consist of costs incurred in obtaining a mineral interest or a right in a property such as a lease, in addition to broker fees, recording fees and other similar costs. Leasehold costs are classified as unproved until proved reserves are discovered on or otherwise attributed to the property, at which time the related unproved oil and gas property costs are reclassified to proved oil and gas properties and depleted on an asset group basis using the units-of-production method based on estimated total proved oil and gas reserves.

The Company evaluates significant unproved oil and gas property costs for impairment based on remaining lease term, drilling results, reservoir performance, seismic interpretation or changes in future plans to develop acreage. Unproved oil and gas properties that are not individually significant are aggregated by asset group, and the portion of such costs estimated to be nonproductive prior to lease expiration is amortized over the average holding period. The estimate of what could be nonproductive is based on the Company's historical experience or other information, including current drilling plans and existing geological data. Impairment and amortization of unproved oil and gas properties are recognized as "Impairment of oil and gas properties" in the consolidated statements of operations.

Exploratory. Exploratory costs, including personnel and other internal costs, geological and geophysical expenses and delay rentals for oil and gas leases, are expensed as incurred. Exploratory well costs are initially capitalized pending the determination of whether proved reserves have been discovered. If proved reserves are discovered, exploratory well costs are capitalized as proved oil and gas properties. If proved reserves are not found, exploratory well costs are expensed as dry holes. The application of the successful efforts method of accounting requires management's judgment to determine the proper designation of wells as either development or exploratory, which will ultimately determine the proper accounting treatment of costs of dry holes.

Capitalized interest. The Company capitalizes interest on expenditures made in connection with exploration and development projects that meet certain thresholds and are not subject to current amortization. For projects that meet these thresholds, interest is capitalized only for the period that activities are in process to bring the projects to their intended use. Capitalized interest cannot exceed interest expense for the period capitalized. During the three months ended March 31, 2023 and 2022, the Company did not have any projects that met the thresholds, therefore, had no capitalized interest.

Subsequent Events

The Company evaluates subsequent events through the date the financial statements are issued. See "Note 16 — Subsequent Events" for further discussion

Note 3 — Change in Accounting Principle

In the first quarter of 2023, the Company voluntarily changed its method of accounting for oil and natural gas exploration and development activities from the full cost method to the successful efforts method. Accordingly, financial information for prior periods has been recast to reflect retrospective application of the successful efforts method. In general, under successful efforts, exploration costs such as exploratory dry holes, exploratory geophysical and geological costs, delay rentals, unproved leasehold impairments and exploration overhead are expensed as incurred as opposed to being capitalized under the full cost method of accounting. The successful efforts method also provides for the assessment of potential proved oil and gas property impairments by comparing the net book value of proved oil and gas properties to associated estimated undiscounted future net cash flows. If the net book value exceeds the estimated undiscounted future net cash flows, an impairment is recorded to reduce the net book value to fair value. Under the full cost method of accounting, an impairment would be required if the net book value of oil and natural gas properties exceeds a full cost ceiling using an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months. In addition, gains or losses, if applicable, are recognized more frequently on the divestitures of oil and gas properties under the successful efforts method, as opposed to an adjustment to the net book value of the oil and gas properties under the full cost method.

The following tables present the effects of the change to the successful efforts method in the consolidated balance sheets:

	As of March 31, 2023		
	Under Full Cost	Changes	Under Successful Efforts
	(In thousands)		
Oil and natural gas properties:			
Proved properties	\$10,647,471	(\$1,107,849)	\$9,539,622
Accumulated depreciation, depletion, amortization and impairments	(6,464,299)	1,924,204	(4,540,095)
Unproved properties	1,744,649	(517,074)	1,227,575
Total oil and gas properties, net	5,927,821	299,281	6,227,102
Deferred income taxes	72,323	(26,654)	45,669
Total assets	\$6,379,038	\$272,627	\$6,651,665
Stockholders' equity:			
Accumulated deficit	(649,018)	272,627	(376,391)
Total stockholders' equity	3,377,131	272,627	3,649,758
Total liabilities and stockholders' equity	\$6,379,038	\$272,627	\$6,651,665

	As of December 31, 2022		
	Under Full Cost	Changes	Under Successful Efforts
	(In thousands)		
Oil and natural gas properties:			
Proved properties	\$10,367,478	(\$1,099,343)	\$9,268,135
Accumulated depreciation, depletion, amortization and impairments	(6,343,875)	1,927,269	(4,416,606)
Unproved properties	1,711,306	(485,538)	1,225,768
Total oil and gas properties, net	5,734,909	342,388	6,077,297
Total assets	\$6,146,081	\$342,388	\$6,488,469
Deferred income taxes ⁽¹⁾	4,279	2,029	6,308
Stockholders' equity:			
Accumulated deficit	(937,388)	340,359	(597,029)
Total stockholders' equity	3,085,422	340,359	3,425,781
Total liabilities and stockholders' equity	\$6,146,081	\$342,388	\$6,488,469

(1) Included in "Other long-term liabilities" in the consolidated balance sheets.

The following tables present the effects of the change to the successful efforts method in the consolidated statements of operations:

Three Months Ended March 31, 2023			
	Under Full Cost	Changes	Under Successful Efforts
(In thousands, except per share data)			
Operating Expenses:			
Exploration	\$—	\$2,232	\$2,232
Depreciation, depletion and amortization	122,900	3,065	125,965
General and administrative	17,140	10,658	27,798
Income From Operations	200,145	(15,955)	184,190
Other Expenses:			
Interest expense	19,153	27,153	46,306
Income Before Income Taxes	213,050	(43,107)	169,943
Income tax benefit (expense)	75,320	(24,625)	50,695
Net Income	\$288,370	(\$67,732)	\$220,638
Net Income Per Common Share:			
Basic	\$4.68		\$3.58
Diluted	\$4.66		\$3.57

Three Months Ended March 31, 2022			
	Under Full Cost	Changes	Under Successful Efforts
(In thousands, except per share data)			
Operating Expenses:			
Exploration	\$—	\$1,885	\$1,885
Depreciation, depletion and amortization	102,979	10,664	113,643
General and administrative	17,121	9,936	27,057
Income From Operations	419,297	(22,485)	396,812
Other Expenses:			
Interest expense	21,558	25,538	47,096
Income (Loss) Before Income Taxes	40,221	(48,023)	(7,802)
Income tax benefit (expense)	(484)	571	87
Net Income (Loss)	\$39,737	(\$47,452)	(\$7,715)
Net Income (Loss) Per Common Share:			
Basic	\$0.65		(\$0.13)
Diluted	\$0.64		(\$0.13)

The following tables present the effects of the change to the successful efforts method in the consolidated statements of cash flows:

	Three Months Ended March 31, 2023		
	Under Full Cost	Changes	Under Successful Efforts
	(In thousands)		
Cash flows from operating activities:			
Net income	\$288,370	(\$67,732)	\$220,638
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	122,900	3,065	125,965
Amortization of non-cash debt related items, net	1,088	1,543	2,631
Deferred income tax benefit	(76,602)	24,625	(51,977)
Non-cash expense related to share-based awards	757	1,124	1,881
Net cash provided by operating activities	285,288	(37,375)	247,913
Cash flows from investing activities:			
Capital expenditures	(240,043)	35,143	(204,900)
Acquisition of oil and gas properties	(8,223)	2,232	(5,991)
Net cash used in investing activities	(247,284)	37,375	(209,909)
Net change in cash and cash equivalents	(25)	—	(25)
Balance, beginning of period	3,395	—	3,395
Balance, end of period	\$3,370	\$—	\$3,370

	Three Months Ended March 31, 2022		
	Under Full Cost	Changes	Under Successful Efforts
	(In thousands)		
Cash flows from operating activities:			
Net income (loss)	\$39,737	(\$47,452)	(\$7,715)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	102,979	10,664	113,643
Amortization of non-cash debt related items, net	1,716	2,033	3,749
Non-cash expense related to share-based awards	4,166	1,877	6,043
Changes in current assets and liabilities:			
Accounts payable and accrued liabilities	(12,987)	(571)	(13,558)
Net cash provided by operating activities	281,270	(33,449)	247,821
Cash flows from investing activities:			
Capital expenditures	(201,478)	33,208	(168,270)
Acquisition of oil and gas properties	(9,409)	241	(9,168)
Net cash used in investing activities	(221,939)	33,449	(188,490)
Net change in cash and cash equivalents	(5,732)	—	(5,732)
Balance, beginning of period	9,882	—	9,882
Balance, end of period	\$4,150	\$—	\$4,150

The following tables present the effects of the change to the successful efforts method in the consolidated statements of stockholders' equity:

	As of March 31, 2023		
	Under Full Cost	Changes	Under Successful Efforts
	(In thousands)		
Accumulated deficit	(\$649,018)	\$272,627	(\$376,391)
Total stockholders' equity	\$3,377,131	\$272,627	\$3,649,758

As of December 31, 2022

	Under Full Cost	Changes (In thousands)	Under Successful Efforts
Accumulated deficit	(\$937,388)	\$340,359	(\$597,029)
Total stockholders' equity	\$3,085,422	\$340,359	\$3,425,781

Note 4 — Revenue Recognition

Revenue from Contracts with Customers

The Company recognizes oil, natural gas, and NGL production revenue at the point in time when control of the product transfers to the purchaser, which differs depending on the applicable contractual terms. Transfer of control also drives the presentation of gathering, transportation and processing expenses in the consolidated statements of operations. See “Note 3 — Revenue Recognition” of the Notes to Consolidated Financial Statements in the 2022 Annual Report for more information regarding the types of contracts under which oil, natural gas, and NGL production revenue is generated.

Oil and Gas Purchase and Sale Arrangements

The Company proactively evaluates development plans and looks to enter into pipeline transportation contracts to mitigate market exposures and help ensure certainty of flow for its oil and gas production, in some cases multiple years in advance of development. Additionally, as the Company looks to optimize its operations and reduce exposures, in certain instances, the Company purchases oil and gas from third parties which is utilized to fulfill portions of its pipeline commitments. Sales of purchased oil and gas represent revenues the Company receives from sales of commodities purchased from a third-party. The Company recognizes these revenues and the purchase of the third-party commodities, as well as any costs associated with the purchase, on a gross basis, as the Company acts as a principal in these transactions by assuming control of the purchased commodity before it is transferred to the customer.

Accounts Receivable from Revenues from Contracts with Customers

Net accounts receivable include amounts billed and currently due from revenues from contracts with customers of our oil and natural gas production, which had a balance at March 31, 2023 and December 31, 2022 of \$153.4 million and \$174.1 million, respectively, and are presented in “Accounts receivable, net” in the consolidated balance sheets.

Prior Period Performance Obligations

The Company records revenue in the month production is delivered to the purchaser. However, settlement statements for sales may not be received for 30 to 90 days after the date production is delivered, and as a result, the Company is required to estimate the amount of production delivered to the purchaser and the price that will be received for the sale of the product. The Company records the differences between estimates and the actual amounts received for product sales in the month that payment is received from the purchaser. The Company has existing internal controls for its revenue estimation process and related accruals, and any identified differences between its revenue estimates and actual revenue received historically have not been significant.

Note 5 — Acquisitions and Divestitures

The Company did not have any material acquisitions or divestitures during the three months ended March 31, 2023 or 2022.

Note 6 — Property and Equipment, Net

As of March 31, 2023 and December 31, 2022, total property and equipment, net consisted of the following:

	March 31, 2023	December 31, 2022*
	(In thousands)	
Oil and natural gas properties, successful efforts accounting method		
Proved properties	\$9,539,622	\$9,268,135
Accumulated depreciation, depletion, amortization and impairments	(4,540,095)	(4,416,606)
Proved properties, net	4,999,527	4,851,529
Unproved properties	1,227,575	1,225,768
Total oil and natural gas properties, net	\$6,227,102	\$6,077,297
Other property and equipment	\$43,486	\$40,530
Accumulated depreciation	(14,767)	(14,378)
Other property and equipment, net	\$28,719	\$26,152

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See “Note 2 - Summary of Significant Accounting Policies” for additional information.

Note 7 — Earnings Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares outstanding for the periods presented. The calculation of diluted earnings per share includes the potential dilutive impact of non-vested restricted stock units outstanding during the periods presented, as calculated using the treasury stock method, unless their effect is anti-dilutive. For the three months ended March 31, 2022, the Company reported a net loss. As a result, the calculation of diluted weighted average common shares outstanding excluded all potentially dilutive common shares outstanding.

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2023	2022*
	(In thousands, except per share amounts)	
Net Income (Loss)	\$220,638	(\$7,715)
Basic weighted average common shares outstanding	61,625	61,487
Dilutive impact of restricted stock units	249	—
Diluted weighted average common shares outstanding	61,874	61,487
Net Income (Loss) Per Common Share		
Basic	\$3.58	(\$0.13)
Diluted	\$3.57	(\$0.13)
Restricted stock units ⁽¹⁾	42	980
Warrants ⁽¹⁾	481	481

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See “Note 2 - Summary of Significant Accounting Policies” for additional information.

(1) Shares excluded from the diluted earnings per share calculation because their effect would be anti-dilutive.

Note 8 — Borrowings

The Company's borrowings consisted of the following:

	March 31, 2023	December 31, 2022
	(In thousands)	
8.25% Senior Notes due 2025	\$187,238	\$187,238
6.375% Senior Notes due 2026	320,783	320,783
Senior Secured Revolving Credit Facility due 2027	465,300	503,000
8.0% Senior Notes due 2028	650,000	650,000
7.5% Senior Notes due 2030	600,000	600,000
Total principal outstanding	2,223,321	2,261,021
Unamortized premium on 8.25% Senior Notes	1,524	1,715
Unamortized deferred financing costs for Senior Notes	(20,331)	(21,441)
Total carrying value of borrowings ⁽¹⁾	\$2,204,514	\$2,241,295

(1) Excludes unamortized deferred financing costs related to the Company's senior secured revolving credit facility of \$17.2 million and \$18.8 million as of March 31, 2023 and December 31, 2022, respectively, which are classified in "Deferred financing costs" in the consolidated balance sheets.

Senior Secured Revolving Credit Facility

The Company has a senior secured revolving credit facility with a syndicate of lenders (the "Credit Facility") that, as of March 31, 2023, had a maximum credit amount of \$5.0 billion, a borrowing base of \$2.0 billion and an elected commitment amount of \$1.5 billion, with borrowings outstanding of \$465.3 million at a weighted-average interest rate of 6.87%, and letters of credit outstanding of \$16.4 million. The credit agreement governing the Credit Facility (the "Credit Agreement") provides for interest-only payments until October 19, 2027 when the Credit Agreement matures and any outstanding borrowings are due.

Borrowings outstanding under the Credit Agreement bear interest at the Company's option at either (i) a base rate for a base rate loan plus a margin between 0.75% to 1.75%, where the base rate is defined as the greatest of the prime rate, the federal funds rate plus 0.50%, and the SOFR plus 0.1% ("Adjusted SOFR") for a one month period plus 1.00%, or (ii) an Adjusted SOFR plus a margin between 1.75% to 2.75%. The Company also incurs commitment fees at rates ranging between 0.375% to 0.500% on the unused portion of lender commitments, which are included in "Interest expense" in the consolidated statements of operations.

The borrowing base under the Credit Agreement is subject to regular redeterminations in the spring and fall of each year, as well as special redeterminations described in the Credit Agreement, which in each case may reduce the amount of the borrowing base. On May 1, 2023, as part of the Company's spring 2023 redetermination, the borrowing base of \$2.0 billion and elected commitment amount of \$1.5 billion were reaffirmed.

Covenants

The Company's Credit Facility and the indentures governing the 8.25% Senior Notes due 2025, the 6.375% Senior Notes due 2026, the 8.0% Senior Notes due 2028, and the 7.5% Senior Notes due 2030 (collectively, the "Senior Notes") limit the Company and certain of its subsidiaries with respect to the amount of additional indebtedness, liens, dividends and other payments to shareholders, repurchases or redemptions of the Company's common stock, redemptions of senior notes, investments, acquisitions, mergers, asset dispositions, transactions with affiliates, hedging transactions and other matters, along with maintenance of certain financial ratios.

Under the Credit Agreement, the Company must maintain the following financial covenants determined as of the last day of the quarter: (1) a Leverage Ratio (as defined in the Credit Agreement) of no more than 3.50 to 1.00 and (2) a Current Ratio (as defined in the Credit Agreement) of not less than 1.00 to 1.00. The Company was in compliance with these covenants at March 31, 2023.

The Credit Agreement and indentures are subject to customary events of default. If an event of default occurs and is continuing, the holders or lenders may elect to accelerate amounts due (except in the case of a bankruptcy event of default, in which case such amounts will automatically become due and payable).

Note 9 — Derivative Instruments and Hedging Activities

Objectives and Strategies for Using Derivative Instruments

The Company is exposed to fluctuations in oil, natural gas and NGL prices received for its production. Consequently, the Company believes it is prudent to manage the variability in cash flows on a portion of its oil, natural gas and NGL production. The Company utilizes a mix of collars, swaps, put and call options, and basis differential swaps to manage fluctuations in cash flows resulting from changes in commodity prices. The Company does not use these instruments for speculative or trading purposes.

Counterparty Risk and Offsetting

The Company typically has numerous commodity derivative instruments outstanding with a counterparty that were executed at various dates, for various contract types, commodities and time periods. This often results in both commodity derivative asset and liability positions with that counterparty. The Company nets its commodity derivative instrument fair values executed with the same counterparty to a single asset or liability pursuant to International Swap Dealers Association Master Agreements, which provide for net settlement over the term of the contract and in the event of default or termination of the contract. In general, if a party to a derivative transaction incurs an event of default, as defined in the applicable agreement, the other party will have the right to demand the posting of collateral, demand a cash payment transfer or terminate the arrangement.

The Company strives to minimize its credit exposure to any individual counterparty and, as such, the Company has outstanding commodity derivative instruments with ten counterparties as of March 31, 2023. All of the counterparties to the Company's commodity derivative instruments are also lenders under the Company's Credit Facility. Therefore, each of the Company's counterparties allow the Company to satisfy any need for margin obligations associated with commodity derivative instruments where the Company is in a net liability position with the collateral securing the Credit Facility, thus eliminating the need for independent collateral posting.

Because each of the Company's counterparties has an investment grade credit rating, the Company believes it does not have significant credit risk and accordingly does not currently require its counterparties to post collateral to support the net asset positions of its commodity derivative instruments. Although the Company does not currently anticipate nonperformance from its counterparties, it continually monitors the credit ratings of each counterparty.

While the Company monitors counterparty creditworthiness on an ongoing basis, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices while continuing to be obligated under higher commodity price contracts subject to any right of offset under the agreements. Counterparty credit risk is considered when determining the fair value of a derivative instrument. See "Note 10 — Fair Value Measurements" for further discussion.

Financial Statement Presentation and Settlements

The Company records its derivative instruments at fair value in the consolidated balance sheets and records changes in fair value, as well as settlements during the period, as “(Gain) loss on derivative contracts” in the consolidated statements of operations. The Company presents the fair value of derivative contracts on a net basis in the consolidated balance sheets as they are subject to master netting arrangements. The following presents the impact of this presentation to the Company’s recognized assets and liabilities for the periods indicated:

	As of March 31, 2023		
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
	(In thousands)		
Derivative Assets			
Fair value of derivatives - current	\$40,838	(\$15,077)	\$25,761
Other assets, net	\$307	(\$307)	\$—
Derivative Liabilities			
Fair value of derivatives - current	(\$15,647)	\$15,077	(\$570)
Fair value of derivatives - non-current	(\$6,901)	\$307	(\$6,594)

	As of December 31, 2022		
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
	(In thousands)		
Derivative Assets			
Fair value of derivatives - current	\$51,984	(\$30,652)	\$21,332
Other assets, net	\$1,343	(\$889)	\$454
Derivative Liabilities			
Fair value of derivatives - current	(\$46,849)	\$30,652	(\$16,197)
Fair value of derivatives - non-current	(\$14,304)	\$889	(\$13,415)

The components of “(Gain) loss on derivative contracts” are as follows for the respective periods:

	Three Months Ended March 31,	
	2023	2022
	(In thousands)	
(Gain) loss on oil derivatives	(\$23,344)	\$325,348
(Gain) loss on natural gas derivatives	(2,301)	28,181
Loss on NGL derivatives	—	4,771
(Gain) loss on derivative contracts	(\$25,645)	\$358,300

The components of “Cash received (paid) for commodity derivative settlements, net” and “Cash received (paid) for settlements of contingent consideration arrangements, net” are as follows for the respective periods:

	Three Months Ended March 31,	
	2023	2022
(In thousands)		
Cash flows from operating activities		
Cash paid on oil derivatives	(\$7,398)	(\$95,353)
Cash received (paid) on natural gas derivatives	6,619	(4,644)
Cash paid on NGL derivatives	—	(1,528)
Cash paid for commodity derivative settlements, net	(\$779)	(\$101,525)
Cash received for settlements of contingent consideration arrangements, net ⁽¹⁾	\$—	\$6,492
Cash flows from investing activities		
Cash paid for settlement of contingent consideration arrangement ⁽¹⁾	\$—	(\$19,171)
Cash flows from financing activities		
Cash received for settlement of contingent consideration arrangement ⁽¹⁾	\$—	\$8,512

(1) See “Note 8 — Derivative Instruments and Hedging Activities” of the Notes to Consolidated Financial Statements in our 2022 Annual Report for discussion of the Company’s contingent consideration arrangements.

Derivative Positions

Listed in the tables below are the outstanding oil and natural gas derivative contracts as of March 31, 2023:

Oil Contracts (WTI)	For the Remainder 2023	For the Full Year 2024
Swap Contracts		
Total volume (Bbls)	866,500	—
Weighted average price per Bbl	\$80.41	\$—
Collar Contracts (Three-Way Collars)		
Total volume (Bbls)	1,375,000	—
Weighted average price per Bbl		
Ceiling (short call)	\$90.00	\$—
Floor (long put)	\$70.00	\$—
Floor (short put)	\$50.00	\$—
Collar Contracts (Two-Way Collars)		
Total volume (Bbls)	1,555,000	—
Weighted average price per Bbl		
Ceiling (short call)	\$86.35	\$—
Floor (long put)	\$71.70	\$—
Short Call Swaption Contracts ⁽¹⁾		
Total volume (Bbls)	—	1,830,000
Weighted average price per Bbl	\$—	\$80.30

(1) The 2024 short call swaption contracts have exercise expiration dates of December 29, 2023.

	For the Remainder 2023	For the Full Year 2024
Natural Gas Contracts (Henry Hub)		
Swap Contracts		
Total volume (MMBtu)	5,520,000	—
Weighted average price per MMBtu	\$3.70	\$—
Collar Contracts		
Total volume (MMBtu)	4,900,000	1,820,000
Weighted average price per MMBtu		
Ceiling (short call)	\$5.62	\$6.00
Floor (long put)	\$3.56	\$3.00
Natural Gas Contracts (Waha Basis Differential)		
Swap Contracts		
Total volume (MMBtu)	7,030,000	3,660,000
Weighted average price per MMBtu	(\$1.06)	(\$1.05)
Natural Gas Contracts (HSC Basis Differential)		
Swap Contracts		
Total volume (MMBtu)	8,250,000	14,640,000
Weighted average price per MMBtu	(\$0.29)	(\$0.42)

Note 10 — Fair Value Measurements

Accounting guidelines for measuring fair value establish a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. The three levels are defined as follows:

Level 1 – Observable inputs such as quoted prices in active markets at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Other inputs that are observable directly or indirectly, such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs for which there is little or no market data and for which the Company makes its own assumptions about how market participants would price the assets and liabilities.

Fair Value of Financial Instruments

Cash, Cash Equivalents, and Restricted Investments. The carrying amounts for these instruments approximate fair value due to the short-term nature or maturity of the instruments.

Debt. The carrying amount of borrowings outstanding under the Credit Facility approximates fair value as the borrowings bear interest at variable rates and are reflective of market rates. The following table presents the principal amounts of the Senior Notes with the fair values measured using quoted secondary market trading prices which are designated as Level 2 within the valuation hierarchy.

	March 31, 2023		December 31, 2022	
	Principal Amount	Fair Value	Principal Amount	Fair Value
	(In thousands)			
8.25% Senior Notes	\$187,238	\$186,459	\$187,238	\$186,719
6.375% Senior Notes	320,783	305,623	320,783	301,732
8.0% Senior Notes	650,000	644,111	650,000	616,935
7.5% Senior Notes	600,000	563,682	600,000	550,812
Total	\$1,758,021	\$1,699,875	\$1,758,021	\$1,656,198

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are reported at fair value on a recurring basis in the consolidated balance sheets. The following methods and assumptions were used to estimate fair value:

Commodity Derivative Instruments. The fair value of commodity derivative instruments is derived using a third-party income approach valuation model that utilizes market-corroborated inputs that are observable over the term of the commodity derivative contract. The Company's fair value calculations also incorporate an estimate of the counterparties' default risk for commodity

derivative assets and an estimate of the Company's default risk for commodity derivative liabilities. As the inputs in the model are substantially observable over the term of the commodity derivative contract and as there is a wide availability of quoted market prices for similar commodity derivative contracts, the Company designates its commodity derivative instruments as Level 2 within the fair value hierarchy. See "Note 9 — Derivative Instruments and Hedging Activities" for further discussion.

The following tables present the Company's assets and liabilities measured at fair value on a recurring basis as of March 31, 2023 and December 31, 2022:

	March 31, 2023		
	Level 1	Level 2	Level 3
	(In thousands)		
Commodity derivative assets	\$—	\$25,761	\$—
Commodity derivative liabilities	\$—	(\$7,164)	\$—
	December 31, 2022		
	Level 1	Level 2	Level 3
	(In thousands)		
Commodity derivative assets	\$—	\$21,786	\$—
Commodity derivative liabilities	\$—	(\$29,612)	\$—

There were no transfers between any of the fair value levels during any period presented.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Asset Retirement Obligations. The Company measures the fair value of asset retirement obligations as of the date a well begins drilling or when production equipment and facilities are installed using a discounted cash flow model based on inputs that are not observable in the market and that, therefore, are designated as Level 3 within the valuation hierarchy. Significant inputs to the fair value measurement of asset retirement obligations include estimates of the costs of plugging and abandoning oil and gas wells, removing production equipment and facilities, restoring the surface of the land as well as estimates of the economic lives of the oil and gas wells and future inflation rates.

Note 11 — Income Taxes

The Company provides for income taxes at the statutory rate of 21%. Reported income tax expense differs from the amount of income tax expense that would result from applying domestic federal statutory tax rates to pretax income. These differences primarily relate to non-deductible executive compensation expenses, restricted stock unit windfalls, changes in valuation allowances, and state income taxes.

For the three months ended March 31, 2023 and 2022, the Company's effective income tax rates were approximately 30% and 1%, respectively. The primary differences between the effective tax rate and the statutory rate for the three months ended March 31, 2023 resulted from the release of the valuation allowance recorded against the Company's net deferred tax assets as discussed further below. For the three months ended March 31, 2022, the effective tax rate differed from the statutory rate as a result of the valuation allowance that was in place and the effect of state income taxes.

Deferred Tax Asset Valuation Allowance

Management monitors company-specific, oil and natural gas industry and worldwide economic factors and assesses the likelihood that the Company's net deferred tax assets will be utilized prior to their expiration. As previously disclosed in the Company's 2022 Annual Report, beginning in the second quarter of 2020 and through the fourth quarter of 2022, the Company maintained a valuation allowance against its net deferred tax assets. As of March 31, 2023, considering all available evidence (both positive and negative), the Company concluded that it is more likely than not that the deferred tax assets would be realized and released the valuation allowance. This release resulted in a deferred income tax benefit of \$52.0 million for the three months ended March 31, 2023.

Note 12 — Share-Based Compensation

RSU Equity Awards

The following table summarizes activity for restricted stock units that may be settled in common stock (“RSU Equity Awards”) for the three months ended March 31, 2023:

	Three Months Ended March 31, 2023	
	RSU Equity Awards (In thousands)	Weighted Average Grant Date Fair Value
Unvested, beginning of the period	800	\$44.79
Granted	317	\$34.02
Vested	(6)	\$49.23
Forfeited	(21)	\$43.81
Unvested, end of the period	1,090	\$41.65

Grant activity for the three months ended March 31, 2023 primarily consisted of RSU Equity Awards granted to executives and employees as part of the annual grant of long-term equity incentive awards with a weighted-average grant date fair value of \$34.02.

The aggregate fair value of RSU Equity Awards that vested during the three months ended March 31, 2023 was \$0.2 million. As of March 31, 2023, unrecognized compensation costs related to unvested RSU Equity Awards were \$30.2 million and will be recognized over a weighted average period of 2.1 years.

Cash-Settled Awards

As of March 31, 2023 and December 31, 2022, the Company had a total liability of \$4.2 million and \$6.5 million, respectively, which, as of December 31, 2022, consisted of restricted stock unit awards that may be settled in cash (“Cash-Settled RSU Awards”) and stock appreciation rights to be settled in cash (“Cash SARs”) and, collectively with the Cash-Settled RSU Awards, the “Cash-Settled Awards”). As of March 31, 2023, there were no Cash-Settled RSU Awards outstanding.

Share-Based Compensation Expense (Benefit), Net

Share-based compensation expense associated with the RSU Equity Awards and the Cash-Settled Awards is included in “General and administrative” in the consolidated statements of operations. The following table presents share-based compensation expense (benefit), net for the periods indicated:

	Three Months Ended March 31,	
	2023	2022*
	(In thousands)	
RSU Equity Awards	\$3,626	\$3,366
Cash-Settled Awards	(1,745)	2,677
Total share-based compensation expense (benefit), net	\$1,881	\$6,043

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See “Note 2 - Summary of Significant Accounting Policies” for additional information.

See “Note 10 — Share-Based Compensation” of the Notes to Consolidated Financial Statements in the 2022 Annual Report for details of the Company’s equity-based incentive plans.

Note 13 — Accounts Receivable, Net

	March 31, 2023	December 31, 2022
	(In thousands)	
Oil and natural gas receivables	\$153,362	\$174,107
Joint interest receivables	22,575	16,778
Other receivables	36,204	48,277
Total	212,141	239,162
Allowance for credit losses	(2,034)	(2,034)
Total accounts receivable, net	\$210,107	\$237,128

Note 14 — Accounts Payable and Accrued Liabilities

	March 31, 2023	December 31, 2022
	(In thousands)	
Accounts payable	\$199,268	\$191,133
Revenues and royalties payable	234,379	244,408
Accrued capital expenditures	85,540	58,395
Accrued interest	31,736	42,297
Total accounts payable and accrued liabilities	\$550,923	\$536,233

Note 15 — Supplemental Cash Flow

	Three Months Ended March 31,	
	2023	2022*
	(In thousands)	
Supplemental cash flow information:		
Interest paid	\$54,233	\$54,930
Income taxes paid ⁽¹⁾	—	—
Non-cash investing and financing activities:		
Change in accrued capital expenditures	\$67,460	(\$8,897)
Change in asset retirement costs	568	289

* Financial information for the prior period has been recast to reflect retrospective application of the successful efforts method of accounting. See “Note 2 - Summary of Significant Accounting Policies” for additional information.

(1) The Company did not pay or receive a refund for any federal income tax for the periods presented above. For the three months ended March 31, 2023 and 2022, the Company received refunds of \$0.2 million and \$2.8 million, respectively, for state income taxes.

Note 16 — Subsequent Events***Credit Agreement Reaffirmation***

See “Note 8 — Borrowings” for discussion of the results of the Company’s spring 2023 borrowing base redetermination

Divestiture of Eagle Ford Properties

On May 3, 2023, the Company entered into an agreement with Ridgemar Energy Operating, LLC (“Ridgemar”) for the sale of all its oil and gas properties in the Eagle Ford for cash consideration of \$655.0 million, subject to customary purchase price adjustments, as well as contingent consideration where the Company could receive up to \$15.0 million if the WTI price of oil exceeds certain thresholds in 2024. Upon signing, Ridgemar paid approximately \$49.1 million as a deposit into third-party escrow accounts. The transaction is structured as the acquisition by Ridgemar of 100% of the limited liability company interests of the Company’s wholly owned subsidiary, Callon (Eagle Ford) LLC.

Acquisition of Delaware Basin Properties

On May 3, 2023, the Company entered into an agreement with Percussion Petroleum Operating, II, LLC (“Percussion”) for the purchase of its oil and gas properties in the Delaware Basin for cash consideration of \$265.0 million and \$210.0 million of shares of Company common stock. Additionally, the Company could have to pay up to \$62.5 million of contingent consideration if the WTI price of oil exceeds certain thresholds in 2023, 2024, and 2025. Upon signing, the Company paid \$6.0 million as a deposit into third-party escrow accounts. The transaction is structured as the acquisition by Callon Petroleum Operating Company of 100% of the limited liability company interests of Percussion’s wholly owned subsidiary, Percussion Petroleum Operating II, LLC.

Closing of both transactions is expected to occur early in July 2023, subject to completion of various customary conditions.

Approval of Share Repurchase Program

On May 2, 2023, the board of directors (the “Board”) of the Company approved a share repurchase program (the “Share Repurchase Program”), pursuant to which the Company is authorized to repurchase up to \$300.0 million of its outstanding common stock through the second quarter of 2025, contingent upon the consummation of the transactions described above. Repurchases under the Share Repurchase Program may be made, from time to time, in amounts and at prices the Company deems appropriate and will be subject to a variety of factors, including the market price of the Company’s common stock, general market and economic conditions and applicable legal requirements. The Share Repurchase Program may be suspended, modified or discontinued by the Board at any time without prior notice.

Special Note Regarding Forward-Looking Statements

This Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements in this Form 10-Q by words such as “anticipate,” “project,” “intend,” “estimate,” “expect,” “believe,” “predict,” “budget,” “projection,” “goal,” “plan,” “forecast,” “target” or similar expressions.

All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements. Without limiting the generality of the foregoing, forward-looking statements may include statements regarding the following (to the extent not historical):

- our oil and natural gas reserve quantities and the discounted present value of these reserves;
- the amount and nature of our capital expenditures;
- our future drilling and development plans and our potential drilling locations;
- the timing and amount of future capital and operating costs;
- production decline rates from our wells being greater than expected;
- commodity price risk management activities and the impact on our average realized prices;
- business strategies and plans of management;
- our ability to efficiently integrate recent acquisitions; and
- prospect development and property acquisitions.

We caution you that the forward-looking statements contained in this Form 10-Q are subject to all of the risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and sale of oil and natural gas. We disclose these and other important factors that could cause our actual results to differ materially from our expectations under “Risk Factors” in Part I, Item 1A of our 2022 Annual Report. These factors include:

- the volatility of oil, natural gas and NGL prices or a prolonged period of low oil, natural gas or NGL prices;
- general economic conditions, including the availability of credit, access to existing lines of credit, inflation and rising interest rates;
- changes in the supply of and demand for oil and natural gas, including as a result of actions by, or disputes among, members of OPEC and other oil and natural gas producing countries, such as Russia, with respect to production levels or other matters related to the price of oil;
- the uncertainty of estimates of oil and natural gas reserves;
- impairments;
- the impact of competition;
- the availability and cost of drilling rigs, pressure pumping equipment and crews, other equipment, supplies, water, personnel and oil field services;
- our dependency on third-party service providers;
- restrictions on our ability to obtain, recycle and dispose of water;
- operating hazards inherent in the exploration for and production of oil and natural gas;
- difficulties encountered during the exploration for and production of oil and natural gas;
- physical risks arising from climate change;
- the potential impact of future drilling on production from existing wells;
- difficulties encountered in delivering oil and natural gas to commercial markets and the availability and capacity of gas processing facilities and pipelines and other transportation operations owned and operated by third parties;
- the uncertainty of our ability to attract capital and obtain financing on favorable terms;
- our ability to keep pace with technological developments in our industry;
- compliance with, or the effect of changes in, the extensive governmental regulations regarding the oil and natural gas business including those related to climate change and greenhouse gases;
- the impact of government regulation, including regulation of hydraulic fracturing and water disposal wells;
- climate-related transition risks, including evolving climate change legislation, fuel conservation measures, technological advances and negative shift in market perception towards the oil and natural gas industry, which could result in increased operating expenses and capital costs, financial risks and potential reduction in demand for oil and natural gas;
- any increase in severance or similar taxes;
- the financial impact of accounting regulations and critical accounting policies;
- the comparative cost of alternative fuels;
- credit risk relating to the risk of loss as a result of non-performance by our counterparties;
- cyberattacks on the Company or on systems and infrastructure used by the oil and natural gas industry;
- weather conditions; and
- risks associated with acquisitions.

Should one or more of these risks or uncertainties occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. Additional risks or uncertainties that are not currently known to us, that we currently deem to be immaterial, or that could apply to any company could also materially adversely affect our business, financial condition, or future results. Any forward-looking statement speaks only as of the date of which such statement is made and the Company undertakes no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

In addition, we caution that reserve engineering is a process of estimating oil and natural gas accumulated underground and cannot be measured exactly. Accuracy of reserve estimates depend on a number of factors including data available at the point in time, engineering interpretation of the data, and assumptions used by the reserve engineers as it relates to price and cost estimates and recoverability. New results of drilling, testing, and production history may result in revisions of previous estimates and, if significant, would impact future development plans. As such, reserve estimates may differ from actual results of oil and natural gas quantities ultimately recovered.

Except as required by applicable law, all forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following management’s discussion and analysis describes the principal factors affecting our results of operations, liquidity, capital resources and contractual cash obligations. This discussion should be read in conjunction with our consolidated financial statements and accompanying notes included under Part I, Item 1, “Financial Statements” of this Form 10-Q, as well as our consolidated financial statements, accompanying notes and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our 2022 Annual Report.

Financial information for all prior periods has been recast to reflect the retrospective application of the successful efforts method of accounting, as discussed under “Note 2 — Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in this Form 10-Q.

General

We are an independent oil and natural gas company focused on the acquisition, exploration and development of high-quality assets in the leading oil plays of South and West Texas. Our activities are primarily focused on horizontal development in the Midland and Delaware Basins, both of which are part of the larger Permian Basin in West Texas, as well as the Eagle Ford in South Texas. Our operating culture is centered on responsible development of hydrocarbon resources, safety and the environment, which we believe strengthens our operational performance. Our drilling activity is predominantly focused on the horizontal development of several prospective intervals in the Permian, including multiple levels of the Wolfcamp formation and the Spraberry shales, and in the Eagle Ford. We have assembled a multi-year inventory of potential horizontal well locations and intend to add to this inventory through delineation drilling of emerging zones on our existing acreage and through acquisition of additional locations through working interest acquisitions, leasing programs, acreage purchases, joint ventures and asset swaps.

First Quarter 2023 Highlights

- Operated drilling and turned in-line activity for the three months ended March 31, 2023 along with our drilled but uncompleted and producing wells as of March 31, 2023 are summarized in the table below.

Region	Three Months Ended March 31, 2023				As of March 31, 2023			
	Drilled		Turned In-Line		Drilled But Uncompleted		Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Permian	25	22.7	29	25.7	25	22.7	778	683.8
Eagle Ford	3	2.4	—	—	3	2.3	604	541.9
Total	28	25.1	29	25.7	28	25.0	1,382	1,225.7

- Operational capital expenditures, exclusive of leasehold, for the first quarter of 2023 were \$270.1 million, of which approximately 95% were in the Permian with the remaining balance in the Eagle Ford.
- Recorded net income for the three months ended March 31, 2023 of \$220.6 million, or \$3.57 per diluted share, compared to net loss for the three months ended March 31, 2022 of \$7.7 million, or \$0.13 per diluted share. The variance between the periods was driven primarily by a gain on derivative contracts of \$25.6 million during the first quarter of 2023 compared to a loss of approximately \$358.3 million during the first quarter of 2022 as well as income tax benefit of \$50.7 million during the first quarter of 2023 due to the release of our deferred tax asset valuation allowance, partially offset by a decrease in operating revenues in the first quarter of 2023 driven by an approximate 26% decrease in the total average realized sales price and a decrease of 3% in production volumes compared to the first quarter of 2022.

Results of Operations

Production

	Three Months Ended				Three Months Ended March 31,			
	March 31, 2023	December 31, 2022	Change	% Change	2023	2022	Change	% Change
Total production								
Oil (MBbls)								
Permian	4,275	4,715	(440)	(9 %)	4,275	4,469	(194)	(4 %)
Eagle Ford	1,139	1,377	(238)	(17 %)	1,139	1,377	(238)	(17 %)
Total oil	5,414	6,092	(678)	(11 %)	5,414	5,846	(432)	(7 %)
Natural gas (MMcf)								
Permian	9,288	9,013	275	3 %	9,288	8,590	698	8 %
Eagle Ford	1,336	1,530	(194)	(13 %)	1,336	1,525	(189)	(12 %)
Total natural gas	10,624	10,543	81	1 %	10,624	10,115	509	5 %
NGLs (MBbls)								
Permian	1,572	1,645	(73)	(4 %)	1,572	1,455	117	8 %
Eagle Ford	222	285	(63)	(22 %)	222	252	(30)	(12 %)
Total NGLs	1,794	1,930	(136)	(7 %)	1,794	1,707	87	5 %
Total production (MBoe)								
Permian	7,395	7,862	(467)	(6 %)	7,395	7,356	39	1 %
Eagle Ford	1,584	1,917	(333)	(17 %)	1,584	1,883	(299)	(16 %)
Total barrels of oil equivalent	8,979	9,779	(800)	(8 %)	8,979	9,239	(260)	(3 %)
Total daily production (Boe/d)	99,768	106,287	(6,519)	(6 %)	99,768	102,655	(2,887)	(3 %)
Percent of total daily production								
Oil	60 %	62 %		(3 %)	60 %	63 %		(5 %)
Natural gas	20 %	18 %		11 %	20 %	18 %		11 %
NGLs	20 %	20 %		— %	20 %	19 %		5 %

The decrease in production for three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily due to decreased completion activity in the fourth quarter of 2022 and normal production decline on existing wells, partially offset by new wells turned in-line during the first quarter of 2023. The decrease in production for the three months ended March 31, 2023 compared to the three months ended March 31, 2022 was primarily due to normal production decline on existing wells, partially offset by new wells turned in-line during the first quarter of 2023.

Pricing

	Three Months Ended				Three Months Ended March 31,			
	March 31, 2023	December 31, 2022	Change	% Change	2023	2022	Change	% Change
Benchmark prices ⁽¹⁾								
WTI (per Bbl)	\$76.11	\$82.76	(\$6.65)	(8 %)	\$76.11	\$94.38	(\$18.27)	(19 %)
Henry Hub (per Mcf)	2.77	6.14	(3.37)	(55 %)	2.77	4.57	(1.80)	(39 %)
Average realized sales price (excluding impact of derivative settlements)								
Oil (per Bbl)								
Permian	\$75.55	\$84.19	(\$8.64)	(10 %)	\$75.55	\$94.52	(\$18.97)	(20 %)
Eagle Ford	76.02	84.82	(8.80)	(10 %)	76.02	95.02	(19.00)	(20 %)
Total oil	75.65	84.33	(8.68)	(10 %)	75.65	94.64	(18.99)	(20 %)
Natural gas (per Mcf)								
Permian	2.07	3.83	(1.76)	(46 %)	2.07	4.20	(2.13)	(51 %)
Eagle Ford	3.26	5.38	(2.12)	(39 %)	3.26	5.18	(1.92)	(37 %)
Total natural gas	2.22	4.06	(1.84)	(45 %)	2.22	4.35	(2.13)	(49 %)
NGL (per Bbl)								
Permian	24.56	25.99	(1.43)	(6 %)	24.56	40.25	(15.69)	(39 %)
Eagle Ford	21.41	24.67	(3.26)	(13 %)	21.41	35.93	(14.52)	(40 %)
Total NGLs	24.18	25.79	(1.61)	(6 %)	24.18	39.61	(15.43)	(39 %)
Total average realized sales price (per Boe)								
Permian	51.50	60.32	(8.82)	(15 %)	51.50	70.29	(18.79)	(27 %)
Eagle Ford	60.42	68.89	(8.47)	(12 %)	60.42	78.50	(18.08)	(23 %)
Total average realized sales price	\$53.07	\$62.00	(\$8.93)	(14 %)	\$53.07	\$71.97	(\$18.90)	(26 %)

(1) Reflects calendar average daily spot market prices.

Revenues

	Oil	Natural Gas	NGLs	Total
	(In thousands)			
Revenues for the three months ended December 31, 2022⁽¹⁾	\$513,734	\$42,774	\$49,776	\$606,284
Volume increase (decrease)	(57,183)	328	(3,508)	(60,363)
Price decrease	(46,995)	(19,516)	(2,898)	(69,409)
Net decrease	(104,178)	(19,188)	(6,406)	(129,772)
Revenues for the three months ended March 31, 2023⁽¹⁾	\$409,556	\$23,586	\$43,370	\$476,512
Percent of total revenues	86 %	5 %	9 %	

(1) Excludes sales of oil and gas purchased from third parties and sold to our customers.

The decrease in revenues for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily due to a 14% decrease in the average realized sales price, which decreased to \$53.07 per Bbl from \$62.00 per Bbl, as well as a 6% decrease in production, as shown above.

	Oil	Natural Gas	NGLs	Total
	(In thousands)			
Revenues for the three months ended March 31, 2022⁽¹⁾	\$553,249	\$43,976	\$67,618	\$664,843
Volume increase (decrease)	(40,892)	2,212	3,446	(35,234)
Price decrease	(102,801)	(22,602)	(27,694)	(153,097)
Net decrease	(143,693)	(20,390)	(24,248)	(188,331)
Revenues for the three months ended March 31, 2023⁽¹⁾	\$409,556	\$23,586	\$43,370	\$476,512
Percent of total revenues	86 %	5 %	9 %	

(1) Excludes sales of oil and gas purchased from third parties and sold to our customers.

The decrease in revenues for the three months ended March 31, 2023 compared to the same period of 2022 was primarily due to a 26% decrease in the average realized sales price, which decreased to \$53.07 per Bbl from \$71.97 per Bbl, as well as a 3% decrease in production, as shown above.

Operating Expenses

Lease Operating Expenses

	Three Months Ended							
	March 31, 2023		December 31, 2022		Total Change		Boe Change	
	Per Boe		Per Boe		\$	%	\$	%
	(In thousands, except per Boe and % amounts)							
Permian	\$58,215	\$7.87	\$54,768	\$6.97	\$3,447	6 %	\$0.90	13 %
Eagle Ford	16,887	10.66	19,329	10.08	(2,442)	(13 %)	0.58	6 %
Lease operating	\$75,102	\$8.36	\$74,097	\$7.58	\$1,005	1 %	\$0.78	10 %

	Three Months Ended March 31,							
	2023		2022		Total Change		Boe Change	
	Per Boe		Per Boe		\$	%	\$	%
	(In thousands, except per Boe and % amounts)							
Permian	\$58,215	\$7.87	\$50,391	\$6.85	\$7,824	16 %	\$1.02	15 %
Eagle Ford	16,887	10.66	16,937	8.99	(50)	— %	1.67	19 %
Lease operating	\$75,102	\$8.36	\$67,328	\$7.29	\$7,774	12 %	\$1.07	15 %

The increase in lease operating expenses, as well as lease operating expenses per Boe, for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily due to increases in certain operating costs such as fuel, power and equipment rental, as well as the distribution of fixed costs spread over lower production volumes.

The increase in lease operating expenses, as well as lease operating expenses per Boe, for the three months ended March 31, 2023 compared to the same period of 2022 was primarily due to increases in certain operating expenses such as fuel, power and equipment rental and overall cost inflation, as well as the distribution of fixed costs spread over lower production volumes.

Production and Ad Valorem Taxes

	Three Months Ended							
	March 31, 2023	Per	December 31, 2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Permian	\$25,397	\$3.43	\$26,668	\$3.39	(\$1,271)	(5 %)	\$0.04	1 %
Eagle Ford	7,324	4.62	7,411	3.87	(87)	(1 %)	0.75	19 %
Production and ad valorem taxes	\$32,721	\$3.64	\$34,079	\$3.48	(\$1,358)	(4 %)	\$0.16	5 %
Percent of total revenues	6.9 %		5.6 %		1.3 %			

	Three Months Ended March 31,							
	2023	Per	2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Permian	\$25,397	\$3.43	\$28,604	\$3.89	(\$3,207)	(11 %)	(\$0.46)	(12 %)
Eagle Ford	7,324	4.62	9,074	4.82	(1,750)	(19 %)	(0.20)	(4 %)
Production and ad valorem taxes	\$32,721	\$3.64	\$37,678	\$4.08	(\$4,957)	(13 %)	(\$0.44)	(11 %)
Percent of total revenues	6.9 %		5.7 %		1.2 %			

The decrease in production and ad valorem taxes for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily related to a 21% decrease in total revenues which decreased production taxes, partially offset by an increase in ad valorem taxes due to higher expected property tax valuations as a result of higher commodity prices during 2022 compared to 2021. The increase in production and ad valorem taxes as a percentage of total revenues for the first quarter of 2023 compared to the three months ended December 31, 2022 was primarily due to an increase in ad valorem taxes, as discussed above, with a decrease in total revenues during the first quarter of 2023.

The decrease in production and ad valorem taxes for the three months ended March 31, 2023 compared to the same period of 2022 was primarily related to a 28% decrease in total revenues which decreased production taxes, partially offset by an increase in ad valorem taxes as discussed in the paragraph above. The increase in production and ad valorem taxes as a percentage of total revenues for the three months ended March 31, 2023 compared to the same period of 2022 was primarily due to an increase in ad valorem taxes during the three months ended March 31, 2023, as discussed above, with a decrease in total revenues during the first quarter of 2023.

Gathering, Transportation and Processing Expenses

	Three Months Ended							
	March 31, 2023	Per	December 31, 2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Permian	\$22,707	\$3.07	\$21,648	\$2.75	\$1,059	5 %	\$0.32	12 %
Eagle Ford	3,270	2.06	3,637	1.90	(367)	(10 %)	0.16	8 %
Gathering, transportation and processing	\$25,977	\$2.89	\$25,285	\$2.59	\$692	3 %	\$0.30	12 %
	Three Months Ended March 31,							
	2023	Per	2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Permian	\$22,707	\$3.07	\$17,167	\$2.33	\$5,540	32 %	\$0.74	32 %
Eagle Ford	3,270	2.06	3,608	1.92	(338)	(9 %)	0.14	7 %
Gathering, transportation and processing	\$25,977	\$2.89	\$20,775	\$2.25	\$5,202	25 %	\$0.64	28 %

The increase in gathering, transportation and processing expenses for the three months ended March 31, 2023 compared to the three months ended December 31, 2022, as well as the three months ended March 31, 2022, was primarily related to a contractual increase in rates for certain agreements.

Exploration Expenses

	Three Months Ended							
	March 31, 2023	Per	December 31, 2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Exploration	\$2,232	\$0.25	\$2,466	\$0.25	(\$234)	(9 %)	\$—	— %

	Three Months Ended March 31,							
	2023	Per	2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Exploration	\$2,232	\$0.25	\$1,885	\$0.20	\$347	18 %	\$0.05	25 %

Depreciation, Depletion and Amortization (“DD&A”). The following table sets forth the components of our DD&A for the periods indicated:

	Three Months Ended				Three Months Ended March 31,			
	March 31, 2023		December 31, 2022		2023		2022	
	Amount	Per Boe	Amount	Per Boe	Amount	Per Boe	Amount	Per Boe
(In thousands, except per Boe)								
DD&A of proved oil and gas properties	\$123,489	\$13.75	\$132,587	\$13.56	\$123,489	\$13.75	\$111,427	\$12.06
Depreciation of other property and equipment	390	0.04	372	0.04	390	0.04	476	0.05
Amortization of other assets	790	0.09	762	0.08	790	0.09	780	0.08
Accretion of asset retirement obligations	1,296	0.15	1,014	0.10	1,296	0.15	960	0.11
DD&A	\$125,965	\$14.03	\$134,735	\$13.78	\$125,965	\$14.03	\$113,643	\$12.30

The decrease in DD&A for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily attributable to a production decrease of 6%.

The increase in DD&A for the three months ended March 31, 2023 compared to the same period in 2022 was primarily attributable to higher proved oil and gas property balances as a result of the capital expenditures throughout 2022 and the three months ended March 31, 2023.

General and Administrative (“G&A”)

	Three Months Ended							
	March 31, 2023	Per	December 31, 2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
General and administrative	\$27,798	\$3.10	\$26,511	\$2.71	\$1,287	5 %	\$0.39	14 %

	Three Months Ended March 31,							
	2023	Per	2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
General and administrative	\$27,798	\$3.10	\$27,057	\$2.93	\$741	3 %	\$0.17	6 %

The increase in G&A for the three months ended March 31, 2023 compared to the three months ended December 31, 2022 was primarily due to an increase in employee-related costs between the two periods.

The increase in G&A for the three months ended March 31, 2023 compared to the same period in 2022 was primarily due to an increase in employee-related costs between the two periods, partially offset by a decrease in the fair value of cash settled awards as a result of the decrease in our stock price between the two periods.

Other Income and Expenses

Interest Expense. The following table sets forth the components of our interest expense for the periods indicated:

	Three Months Ended			Three Months Ended March 31,		
	March 31, 2023	December 31, 2022	Change	2023	2022	Change
	(In thousands)					
Interest expense on Senior Notes	\$33,224	\$33,224	\$—	\$33,224	\$29,022	\$4,202
Interest expense on second lien notes	—	—	—	—	7,192	(7,192)
Interest expense on Credit Facility	10,447	10,871	(424)	10,447	7,110	3,337
Amortization of debt issuance costs, premiums and discounts	2,631	2,653	(22)	2,631	3,750	(1,119)
Other interest expense	4	24	(20)	4	22	(18)
Interest expense	\$46,306	\$46,772	(\$466)	\$46,306	\$47,096	(\$790)

Interest expenses for the three months ended March 31, 2023 was \$46.3 million, which was consistent with the three months ended December 31, 2022 and the three months ended March 31, 2022.

(Gain) Loss on Derivative Contracts. The net (gain) loss on derivative contracts for the periods indicated includes the following:

	Three Months Ended		Three Months Ended March 31,	
	March 31, 2023	December 31, 2022	2023	2022
	(In thousands)			
(Gain) loss on oil derivatives	(\$23,344)	\$43,852	(\$23,344)	\$325,348
(Gain) loss on natural gas derivatives	(2,301)	(17,997)	(2,301)	28,181
Loss on NGL derivatives	—	—	—	4,771
(Gain) loss on derivative contracts	(\$25,645)	\$25,855	(\$25,645)	\$358,300

See “Note 9 — Derivative Instruments and Hedging Activities” and “Note 10 — Fair Value Measurements” for additional information.

Income Tax Expense. We recorded income tax benefit of \$50.7 million and \$0.1 million for the three months ended March 31, 2023 and 2022, respectively, and income tax expense of \$7.3 million for the three months ended December 31, 2022. The income tax benefit for the three months ended March 31, 2023 is a result of releasing the valuation allowance that was in place against our net deferred tax assets. See “Note 11 — Income Taxes” for further discussion.

Liquidity and Capital Resources

Outlook. Oil prices continue to remain volatile, with the average NYMEX benchmark price for oil decreasing in the first quarter of 2023 as compared to the prices seen during the majority of 2022. We expect to continue to see volatility in oil prices, as well as natural gas and NGL prices. We also expect to continue to experience inflationary cost pressures in 2023 on many different service items including labor, materials, power and equipment.

2023 Capital Budget and Funding Strategy. Our primary uses of capital are for the exploration and development of our oil and natural gas properties. Our 2023 Capital Budget is \$1.0 billion, with over 80% allocated towards development in the Permian with the balance towards development in the Eagle Ford. Because we are the operator of a high percentage of our properties, we can control the well design and the development pace associated with our capital expenditures. We plan to execute a moderated capital expenditure program through reduced reinvestment rates and balanced capital deployment for more consistent cash flow generation and to drive capital efficiency through an enhanced multi-zone, scaled development program.

We believe that existing cash and cash equivalents, cash flows from operations and available borrowings under our Credit Facility will be sufficient to support working capital, capital expenditures and other cash requirements for at least the next 12 months and, based on our current expectations, for the foreseeable future thereafter. Our future capital requirements, both near-term and long-term, will depend on many factors, including, but not limited to, commodity prices, market conditions, our available liquidity and financing, acquisitions and divestitures of oil and gas properties, the availability of drilling rigs and completion crews, the cost of completion services, success of drilling programs, land and industry partner issues, weather delays, the acquisition of leases with drilling commitments, and other factors.

Historically, our primary sources of capital have been cash flows from operations, borrowings under our credit facility, proceeds from the issuance of debt securities and public equity offerings, and non-core asset dispositions. We regularly consider which resources, including cash flows from operations and debt and equity financings, are available to meet our future financial obligations, planned capital expenditures and liquidity requirements. In addition, we may consider divesting certain properties or assets that are not part of

our core business or are no longer deemed essential to our future growth or enter into joint venture agreements, provided we are able to divest such assets or enter into joint venture agreements on terms that are acceptable to us.

Depending upon our actual and anticipated sources and uses of liquidity, prevailing market conditions and other factors, we may, from time to time, seek to retire or repurchase our outstanding debt or equity securities through cash purchases in the open market or through privately negotiated transactions or otherwise. The amounts involved in any such transactions, individually or in aggregate, may be material.

Overview of Cash Flow Activities. Cash and cash equivalents was \$3.4 million as of both March 31, 2023 and December 31, 2022.

	Three Months Ended March 31,	
	2023	2022
	(In thousands)	
Net cash provided by operating activities	\$247,913	\$247,821
Net cash used in investing activities	(209,909)	(188,490)
Net cash used in financing activities	(38,029)	(65,063)
Net change in cash and cash equivalents	(\$25)	(\$5,732)

Operating Activities. For the three months ended March 31, 2023, net cash provided by operating activities of \$247.9 million was effectively flat compared to the same period in 2022. The change in net cash provided by operating activities was predominantly attributable to the following:

- A decrease in revenue primarily driven by a 26% decrease in total average realized sales price, as well as a 3% decrease in production volumes, largely offset by
- A decrease in the cash paid for commodity derivative settlements, and
- An increase in cash inflows of \$104.0 million related to timing of working capital payments and receipts.

Production, realized prices, and operating expenses are discussed in Results of Operations. See “Note 9 — Derivative Instruments and Hedging Activities” and “Note 10 — Fair Value Measurements” for a reconciliation of the components of our derivative contracts and disclosures related to derivative instruments including their composition and valuation.

Investing Activities. For the three months ended March 31, 2023, net cash used in investing activities was \$209.9 million compared to \$188.5 million for the same period in 2022. The increase in net cash used in investing activities was primarily attributable to an increase in operational capital expenditures, partially offset by a decrease in cash paid for the settlement of contingent consideration agreements.

Financing Activities. We finance a portion of our capital expenditures, acquisitions and working capital requirements with borrowings under our Credit Facility, term debt and equity offerings. For the three months ended March 31, 2023, net cash used in financing activities was \$38.0 million compared to \$65.1 million for the same period of 2022. The change was primarily attributable to the repayment of approximately \$37.7 million on the Credit Facility during the three months ended March 31, 2023 as compared to repayments of approximately \$73.0 million during the three months ended March 31, 2022.

Credit Facility. As of March 31, 2023, our Credit Facility had a maximum credit amount of \$5.0 billion, a borrowing base of \$2.0 billion and an elected commitment amount of \$1.5 billion, with borrowings outstanding of \$465.3 million at a weighted average interest rate of 6.87%, and \$16.4 million in letters of credit outstanding. See “Note 8 — Borrowings” for additional information related to the Credit Facility.

Material Cash Requirements. As of March 31, 2023, we have financial obligations associated with our outstanding long-term debt, including interest payments and principal repayments. See “Note 7 — Borrowings” of the Notes to Consolidated Financial Statements in our 2022 Annual Report for further discussion of the contractual commitments under our debt agreements, including the timing of principal repayments. Additionally, we have operational obligations associated with long-term, non-cancelable leases, drilling rig contracts, frac service contracts, gathering, processing and transportation service agreements and estimates of future asset retirement obligations. See “Note 14 — Asset Retirement Obligations” and “Note 17 — Commitments and Contingencies” of the Notes to Consolidated Financial Statements in our 2022 Annual Report for additional details.

Since December 31, 2022, there have been no material changes from what was disclosed in our 2022 Annual Report other than changes to the borrowings under our Credit Facility. See “Note 8 — Borrowings” for additional information.

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments affecting estimates and assumptions for reported amounts of assets, liabilities, revenues and expenses during the periods reported. Certain of such estimates and assumptions are inherently unpredictable and will differ from actual results. Our policies and use of estimates are described in “Note 2 — Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in our 2022 Annual

Report. Except as discussed below and in “Note 2 — Summary of Significant Accounting Policies,” of the Notes to Consolidated Financial Statements in this Form 10-Q, there have been no material changes to our critical accounting estimates since December 31, 2022, which are disclosed in “Part II, Item 7A. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2022 Annual Report.

Recast Financial Information for Change in Accounting Principle

In the first quarter of 2023, we voluntarily changed our method of accounting for our oil and gas exploration and development activities from the full cost method to the successful efforts method of accounting. Accordingly, the financial information for prior periods has been recast to reflect retrospective application of the successful efforts method, as prescribed by the FASB ASC 932 “Extractive Activities — Oil and Gas.” See “Note 2 — Summary of Significant Accounting Policies” and “Note 3 — Change in Accounting Principle” for additional discussion.

Impairment of Oil and Natural Gas Properties

We assess our proved oil and gas properties for impairment on an asset group basis whenever events and circumstances indicate that there could be a possible decline in the recoverability of the net book value of such property. We estimate the expected future net cash flows of our proved oil and gas properties and compare these undiscounted cash flows to the net book value of the proved oil and gas properties to determine if the net book value is recoverable. If the net book value exceeds the estimated undiscounted future net cash flows, we will recognize an impairment to reduce the net book value of the proved oil and gas properties to fair value. The factors used to determine fair value include, but are not limited to, estimates of reserves, future commodity prices, future production estimates, estimated future development costs and operating costs, and discount rates, which are based on a weighted average cost of capital. Fair value estimates are based on projected financial information which we believe to be reasonably likely to occur, as of the date that the impairment is measured. There were no impairments of proved oil and gas properties for the three months ended March 31, 2023 or 2022.

We evaluate significant unproved oil and gas property costs for impairment based on remaining lease term, drilling results, reservoir performance, seismic interpretation or changes in future plans to develop acreage. Unproved oil and gas properties that are not individually significant are aggregated by asset group, and the portion of such costs estimated to be nonproductive prior to lease expiration is amortized over the average holding period. The estimate of what could be nonproductive is based on our historical experience or other information, including current drilling plans and existing geological data.

Income Taxes

Management monitors company-specific, oil and natural gas industry and worldwide economic factors and assesses the likelihood that our net deferred tax assets will be utilized prior to their expiration. As previously disclosed in our 2022 Annual Report, beginning in the second quarter of 2020 and through the fourth quarter of 2022, we maintained a valuation allowance against our net deferred tax assets. As of March 31, 2023, considering all available evidence (both positive and negative), we concluded that it is more likely than not that the deferred tax assets would be realized and released the valuation allowance. This release resulted in a deferred income tax benefit of \$52.0 million for the three months ended March 31, 2023. As a result of the release of the valuation allowance, we will have no federal deferred income tax expense for the remainder of 2023.

Recently Adopted and Recently Issued Accounting Standards

See “Note 2 — Summary of Significant Accounting Policies” of the Notes to Consolidated Financial Statements in our 2022 Annual Report for discussion.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of market risks including commodity price risk, interest rate risk and counterparty and customer credit risk. We mitigate these risks through a program of risk management including the use of commodity derivative instruments.

Except as set forth below, there have been no material changes to the sources and effects of our market risk since December 31, 2022, which are disclosed in “Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of our 2022 Annual Report.

Commodity Price Risk

Our revenues are derived from the sale of our oil, natural gas and NGL production. The prices for oil, natural gas and NGLs remain volatile and sometimes experience large fluctuations as a result of relatively small changes in supply, government actions, economic conditions, and weather conditions. We enter into commodity derivative instruments to manage oil, natural gas and NGL price risk, related both to NYMEX benchmark prices and regional basis differentials.

The following table sets forth the fair values of our commodity derivative instruments as of March 31, 2023 as well as the impact on the fair values assuming a 10% increase and decrease in the underlying forward oil and gas price curves as of March 31, 2023:

	Three Months Ended March 31, 2023		
	Oil	Natural Gas	Total
	(In thousands)		
Fair value asset (liability) as of March 31, 2023 ⁽¹⁾	\$1,956	\$11,601	\$13,557
Impact of a 10% increase in forward commodity prices	(\$22,160)	\$10,851	(\$11,309)
Impact of a 10% decrease in forward commodity prices	\$15,637	\$12,402	\$28,039

(1) Spot prices for oil and natural gas were \$75.71 and \$2.22, respectively, as of March 31, 2023.

Interest Rate Risk

We are subject to market risk exposure related to changes in interest rates on our indebtedness under our Credit Facility. As of March 31, 2023, we had \$465.3 million outstanding under the Credit Facility with a weighted average interest rate of 6.87%. An increase or decrease of 1.00% in the interest rate would have a corresponding increase or decrease in our annual interest expense of approximately \$4.7 million, based on the balance outstanding as of March 31, 2023. See “Note 8 — Borrowings” for more information on our Credit Facility.

Item 4. Controls and Procedures

Disclosure Controls and Procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our principal executive and principal financial officers have concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2023.

Changes in Internal Control Over Financial Reporting. In the quarter ended March 31, 2023, Callon modified certain policies, procedures, and related internal controls that were impacted by the change in accounting principle from the full cost method to the successful efforts method of accounting. There was no other change in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the first quarter of 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

We are a party in various legal proceedings and claims, which arise in the ordinary course of our business. While the outcome of these events cannot be predicted with certainty, we believe that the ultimate resolution of any such actions will not have a material effect on our financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth under the heading “Part I, Item 1A. Risk Factors” included in our 2022 Annual Report. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed as part of this Form 10-Q.

Exhibit Number	Description	Incorporated by reference (File No. 001-14039, unless otherwise indicated)		
		Form	Exhibit	Filing Date
3.1	<u>Certificate of Incorporation of the Company, as amended through May 12, 2016</u>	10-Q	3.1	11/3/2016
3.2	<u>Certificate of Amendment to the Certificate of Incorporation of Callon, effective December 20, 2019</u>	8-K	3.1	12/20/2019
3.3	<u>Certificate of Amendment to the Certificate of Incorporation of Callon, effective August 7, 2020</u>	8-K	3.1	8/7/2020
3.4	<u>Certificate of Amendment to the Certificate of Incorporation of Callon, effective May 14, 2021</u>	8-K	3.1	5/14/2021
3.5	<u>Certificate of Amendment to the Certificate of Incorporation of Callon, effective May 25, 2022</u>	8-K	3.1	5/25/2022
3.6	<u>Amended and Restated Bylaws of the Company</u>	10-K	3.2	2/27/2019
31.1	(a) <u>Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)</u>			
31.2	(a) <u>Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)</u>			
32.1	(b) <u>Section 1350 Certifications of Chief Executive and Financial Officers pursuant to Rule 13(a)-14(b)</u>			
101.INS	(a) 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	(a) Cover Page Interactive Data File - the cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.			

(a) Filed herewith.

(b) Furnished herewith. Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this report and not "filed" as part of such report for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act, except to the extent that the registrant specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

<u>Signature</u>	Callon Petroleum Company <u>Title</u>	<u>Date</u>
<u>/s/ Joseph C. Gatto, Jr.</u> Joseph C. Gatto, Jr.	President and Chief Executive Officer	<u>May 3, 2023</u>
<u>/s/ Kevin Haggard</u> Kevin Haggard	Senior Vice President and Chief Financial Officer	<u>May 3, 2023</u>

CERTIFICATIONS

I, Joseph C. Gatto, Jr., certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Callon Petroleum 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 the 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 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.

Date: May 3, 2023

/s/ Joseph C. Gatto, Jr.
Joseph C. Gatto, Jr.
President and Chief Executive Officer
(Principal executive officer)

CERTIFICATIONS

I, Kevin Haggard, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Callon Petroleum 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 the 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 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.

Date: May 3, 2023

/s/ Kevin Haggard
Kevin Haggard
Senior Vice President and Chief Financial Officer
(Principal financial officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report on Form 10-Q of Callon Petroleum Company for the quarterly period ended March 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, in the capacities and on the dates indicated below, each hereby certify pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Report fully complies with requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 3, 2023

/s/ Joseph C. Gatto, Jr.
Joseph C. Gatto, Jr.
(Principal executive officer)

Date: May 3, 2023

/s/ Kevin Haggard
Kevin Haggard
(Principal financial officer)

The foregoing certification is being furnished as an exhibit to the Report pursuant to Item 601(b)(32) of Regulation S-K and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code) and, accordingly, is not being filed as part of the Report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.