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Callon Reduces 2020 Capital Program by Over 25% and Provides Operational and Hedging Updates

HOUSTON, March 17, 2020 /PRNewswire/ -- Callon Petroleum Company (NYSE: CPE) today provided an update on its 2020 development program, prioritizing free cash flow and financial flexibility in 2020 and beyond. The revised plan accounts for recent changes in the macroeconomic outlook, including the following highlights:

- Reducing operational capital plan for full-year 2020 to \$700 to \$725 million from \$975 million, significantly reducing average quarterly expenditures for the remainder of 2020 by approximately 50% from a previously budgeted first quarter level of over \$275 million and resulting in relatively flat year-over-year production growth versus the predecessor companies' combined 2019 production volumes
- Reducing current operated rig count of nine to five before the end of the second quarter of 2020
- Reducing frac crew count from five to two upon the completion of currently in-process projects
- 2H20 and preliminary 2021 plans employ three to four drilling rigs (two to three in the Permian Basin and one in the Eagle Ford) and one to two completion crews focused on a high-graded set of shorter cycle projects
- Shifting capital allocation to high return, shorter cash cycle projects in the Midland Basin and Eagle Ford Shale while preserving the long-term, co-development strategy in the Delaware Basin
- Forecasted free cash flow¹ generation of \$75 to \$100 million for the balance of the year (second quarter through year-end) assuming no service cost deflation and flat NYMEX prices of \$35/Bbl and \$2.00/MMBtu for the balance of the year
- Assuming \$40/Bbl and \$2.25/MMBtu average NYMEX prices in 2021, no service cost deflation and a capital allocation strategy similar to the revised 2020 program, expectations for over \$100 million of free cash flow¹ in 2021 under an operational capital program of \$400 to \$500 million with the upper end of the range supporting a maintenance capital program and the lower end of the range resulting in modestly lower year-over-year production volumes

Joe Gatto, President and Chief Executive Officer commented, "Our ability to pivot quickly to shorter cycle, less capital-intensive projects reflects Callon's inherent optionality across our expanded pro forma portfolio. This will allow us to continue with capital efficient, scaled development, while also focusing on a program that shortens cash conversion cycles in a lower commodity price environment. Our differentiated development model is underpinned by 'flexibility with continuity', optimizing near-term returns without sacrificing long-term value

or the balance sheet. The diversification of our asset base means that we can and will stay true to our strategy of large scale, co-development of our Delaware position. Although we will be reducing the amount of activity in the near-term, our opportunity set will be preserved for future development and not be compromised by near-term high grading at the expense of optimal multi-zone development over time. Moreover, Callon's enhanced, pro forma scale affords us the ability to preserve the cost and cycle time efficiencies that are driven by the key tenets of scaled development—namely, the deployment of simultaneous operations and the continuous utilization of drilling rigs and completion crews—despite the substantial reduction in our planned capital spend. Lastly and most importantly, our rapid shift in capital allocation gives us the free cash flow profile to reduce absolute leverage and protect our financial position. We will continue to adapt to any changes in the commodity price environment with the same vigor, discipline and priorities in the coming months. On a final note, we have instituted a company-wide work policy grounded in a remote workplace and social distancing to protect our employees, reduce potential COVID-19 transmission risks and maintain business continuity for our operations."

Callon plans to provide additional detail on updated guidance for 2020 as part of its first quarter conference call and, as such, the 2020 guidance issued on February 26th should no longer be relied upon.

Operational Update

Callon successfully implemented several previously announced operational enhancements as part of its recent large-scale projects in the Delaware Basin and the Eagle Ford Shale. Operational changes for 2020 include: upspacing based on 2019 learnings, a more conservative flowback and reservoir management strategy, and fluid efficiency improvements to further reduce costs and improve well recoveries.

In the Delaware Basin, initial production from the five-well Wally project is currently performing above expectations on a restricted choke. The outperformance of this multi-zone project, which was drilled on 800-foot horizontal spacing, emphasizes the importance of ongoing design modification and inventory preservation through co-development. In the Eagle Ford Shale, initial production from the 16-well Brown Trust project began as scheduled in February and the wells are currently averaging approximately 700 Bbls/d of oil per well (gross) on restricted chokes. Importantly, this project witnessed more than a 50% improvement in average recovery time for shut-in production and a 33% reduction in the aerial range of interference with offset parent wells relative to similarly sized, precedent projects in the area. These improvements are the result of continued optimization of frac design, sequencing and flowback management that will carry into similar multi-well projects scheduled this year.

Liquidity and Hedging Update

At the end of February 2020, Callon's liquidity position was approximately \$700 million, supported by a credit facility with a borrowing base of \$2.5 billion and an elected commitment of \$2.0 billion, and no debt maturities prior to 2023. The Company's net debt to pro forma last quarter annualized adjusted EBITDA² was 2.6x at year-end 2019.

In light of recent market volatility, Callon restructured existing hedge contracts and continues to actively manage its hedge position to provide cash flow certainty at favorable commodity

prices. Over 11 million barrels of three-way collars for the balance of 2020 were recently restructured into swaps, significantly improving downside protection. For the whole of 2020, the Company now holds swap contracts at an average of \$50.31/Bbl for nearly 11 million barrels of oil. Price certainty for natural gas was also increased through the addition of 3.6 million MMBtu in swaps. Callon now has 10 million MMBtu of gas hedged through swap instruments alone in 2020. For additional details on Callon's hedge position as of March 17, 2020, please see the tables below.

	1Q20	2Q20	3Q20	4Q20	FY 2020
WTI NYMEX (Bbls, \$/Bbl)					
Swaps					
Total Volumes	1,522,700	2,984,800	3,022,200	3,383,760	10,913,460
Total Daily Volumes	16,733	32,800	32,850	36,780	29,818
Avg. Swap	\$52.25	\$50.56	\$50.52	\$49.03	\$50.31
Three-way Collars					
Total Volumes	2,222,000	182,000	184,000	-	2,588,000
Total Daily Volumes	24,418	2,000	2,000	-	7,071
Avg. Short Call Price	\$65.26	\$64.63	\$64.63	-	\$65.17
Avg. Long Put Price	\$55.44	\$55.00	\$55.00	-	\$55.38
Avg. Short Put Price	\$44.99	\$39.50	\$39.50	-	\$44.22
Total WTI Hedged (Bbl)	3,744,700	3,166,800	3,206,200	3,383,760	13,501,460
Average WTI Ceiling Price (\$/Bbl)	\$59.97	\$51.36	\$51.33	\$49.03	\$53.16
Average WTI Floor Price (\$/Bbl)	\$54.14	\$50.81	\$50.77	\$49.03	\$51.28
ICE BRENT (Bbls, \$/Bbl)					
Three-way Collars					
Total Volumes	150,000	227,500	230,000	230,000	837,500
Total Daily Volumes	1,648	2,500	2,500	2,500	2,288
Avg. Short Call Price	\$70.00	\$70.00	\$70.00	\$70.00	\$70.00
Avg. Long Put Price	\$58.24	\$58.24	\$58.24	\$58.24	\$58.24
Avg. Short Put Price	\$50.00	\$50.00	\$50.00	\$50.00	\$50.00
MAGELLAN EAST HOUSTON FIXED PRICE (Bbls/\$/Bbl)					
Swaps					
Total Volumes	-	136,500	184,000	184,000	504,500
Total Daily Volumes	-	1,500	2,000	2,000	1,378
Avg. Swap Price	-	\$59.61	\$58.23	\$57.19	\$58.22
MAGELLAN EAST HOUSTON DIFFERENTIAL VS WTI-CUSHING (Bbls/\$/Bbl)					
Swaps					
Total Volumes	347,000	1,201,201	1,360,802	975,202	3,884,205
Total Daily Volumes	3,813	13,200	14,791	10,600	10,613
Avg. Swap Price	\$2.55	\$2.62	\$2.59	\$2.56	\$2.59
MIDLAND-CUSHING DIFFERENTIAL (Bbls/\$/Bbl)					
Swaps					
Total Volumes	1,901,900	1,965,600	2,217,200	2,392,000	8,476,700
Total Daily Volumes	20,900	21,600	24,100	26,000	23,160
Avg. Swap Price	(\$2.27)	(\$1.84)	(\$1.13)	(\$0.84)	(\$1.47)
NYMEX HENRY HUB (MMBtu, \$/MMBtu)					
Swaps					
Total Volumes	910,000	3,640,000	3,680,000	1,850,000	10,080,000
Total Daily Volumes	10,000	40,000	40,000	20,109	27,541
Avg. Swap Price	\$2.48	\$2.18	\$2.18	\$2.28	\$2.22
Three-way Collars					
Total Volumes	910,000	910,000	920,000	1,835,000	4,575,000
Total Daily Volumes	10,000	10,000	10,000	19,946	12,500
Avg. Short Call Price	\$2.75	\$2.75	\$2.75	\$2.73	\$2.74
Avg. Long Put Price	\$2.50	\$2.50	\$2.50	\$2.46	\$2.48
Avg. Short Put Price	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Total NYMEX Volume Hedged (MMBtu)	1,820,000	4,550,000	4,600,000	3,685,000	14,655,000
Average NYMEX Ceiling Price (\$/MMBtu)	\$2.61	\$2.29	\$2.29	\$2.50	\$2.39
Average NYMEX Floor Price (\$/MMBtu)	\$2.49	\$2.24	\$2.24	\$2.37	\$2.31
WAHA DIFFERENTIAL (MMBtu, \$/MMBtu)					
Swaps					
Total Volumes	5,824,000	6,097,000	6,624,000	6,261,000	24,806,000
Total Daily Volumes	64,000	67,000	72,000	68,054	67,776
Avg. Swap Price	(\$0.99)	(\$1.42)	(\$1.03)	(\$0.81)	(\$1.06)

About Callon Petroleum

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.

Cautionary Statement Regarding Forward Looking Statements

This news release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements include all statements regarding future levels of drilling activity and associated production; the Company's 2020 production guidance, capital expenditure forecast and associated cash flow expectations; and the implementation of the Company's business plans and strategy, as well as statements including the words "believe," "expect," "plans", "may", "will", "should", "could" and words of similar meaning. These statements reflect the Company's current views with respect to future events and financial performance based on management's experience and perception of historical trends, current conditions, anticipated future developments and other factors believed to be appropriate. No assurances can be given, however, that these events will occur or that these projections will be achieved, and actual results could differ materially from those projected as a result of certain factors. Any forward-looking statement speaks only as of the date on 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. Some of the factors which could affect our future results and could cause results to differ materially from those expressed in our forward-looking statements include the volatility of oil and natural gas prices; our ability to drill and complete wells, operational, regulatory and environment risks; the cost and availability of equipment and labor; our ability to finance our activities; the ultimate timing, outcome and results of integrating the operations of Carrizo and Callon; the effects of the business combination of Carrizo and Callon, including the Company's future financial condition, results of operations, strategy and plans; the ability of the combined company to realize anticipated synergies and other benefits in the timeframe expected or at all; and other risks more fully discussed in our filings with the SEC, including our most recent Annual Reports on Form 10-K and subsequent Quarterly Reports on Form 10-Q, available on our website or the SEC's website at www.sec.gov.

Non-GAAP Financial Measures and Reconciliations

Callon calculates adjusted earnings before interest, income taxes, depreciation, depletion and amortization ("Adjusted EBITDA") as net income (loss) before interest expense, income taxes, depreciation, depletion and amortization, asset retirement obligation accretion expense, (gains) losses on derivative instruments excluding net settled derivative instruments, impairment of oil and natural gas properties, non-cash equity based compensation, and other operating expenses. Adjusted EBITDA is not a measure of financial performance under GAAP. Accordingly, it should not be considered as a substitute for net income (loss), operating income (loss), cash flow provided by operating activities or other income or cash flow data prepared in accordance with GAAP. However, the Company believes that Adjusted EBITDA provides additional information with respect to our performance or ability to meet our future debt service, capital expenditures and working capital requirements. Because Adjusted EBITDA excludes some, but not all, items that

affect net income (loss) and may vary among companies, the Adjusted EBITDA presented may not be comparable to similarly titled measures of other companies. For a reconciliation of fourth quarter 2019 adjusted EBITDA, please see our press release dated February 26, 2020.

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¹ Free cash flow calculated as cash flow from operations less capex, capitalized G&A, capitalized interest, contingency payments and transaction costs.

² Net debt to pro forma last quarter annualized adjusted EBITDA is calculated as the sum of total long-term debt less unrestricted cash and cash equivalents, divided by pro forma last quarter annualized adjusted EBITDA. Pro forma adjusted EBITDA includes Carrizo's adjusted EBITDA for the pre-close portion of fourth quarter 2019. Adjusted EBITDA is a non-GAAP financial measure. See "Non-GAAP Financial Measures" included within this release for related disclosures.

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