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Callon Petroleum Announces New Executive Compensation Program and GHG Emissions Reduction Targets

HOUSTON, March 30, 2021 /PRNewswire/ -- Callon Petroleum Company (NYSE: CPE) ("Callon" or the "Company") today announced the adoption of new environmental, social and governance ("ESG") initiatives, including an updated executive compensation program to better align with investor priorities and new commitments to quantitative greenhouse gas ("GHG") emissions reduction targets.

2021 Compensation Program Highlights

- A refreshed executive compensation program aligned with sustained delivery of free cash flow, returns, reduced leverage, and ESG performance
- Reductions in overall compensation opportunities led by a 17.5% reduction in target long-term incentive ("LTI") value for the CEO, which lowered his total target compensation by 12.5%, and a 12.5% reduction in annual compensation for directors
- New annual bonus framework that prioritizes financial performance and ESG initiatives, eliminates traditional operational and growth metrics, and caps payouts at target in the event of negative total shareholder return ("TSR")
- New LTI program that maintains a 60% weighting on performance-based LTI with performance units tied to free cash flow and return on capital employed ("ROCE") performance over a three-year period

New GHG Emissions Targets

- Adoption of medium-term quantitative environmental goals to be achieved by 2025 including: (1) a 40%-50% reduction in GHG emissions intensity vs. pro forma 2019 results, (2) the reduction of flared gas to less than 2% of gas produced, and (3) the elimination of all routine field gas flaring
- Progress on the stated initiatives will be factored into the annual incentive compensation program for 2021

"The board of directors and leadership team at Callon have been focused on implementing changes to the business, both functionally and strategically, that support a sustainable, returns-driven entity that creates shareholder value. As part of our focus on strong governance, we have thoughtfully developed a new executive compensation program that aligns management incentives with investor priorities for our industry and for Callon. Our corporate goals of meaningful free cash flow generation, absolute debt reduction and returns on capital are reflected in the compensation criteria and provide a direct link between pay and financial performance that will contribute to improving investor returns," said Richard

Flury, Chairman of the Board of Directors.

Joe Gatto, President and CEO added: "Callon is also committed to sustainable and responsible development of our resources by mitigating the risks of climate change. To build on the momentum we created in 2020, we have adopted meaningful goals to further reduce flaring and greenhouse gas emissions by 2025."

Executive Compensation Framework Tied to Sustained Financial & ESG Performance

Following a comprehensive review of its compensation structure, in the first quarter of 2021 the Company adopted a leading-edge compensation program to incentivize sustainable results aligned with investor priorities. The 2021 program includes reductions to target pay levels for executives and directors:

- The target LTI value for the CEO was reduced by 17.5%, which lowered his total target compensation by 12.5%
- The target LTI value for the other executive officers was reduced by an average of more than 10%
- Annual compensation for directors was reduced by 12.5%

Within the refreshed program, the 2021 annual incentive compensation framework has been redesigned to:

- Focus on pay-for-performance by maintaining 80% weighting on quantitative metrics
- Prioritize financial performance by increasing the weighting for financial metrics to 65% in aggregate, including leverage, cash return on capital invested, total corporate cash margin, and relative total shareholder return ("TSR") comparison to a broader energy index ("XOP")
- Demonstrate our ESG value proposition by introducing a quantitative ESG category (weighted 15%) focused on flaring, safety and spills, plus a qualitative assessment tied to sustained progress towards the greenhouse gas reduction targets described below; and
- Align payouts with the shareholder experience by including a relative TSR metric and capping bonus payouts at target if absolute TSR is negative for the year.

The long-term incentive program includes restricted stock units (40% weighting) and new cash performance units ("CPUs") (60% weighting) that are aligned with the Company's focus on achieving sustainable free cash flow and returns that are competitive both within and outside the energy industry. The value of the CPUs at vesting will be determined by the Company's annual adjusted free cash flow performance relative to goals established by the Compensation Committee and average annual ROCE over the three-year performance period.

Additional details regarding the Company's updated executive compensation program are available in our preliminary proxy statement, which was filed with the SEC on March 22, 2021.

Environmental Performance & Commitments

The Company is actively working to reduce its carbon footprint and address the risks of

climate change. During 2020, we advanced several initiatives to improve environmental performance by expanding access to gas gathering capacity, improving compressor reliability, and connecting facilities to electric power substations. Callon also confirms our established practice to have no routine flaring on new well completions. As a result of these efforts, we made significant progress in environmental performance in 2020 relative to pro forma 2019 results by:

- Reducing flared gas volumes by 40% and
- Reducing GHG emissions intensity by over 20%

The Company remains committed to continued GHG emissions reductions and has adopted the following medium-term quantitative objectives to be achieved by 2025:

- Reduce GHG emissions intensity by 40-50% relative to pro forma 2019 results
- Reduce flared gas to less than 2% of gas produced
- Eliminate any remaining routine flaring

As noted above, the Compensation Committee has incorporated progress towards these medium-term environmental objectives into the Company's 2021 annual incentive compensation framework.

The Company will provide additional detail on these and other environmental achievements and initiatives in its 2020 sustainability report, which it expects to issue by mid-year 2021.

About Callon Petroleum Company

Callon Petroleum 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.

This news release is posted on the Company's website at www.callon.com and will be archived there for subsequent review under the "News" link on the top of the homepage.

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 environmental performance, greenhouse gas emissions and flaring goals and initiatives, 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 performance based on management's experience and 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 oil and gas industry conditions; changes in the supply of and demand for oil and natural gas; our ability to drill and complete wells; operational, regulatory and environment risks; the cost and availability of equipment and labor; access to pipelines and other facilities; our ability to finance our activities; 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.

Contact:

Mark Brewer
Director of Investor Relations
Callon Petroleum Company
ir@callon.com
1-281-589-5200

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