

# SUSTAINABILITY AT CALLON PETROLEUM

At Callon, our commitment to our shareholders is simple: create value in a responsible manner. Our focus on integrating sustainable business practices and achieving long-term results drives our operations. In alignment with these goals, our Board of Directors oversees the company's safety and environmental policies, development of a positive corporate culture and an effective corporate governance program. To ensure that sustainability matters remain a priority at Callon, the independent Nominating and Corporate Governance Committee of our Board has direct oversight responsibility for our ESG policies and performance for the development of Company positions related to stakeholder concerns and emerging issues that affect our industry. The entire Callon team is committed to improving returns for our shareholders while positively impacting the communities in which we live and work.

Our corporate focus is anchored by five core values: **Responsibility, Integrity, Drive, Respect** and **Excellence**.

## Environmental

Callon is committed to safeguarding the environment and conducting our business in a manner designed to comply with applicable environmental laws and regulations and apply responsible standards where such laws or regulations do not exist. We have adopted a Safety and Environmental Policy that sets forth our operating principles and our expectations of Callon employees and contractors to operate safely, responsibly and in an environmentally sound manner.



WATER

Protecting local water supplies and minimizing our use of fresh water resources are high priorities in our operations.

**2x** recycled water volumes from 2018, further reducing environmental impact from operations

**<20%** permitted water infrastructure utilization rate in Permian Basin minimizes future environmental impact

**60%** produced water sourced for Delaware completions

(1) Based on flaring intensity MCF/Bbl as defined by the Texas Railroad Commission (TX RRC). TX RRC defines flare intensity as gross daily flare volumes divided by gross daily oil production.



AIR

As part of our environmental program, Callon monitors and seeks to reduce greenhouse gas (GHG) and other emissions from our operations.

All of the drilling rigs operating on Callon assets are dual-fuel rigs, which reduce greenhouse gas emissions in our operations.

Eliminated diesel-powered generators as a primary source of power and in doing so lowered our emissions and operating costs.

**>40%** reduction in gas flaring intensity<sup>(1)</sup>



LAND

At Callon, we strive to be good stewards of the environment and minimize our impact in the areas where we operate.

Decreased total fluid spill rate by **~50%**

**>2x** increase in average project size in 2020 minimizes surface impact

**>90%** of crude and water transported via pipeline

## Social

Callon values the perspectives of all stakeholders including employees, contractors, local communities and shareholders. We are focused on protecting, empowering and developing our team members and contributing meaningfully to the communities where we live and work. For us, corporate stewardship is not just a financial obligation, but a social duty as well.



### Safety

At Callon, protecting our people and our communities is our top priority. We believe that a strong safety culture is tantamount to being a leading operator in the exploration and production (E&P) business.



50% reduction in Total Recordable Incident Rate (TRIR) (2019 best year on record for safety performance)



### Workforce

#### BUILDING A TOP PLACE TO WORK

At Callon, a goal is to assemble and inspire a team of passionate and innovative professionals in an environment where they can achieve their professional goals. We empower our employees and engage team members in decision-making at every level while recognizing contributions to our success. This unique environment has helped us achieve top-tier engagement scores, resulting in Callon being named a Top Workplace by Houston Chronicle in 2017 (small company), 2018 (mid-size company), and 2019 (mid-size company).



#### EMBRACING DIVERSE BACKGROUNDS AND PERSPECTIVES

At Callon, we value the diversity of our employees and their contributions. We are firmly committed to fostering an inclusive environment and providing equal opportunity to all qualified persons.



MINORITY EMPLOYEES IN 2020



### Community

#### OPERATING IN LOCAL COMMUNITIES

When our assets necessitate development projects near populated areas, we make every effort to mitigate the impact of our activities and work closely with city officials and neighboring landowners to proactively address considerations such as: noise, traffic, greenhouse gas emissions, and liquid spill prevention

#### SUPPORTING LOCAL COMMUNITIES

Callon has a longstanding history of supporting the local communities in which we operate. It is our privilege to make a positive impact through charitable giving and volunteerism to support key initiatives to support education, community, and the environment.

We also sponsor a charitable matching program to support our employees' philanthropic priorities.

## Governance

At Callon, we are committed to high ethical standards and effective and sustainable corporate governance. We believe this commitment promotes the long-term interests of our shareholders, helps build public trust in our Company and strengthens Board and management accountability. We continually assess our governance principles to ensure that we are operating our business responsibly, ethically and in a manner aligned with the interests of our shareholders. Our CD&A beginning on page 36 provides additional information on governance practices for executive compensation.

Our Board expanded the scope of our independent Nominating & Corporate Governance committee to enhance oversight of the Company's ESG policies, performance and disclosure.

**Two female** directors

**Less than five year tenure** for over half the directors

**Independent**, non-executive director serves as chair of the Board

## Areas of Board Oversight

### Board Risk Oversight

As an independent oil and gas company, we face a number of risks. Assessing and managing material risk is the responsibility of our management team, while the Board, as a whole and through its committees, generally oversees risk management and our long-term strategic direction, ensuring that risks undertaken by the Company are consistent with the Board's risk tolerance. The Board leadership structure and our practice of a high degree of interaction between our directors and members of senior management facilitate this oversight function. Our executive officers regularly attend the Board meetings and are available to address any questions or concerns raised by the Board related to risk management and any other matters. Other members of our management team periodically attend the Board meetings or are otherwise available to confer with the Board to the extent their expertise is required to address risk management matters. The information flow and communication throughout the year between the Board and senior management regarding long-term strategic planning and short-term operational reporting includes matters of material risk inherent in our business of developing oil and natural gas assets. The Board realizes, however, that it is not possible or prudent to eliminate all risk and that appropriate risk-taking is essential in order to achieve our near and longer-term objectives.

While the Board is ultimately responsible for risk oversight, the Board exercises additional risk oversight responsibilities through its committees, which are comprised solely of independent directors. Each such committee has primary risk oversight responsibility with respect to matters within the scope of its duties as contemplated by its charter and as described below.

### Standing Committees of the Board of Directors

The Board has four standing committees, each of which is comprised entirely of independent directors. Each committee, discussed below in greater detail, has a written charter that establishes the responsibilities and scope of the committee and its Chairman. Each committee charter was reviewed in November 2019 and revised as deemed necessary by the Board.



# EXECUTIVE COMPENSATION

## Recent Market Disruption and Callon's Response

Consistent with regulatory requirements, the below CD&A highlights our historic performance and executive compensation decisions for 2019. In light of the precipitous decline in commodity prices in recent weeks due to substantial demand destruction from the global outbreak of the COVID-19 virus and concurrent supply-related decisions by OPEC+ producers, Callon's Board and management team are taking proactive steps to reduce costs and revise our plans to realign with the macroeconomic outlook. On April 16, 2020, Callon announced certain cost-saving measures including the following voluntary compensation reductions:

- Board members agreed to reduce their total compensation by 35%;
- Chief Executive Officer agreed to reduce his salary by 20% and his total target cash compensation by 35%; and
- All other officers agreed to reduce their total target cash compensation by at least 25%, including salary reductions of 15% and 10% by senior vice presidents and vice presidents, respectively.

The Board and management will continue to evaluate the Company's executive compensation and incentive programs in light of the volatility and uncertainty in financial and commodity markets, and next year's CD&A will discuss and describe the eventual realized compensation from the performance periods that conclude at the end of 2020.

## Compensation Discussion and Analysis

The Company's executive compensation program is designed to reward the management team for delivering results consistent with our long-term strategic objectives. The Compensation Committee (referred to in this section as the "Committee") strives to evolve Callon's compensation program each year to reflect shifts in shareholder priorities, most recently the focus on returns on capital and free cash flow over production growth, and governance best practices. The following CD&A describes the actions taken by the Committee in 2019 related to our executive compensation programs.

### Key Committee Actions for 2019

- Instituted a formulaic approach for the Company's annual incentive compensation program with a 60/40 weighting of quantitative/qualitative factors that included shareholder priorities of corporate-level returns, capital efficiency, cash flow, balance sheet strength and ESG performance
- Revised our peer group, used as the basis for evaluating the competitiveness of compensation opportunities and relative long-term TSR performance, in light of the Company's growth and industry consolidation
- Assessed the annual salaries and incentive compensation opportunities of the CEO and other NEOs based on their experience, performance and growth in their roles, as well as competitive market data
- Talented workforce with growing technical expertise identifies with a culture of responsibility and adaptability in a cyclical commodity business
- Conducted a review of long-term incentive program design, resulting in the addition of an absolute TSR modifier to the PSUs granted in January 2020 to further align long-term incentives with absolute shareholder returns
- Developed the framework for a peer-leading Clawback Policy (adopted in January 2020), which allows the Committee to recoup previously-paid compensation in event of error, fraud, misconduct, or certain other circumstances