

**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 June 30, 2022

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 61,709,682 shares of common stock outstanding as of July 29, 2022.

For certain industry specific terms used in this Form 10-Q, please see “Glossary of Certain Terms” in our Annual Report on Form 10-K for the year ended December 31, 2021 (“2021 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)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$6,100	\$9,882
Accounts receivable, net	360,955	232,436
Fair value of derivatives	—	22,381
Other current assets	37,960	30,745
Total current assets	405,015	295,444
Oil and natural gas properties, full cost accounting method:		
Evaluated properties, net	3,573,282	3,352,821
Unevaluated properties	1,876,531	1,812,827
Total oil and natural gas properties, net	5,449,813	5,165,648
Other property and equipment, net	26,332	28,128
Deferred financing costs	14,961	18,125
Other assets, net	52,209	40,158
Total assets	\$5,948,330	\$5,547,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$606,093	\$569,991
Fair value of derivatives	301,362	185,977
Other current liabilities	134,581	116,523
Total current liabilities	1,042,036	872,491
Long-term debt	2,516,337	2,694,115
Asset retirement obligations	57,427	54,458
Fair value of derivatives	21,251	11,409
Other long-term liabilities	51,942	49,262
Total liabilities	3,688,993	3,681,735
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value, 130,000,000 and 78,750,000 shares authorized; 61,715,672 and 61,370,684 shares outstanding, respectively	617	614
Capital in excess of par value	4,018,178	4,012,358
Accumulated deficit	(1,759,458)	(2,147,204)
Total stockholders' equity	2,259,337	1,865,768
Total liabilities and stockholders' equity	\$5,948,330	\$5,547,503

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating Revenues:				
Oil	\$619,812	\$333,442	\$1,173,061	\$600,487
Natural gas	64,913	24,080	108,889	48,300
Natural gas liquids	75,530	36,625	143,148	65,982
Sales of purchased oil and gas	153,365	46,252	265,740	85,511
Total operating revenues	913,620	440,399	1,690,838	800,280
Operating Expenses:				
Lease operating	72,940	46,460	140,268	86,913
Production and ad valorem taxes	44,873	21,958	82,551	40,397
Gathering, transportation and processing	23,267	20,031	44,042	38,012
Cost of purchased oil and gas	155,397	49,249	266,668	90,166
Depreciation, depletion and amortization	109,409	83,128	212,388	154,115
General and administrative	10,909	11,065	28,030	27,864
Merger, integration and transaction	—	—	769	—
Total operating expenses	416,795	231,891	774,716	437,467
Income From Operations	496,825	208,508	916,122	362,813
Other (Income) Expenses:				
Interest expense, net of capitalized amounts	20,691	24,634	42,249	49,050
Loss on derivative contracts	81,648	190,463	439,948	404,986
Loss on extinguishment of debt	42,417	—	42,417	—
Other (income) expense	1,051	5,584	269	2,278
Total other expense	145,807	220,681	524,883	456,314
Income (Loss) Before Income Taxes	351,018	(12,173)	391,239	(93,501)
Income tax benefit (expense)	(3,009)	478	(3,493)	1,399
Net Income (Loss)	\$348,009	(\$11,695)	\$387,746	(\$92,102)
Net Income (Loss) Per Common Share:				
Basic	\$5.64	(\$0.25)	\$6.30	(\$2.07)
Diluted	\$5.62	(\$0.25)	\$6.26	(\$2.07)
Weighted Average Common Shares Outstanding:				
Basic	61,679	46,267	61,583	44,439
Diluted	61,909	46,267	61,956	44,439

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, 2021	61,371	\$614	\$4,012,358	(\$2,147,204)	\$1,865,768
Net income	—	—	—	39,737	39,737
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	(\$2,107,467)	\$1,914,590
Net income	—	—	—	348,009	348,009
Restricted stock units	244	2	(1,901)	—	(1,899)
Common stock issued for Primexx Acquisition	(22)	—	(1,363)	—	(1,363)
Balance at June 30, 2022	61,716	\$617	\$4,018,178	(\$1,759,458)	\$2,259,337
	Common Stock		Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity
	Shares	\$			
Balance at December 31, 2020	39,759	\$398	\$3,222,959	(\$2,512,355)	\$711,002
Net loss	—	—	—	(80,407)	(80,407)
Restricted stock units	13	—	2,609	—	2,609
Warrant exercises	6,385	64	134,754	—	134,818
Balance at March 31, 2021	46,157	\$462	\$3,360,322	(\$2,592,762)	\$768,022
Net loss	—	—	—	(11,695)	(11,695)
Restricted stock units	132	1	960	—	961
Balance at June 30, 2021	46,289	\$463	\$3,361,282	(\$2,604,457)	\$757,288

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

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

	Six Months Ended June 30,	
	2022	2021
Cash flows from operating activities:		
Net income (loss)	\$387,746	(\$92,102)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	212,388	154,115
Amortization of non-cash debt related items, net	3,201	4,508
Loss on derivative contracts	439,948	404,986
Cash paid for commodity derivative settlements, net	(287,922)	(127,571)
Loss on extinguishment of debt	42,417	—
Non-cash expense related to share-based awards	956	12,887
Other, net	5,200	4,511
Changes in current assets and liabilities:		
Accounts receivable	(130,394)	(67,357)
Other current assets	(7,497)	(7,423)
Accounts payable and accrued liabilities	(18,940)	26,714
Cash received for settlements of contingent consideration arrangements, net	6,492	—
Net cash provided by operating activities	653,595	313,268
Cash flows from investing activities:		
Capital expenditures	(413,939)	(251,003)
Acquisition of oil and gas properties	(15,945)	(2,215)
Proceeds from sales of assets	4,590	31,611
Cash paid for settlement of contingent consideration arrangement	(19,171)	—
Other, net	8,709	4,220
Net cash used in investing activities	(435,756)	(217,387)
Cash flows from financing activities:		
Borrowings on Credit Facility	1,724,000	736,500
Payments on Credit Facility	(1,730,000)	(846,500)
Issuance of 7.50% Senior Notes due 2030	600,000	—
Redemption of 6.125% Senior Notes due 2024	(467,287)	—
Redemption of 9.00% Second Lien Senior Secured Notes due 2025	(339,507)	—
Cash received for settlement of contingent consideration arrangement	8,512	—
Payment of deferred financing costs	(10,542)	—
Other, net	(6,797)	(2,317)
Net cash used in financing activities	(221,621)	(112,317)
Net change in cash and cash equivalents	(3,782)	(16,436)
Balance, beginning of period	9,882	20,236
Balance, end of period	\$6,100	\$3,800

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

Index to the Notes to the Consolidated Financial Statements

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Note 1 - Description of Business and Basis of Presentation

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 and repeatable cash flow-generating business in the Eagle Ford.

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 2021 Annual Report and are supplemented by the notes included in this Quarterly Report on Form 10-Q. The financial statements and related notes included in this report should be read in conjunction with the Company's 2021 Annual Report.

Recently Adopted Accounting Standards

In August 2020, the FASB issued ASU No. 2020-06, Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40) ("ASU 2020-06"). ASU 2020-06 was issued to reduce the complexity associated with accounting for certain financial instruments with characteristics of liabilities and equity. The guidance is to be applied using either a modified retrospective or a fully retrospective method. ASU 2020-06 is effective for fiscal years beginning after December 15, 2021, with early adoption permitted. The Company adopted ASU 2020-06 on January 1, 2022. The adoption of ASU 2020-06 did not have a material impact to the Company's consolidated financial statements or disclosures.

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04") followed by ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope ("ASU 2021-01"), issued in January 2021 to provide clarifying guidance regarding the scope of Topic 848. ASU 2020-04 was issued to provide optional guidance for a limited period of time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting. Generally, the guidance is to be applied as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. ASU 2020-04 and ASU 2021-01 are effective for all entities through December 31, 2022. In April 2022, the FASB proposed to extend the effective date through December 31, 2024; however, a final ruling has not been issued. As of June 30, 2022, the Company has not elected to use the optional guidance and continues to evaluate the options provided by ASU 2020-04 and ASU 2021-01. Please refer to "Note 6 - Borrowings" for discussion of the use of the adjusted LIBO rate in connection with borrowings under the Company's Credit Facility (as defined below).

Subsequent Events

The Company evaluates subsequent events through the date the financial statements are issued.

Note 2 - 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 in the consolidated statements of operations. See “Note 3 - Revenue Recognition” of the Notes to Consolidated Financial Statements in the 2021 Annual Report for more information regarding the types of contracts under which oil, natural gas, and NGL production revenue is generated.

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 June 30, 2022 and December 31, 2021 of \$274.5 million and \$171.8 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 3 - Acquisitions and Divestitures

2021 Acquisitions and Divestitures

Primexx Acquisition

On October 1, 2021, the Company closed on the acquisition of certain producing oil and gas properties, undeveloped acreage and associated infrastructure assets in the Delaware Basin from Primexx Resource Development, LLC (“Primexx”) and BPP Acquisition, LLC (“BPP”) for an adjusted purchase price of approximately \$444.8 million in cash, inclusive of the deposit paid at signing, 8.84 million shares of the Company’s common stock and approximately \$25.2 million paid upon final closing for total consideration of \$880.8 million (the “Primexx Acquisition”), subject to potential adjustments for applicable indemnification claims as discussed below. The Company funded the cash portion of the total consideration with borrowings under its Credit Facility. Of the 8.84 million shares of the Company’s common stock issued upon closing, 2.6 million shares were held in escrow pursuant to the purchase and sale agreements with Primexx and BPP (collectively, the “Primexx PSAs”). Pursuant to the Primexx PSAs, 50% of the shares held in escrow were released six months after the closing date, which was on April 1, 2022, and the remaining shares will be released twelve months after the closing date, which will be on October 1, 2022, in each case subject to holdback for the satisfaction of any applicable indemnification claims that may be made under the Primexx PSAs.

Also, pursuant to the Primexx PSAs, certain interest owners exercised their option to sell their interest in the properties included in the Primexx Acquisition to the Company for consideration structured similarly to the Primexx Acquisition, for an incremental purchase price totaling approximately \$31.8 million, net of customary purchase price adjustments, of which \$10.7 million closed during the first quarter of 2022.

The Primexx Acquisition was accounted for as a business combination; therefore, the purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated acquisition date fair values with information available at that time. A combination of a discounted cash flow model and market data was used by a third-party specialist in determining the fair value of the oil and gas properties. Significant inputs into the calculation included future commodity prices, estimated volumes of oil and gas reserves, expectations for timing and amount of future development and operating costs, future plugging and abandonment costs and a

risk adjusted discount rate. Certain data necessary to complete the purchase price allocation is not yet available. The Company expects to complete the purchase price allocation during the 12-month period following the acquisition date.

The following table sets forth the Company's preliminary allocation of the total estimated consideration of \$912.7 million to the assets acquired and liabilities assumed as of the acquisition date.

	Preliminary Purchase Price Allocation
	(In thousands)
Assets:	
Other current assets	\$10,250
Evaluated oil and natural gas properties	685,478
Unevaluated properties	278,222
Total assets acquired	<u>\$973,950</u>
Liabilities:	
Suspense payable	\$16,447
Other current liabilities	33,482
Asset retirement obligation	1,898
Other long-term liabilities	9,425
Total liabilities assumed	<u>\$61,252</u>
Total consideration	<u><u>\$912,698</u></u>

Approximately \$170.4 million and \$308.5 million of revenues and \$36.9 million and \$65.7 million of direct operating expenses attributed to the Primexx Acquisition are included in the Company's consolidated statements of operations for the three and six months ended June 30, 2022, respectively.

Pro Forma Operating Results (Unaudited). The following unaudited pro forma combined condensed financial data for the year ended December 31, 2021 was derived from the historical financial statements of the Company giving effect to the Primexx Acquisition, as if it had occurred on January 1, 2020. The below information reflects pro forma adjustments for the issuance of the Company's common stock and the borrowings under the Credit Facility as total consideration, as well as pro forma adjustments based on available information and certain assumptions that the Company believes provide a reasonable basis for reflecting the significant pro forma effects directly attributable to the Primexx Acquisition.

The pro forma consolidated statements of operations data has been included for comparative purposes only and is not necessarily indicative of the results that might have occurred had the Primexx Acquisition taken place on January 1, 2020 and is not intended to be a projection of future results.

	For the Year Ended December 31, 2021
	(In thousands)
Revenues	\$2,294,893
Income from operations	1,151,493
Net income	482,690
Basic earnings per common share	\$8.37
Diluted earnings per common share	\$8.13

Non-Core Asset Divestitures

During 2021, we completed divestitures of certain non-core assets in the Delaware Basin, Midland Basin, and Eagle Ford Shale as well as the divestiture of certain non-core water infrastructure for total net proceeds of \$179.9 million. The aggregate net proceeds for each of the 2021 divestitures were recognized as a reduction of evaluated oil and gas properties with no gain or loss recognized as the divestitures did not significantly alter the relationship between capitalized costs and estimated proved reserves. For additional discussion, see "Note 4 - Acquisitions and Divestitures" of the Notes to Consolidated Financial Statements in the 2021 Annual Report.

Note 4 - Property and Equipment, Net

As of June 30, 2022 and December 31, 2021, total property and equipment, net consisted of the following:

	June 30, 2022	December 31, 2021
Oil and natural gas properties, full cost accounting method	(In thousands)	
Evaluated properties	\$9,667,447	\$9,238,823
Accumulated depreciation, depletion, amortization and impairments	(6,094,165)	(5,886,002)
Evaluated properties, net	3,573,282	3,352,821
Unevaluated properties		
Unevaluated leasehold and seismic costs	1,570,069	1,557,453
Capitalized interest	306,462	255,374
Total unevaluated properties	1,876,531	1,812,827
Total oil and natural gas properties, net	\$5,449,813	\$5,165,648
Other property and equipment	\$57,201	\$58,367
Accumulated depreciation	(30,869)	(30,239)
Other property and equipment, net	\$26,332	\$28,128

The Company capitalized internal costs of employee compensation and benefits, including share-based compensation, directly associated with acquisition, exploration and development activities totaling \$11.3 million and \$12.1 million for the three months ended June 30, 2022 and 2021, respectively, and \$22.9 million and \$23.3 million for the six months ended June 30, 2022 and 2021, respectively.

The Company capitalized interest costs to unproved properties totaling \$26.3 million and \$23.9 million for the three months ended June 30, 2022 and 2021, respectively, and \$51.8 million and \$47.9 million for the six months ended June 30, 2022 and 2021, respectively.

Note 5 - 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 and unexercised warrants outstanding during the periods presented, as calculated using the treasury stock method, unless their effect is anti-dilutive. For the three and six months ended June 30, 2021, 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 for those periods.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In thousands, except per share amounts)			
Net Income (Loss)	\$348,009	(\$11,695)	\$387,746	(\$92,102)
Basic weighted average common shares outstanding	61,679	46,267	61,583	44,439
Dilutive impact of restricted stock units	230	—	373	—
Diluted weighted average common shares outstanding	61,909	46,267	61,956	44,439
Net Income (Loss) Per Common Share				
Basic	\$5.64	(\$0.25)	\$6.30	(\$2.07)
Diluted	\$5.62	(\$0.25)	\$6.26	(\$2.07)
Restricted stock units ⁽¹⁾	26	140	12	882
Warrants ⁽¹⁾	345	1,066	336	3,433

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

Note 6 - Borrowings

The Company's borrowings consisted of the following:

	June 30, 2022	December 31, 2021
	(In thousands)	
6.125% Senior Notes due 2024	\$—	\$460,241
Senior Secured Revolving Credit Facility due 2024	779,000	785,000
9.00% Second Lien Senior Secured Notes due 2025	—	319,659
8.25% Senior Notes due 2025	187,238	187,238
6.375% Senior Notes due 2026	320,783	320,783
8.00% Senior Notes due 2028	650,000	650,000
7.50% Senior Notes due 2030	600,000	—
Total principal outstanding	2,537,021	2,722,921
Unamortized premium on 6.125% Senior Notes	—	2,373
Unamortized discount on 9.00% Second Lien Notes	—	(14,852)
Unamortized premium on 8.25% Senior Notes	2,096	2,477
Unamortized deferred financing costs for Second Lien Notes	—	(2,910)
Unamortized deferred financing costs for Senior Unsecured Notes	(22,780)	(15,894)
Total carrying value of borrowings ⁽¹⁾	\$2,516,337	\$2,694,115

(1) Excludes unamortized deferred financing costs related to the Company's senior secured revolving credit facility of \$ 15.0 million and \$ 18.1 million as of June 30, 2022 and December 31, 2021, 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 June 30, 2022, had a maximum credit amount of \$5.0 billion, a borrowing base and elected commitment amount of \$1.6 billion, with borrowings outstanding of \$779.0 million at a weighted-average interest rate of 4.16%, and letters of credit outstanding of \$16.4 million. The credit agreement governing the Credit Facility provides for interest-only payments until December 20, 2024 when the credit agreement matures and any outstanding borrowings are due. The Credit Facility is secured by first preferred mortgages covering the Company's major producing properties.

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 2, 2022, as part of the Company's spring 2022 redetermination, the borrowing base and elected commitment amount of \$1.6 billion were reaffirmed.

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 1.00% to 2.00%, where the base rate is defined as the greatest of the prime rate, the federal funds rate plus 0.50% and the adjusted LIBO rate plus 1.00%, or (ii) an adjusted LIBO rate for a Eurodollar loan plus a margin between 2.00% to 3.00%. 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, net of capitalized amounts" in the consolidated statements of operations.

Issuance of 7.50% Senior Notes and Redemption of 6.125% Senior Notes and Second Lien Notes

On June 9, 2022, the Company entered into a Purchase Agreement pursuant to which it agreed to issue and sell \$600.0 million in aggregate principal amount of 7.50% senior unsecured notes due 2030 (the "7.50% Senior Notes") in a private placement, which closed on June 24, 2022, for proceeds of approximately \$588.0 million, net of underwriting discounts and commissions. The 7.50% Senior Notes mature on June 15, 2030 and interest is payable semi-annually each June 15 and December 15, commencing on December 15, 2022.

At any time prior to June 15, 2025, the Company may, from time to time, redeem up to 35% of the aggregate principal amount of the 7.50% Senior Notes in an amount of cash not greater than the net cash proceeds from certain equity offerings at the redemption price of 107.50% of the principal amount, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption, if at least 65% of the aggregate principal amount of the 7.50% Senior Notes remains outstanding after such redemption and the redemption occurs within 180 days of the closing date of such equity offering. Prior to June 15, 2025, the Company may, at its option, on any one or more occasions, redeem all or a portion of the 7.50% Senior Notes at 100.00% of the principal amount plus an applicable make-whole premium and accrued and unpaid interest. On or after June 15, 2025, the Company may redeem all or a portion of the 7.50% Senior Notes at redemption prices decreasing annually from 103.75% to 100.00% of the principal amount redeemed plus accrued and unpaid interest. Upon the occurrence of certain kinds of change of control that are accompanied by a ratings decline, each holder of the 7.50%

Senior Notes may require the Company to repurchase all or a portion of such holder's 7.50% Senior Notes for cash at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest.

Also on June 9, 2022, the Company directed the trustee of the 6.125% Senior Notes due 2024 (the "6.125% Senior Notes") and the 9.00% Second Lien Senior Secured Notes due 2025 (the "Second Lien Notes") to deliver redemption notices with respect to all \$460.2 million of its outstanding 6.125% Senior Notes and all \$319.7 million of its outstanding Second Lien Notes. On June 24, 2022, the Company deposited with the trustee the proceeds from the offering of the 7.50% Senior Notes, along with borrowings under the Credit Facility, to redeem all of its outstanding 6.125% Senior Notes and Second Lien Notes. The Company recognized a loss on extinguishment of debt of approximately \$42.4 million in its consolidated statements of operations as a result of the redemptions, which primarily related to redemption premiums and the write-off of the remaining unamortized premium associated with the 6.125% Senior Notes, partially offset by the write-offs of the remaining unamortized discount associated with the Second Lien Notes and deferred financing costs.

Covenants

The Company's credit agreement governing the Credit Facility and the indentures governing the 8.25% Senior Notes, the 6.375% Senior Notes, the 8.00% Senior Notes and the 7.50% Senior Notes (collectively, the "Senior Unsecured 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 governing the Credit Facility) of no more than 4.00 to 1.00 and (2) a Current Ratio (as defined in the credit agreement governing the Credit Facility) of not less than 1.00 to 1.00. The Company was in compliance with these covenants at June 30, 2022.

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 7 - 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, and put and call options 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.

As of June 30, 2022, the Company has outstanding commodity derivative instruments with ten counterparties to minimize its credit exposure to any individual counterparty. All of the counterparties to the Company's commodity derivative instruments are also lenders under the Company's credit agreement. 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 agreement, 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 8 - Fair Value Measurements” for further discussion.

Contingent Consideration Arrangements

The Company met certain oil pricing thresholds for 2021 associated with certain contingent consideration arrangements described in “Note 8 - Derivative Instruments and Hedging Activities” of the Notes to Consolidated Financial Statements in its 2021 Annual Report. Cash received or paid for settlements of contingent consideration arrangements are classified as cash flows from financing activities or cash flows from investing activities, respectively, up to the divestiture or acquisition date fair value, respectively, with any excess classified as cash flows from operating activities. As a result, the Company received \$ 20.8 million, of which \$8.5 million is presented in cash flows from financing activities with the remaining \$12.3 million presented in cash flows from operating activities, and paid \$25.0 million, of which \$19.2 million is presented in cash flows from investing activities with the remaining \$5.8 million presented in cash flows from operating activities, in the first quarter of 2022. Both of these contingent consideration arrangements expired at the end of 2021.

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 “(Gain) loss on derivative contracts” in the consolidated statements of operations. Settlements are also recorded 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 June 30, 2022		
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
	(In thousands)		
Derivative Assets			
Fair value of derivatives - current	\$28,933	(\$28,933)	\$—
Other assets, net	\$11,485	(\$11,485)	\$—
Derivative Liabilities			
Fair value of derivatives - current	(\$330,295)	\$28,933	(\$301,362)
Fair value of derivatives - non-current	(\$32,736)	\$11,485	(\$21,251)
As of December 31, 2021			
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
	(In thousands)		
Assets			
Commodity derivative instruments	\$25,469	(\$23,921)	\$1,548
Contingent consideration arrangements	20,833	—	20,833
Fair value of derivatives - current	\$46,302	(\$23,921)	\$22,381
Commodity derivative instruments	\$1,119	(\$869)	\$250
Contingent consideration arrangements	—	—	—
Other assets, net	\$1,119	(\$869)	\$250
Liabilities			
Commodity derivative instruments ⁽¹⁾	(\$184,898)	\$23,921	(\$160,977)
Contingent consideration arrangements	(25,000)	—	(25,000)
Fair value of derivatives - current	(\$209,898)	\$23,921	(\$185,977)
Commodity derivative instruments	(\$12,278)	\$869	(\$11,409)
Contingent consideration arrangements	—	—	—
Fair value of derivatives - non-current	(\$12,278)	\$869	(\$11,409)

(1) Includes approximately \$2.9 million of deferred premiums, which will be paid as the applicable contracts settle.

The components of “Loss on derivative contracts” are as follows for the respective periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In thousands)			
Loss on oil derivatives	\$75,910	\$177,033	\$401,258	\$326,594
Loss on natural gas derivatives	5,738	12,816	33,919	15,513
Loss on NGL derivatives	—	3,734	4,771	4,872
(Gain) loss on contingent consideration arrangements	—	(3,120)	—	2,617
Loss on September 2020 Warrants liability ⁽¹⁾	—	—	—	55,390
Loss on derivative contracts	\$81,648	\$190,463	\$439,948	\$404,986

(1) Further details of the Company’s September 2020 Warrants and the loss on the associated September 2020 Warrants liability are described in “Note 7 - Borrowings”, “Note 8 - Derivative Instruments and Hedging Activities” and “Note 9 - Fair Value Measurements” of the Notes to Consolidated Financial Statements in its 2021 Annual Report.

The components of “Cash 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In thousands)			
Cash flows from operating activities				
Cash paid on oil derivatives	(\$162,334)	(\$82,413)	(\$257,687)	(\$122,360)
Cash paid on natural gas derivatives	(21,808)	(1,906)	(26,452)	(3,275)
Cash paid on NGL derivatives	(2,255)	(1,090)	(3,783)	(1,936)
Cash paid for commodity derivative settlements, net	(\$186,397)	(\$85,409)	(\$287,922)	(\$127,571)
Cash received for settlements of contingent consideration arrangements, net	\$—	\$—	\$6,492	\$—
Cash flows from investing activities				
Cash paid for settlement of contingent consideration arrangement	\$—	\$—	(\$19,171)	\$—
Cash flows from financing activities				
Cash received for settlement of contingent consideration arrangement	\$—	\$—	\$8,512	\$—

Derivative Positions

Listed in the tables below are the outstanding oil and natural gas derivative contracts as of June 30, 2022:

	For the Remainder 2022	For the Full Year 2023
Oil Contracts (WTI)		
Swap Contracts		
Total volume (Bbls)	3,634,000	1,538,500
Weighted average price per Bbl	\$64.83	\$81.04
Collar Contracts		
Total volume (Bbls)	2,392,000	2,730,000
Weighted average price per Bbl		
Ceiling (short call)	\$70.12	\$87.15
Floor (long put)	\$60.00	\$71.92
Short Call Swaption Contracts⁽¹⁾		
Total volume (Bbls)	—	1,825,000
Weighted average price per Bbl	\$—	\$72.00
Oil Contracts (Midland Basis Differential)		
Swap Contracts		
Total volume (Bbls)	1,196,000	—
Weighted average price per Bbl	\$0.50	\$—

(1) The 2023 short call swaption contracts have exercise expiration dates of December 30, 2022.

	For the Remainder 2022	For the Full Year 2023
Natural Gas Contracts (Henry Hub)		
Swap Contracts		
Total volume (MMBtu)	6,150,000	—
Weighted average price per MMBtu	\$3.62	\$—
Collar Contracts		
Total volume (MMBtu)	5,510,000	6,640,000
Weighted average price per MMBtu		
Ceiling (short call)	\$5.96	\$6.60
Floor (long put)	\$4.21	\$4.48
Natural Gas Contracts (Waha Basis Differential)		
Swap Contracts		
Total volume (MMBtu)	1,220,000	6,080,000
Weighted average price per MMBtu	(\$0.75)	(\$0.75)

Note 8 - 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 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 Company's Second Lien Notes and Senior Unsecured Notes with the fair values measured using quoted secondary market trading prices which are designated as Level 2 within the valuation hierarchy. See "Note 6 - Borrowings" for further discussion.

	June 30, 2022		December 31, 2021	
	Principal Amount	Fair Value	Principal Amount	Fair Value
	(In thousands)			
6.125% Senior Notes	\$—	\$—	\$460,241	\$455,639
9.00% Second Lien Notes	—	—	319,659	343,633
8.25% Senior Notes	187,238	183,025	187,238	184,429
6.375% Senior Notes	320,783	295,409	320,783	309,556
8.00% Senior Notes	650,000	625,144	650,000	663,000
7.50% Senior Notes	600,000	554,466	—	—
Total	\$1,758,021	\$1,658,044	\$1,937,921	\$1,956,257

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 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 7 - 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 June 30, 2022 and December 31, 2021:

	June 30, 2022		
	Level 1	Level 2	Level 3
	(In thousands)		
Commodity derivative liabilities	\$—	(\$322,613)	\$—
	December 31, 2021		
	Level 1	Level 2	Level 3
	(In thousands)		
Assets			
Commodity derivative instruments	\$—	\$1,798	\$—
Contingent consideration arrangements	—	20,833	—
Liabilities			
Commodity derivative instruments ⁽¹⁾	—	(172,386)	—
Contingent consideration arrangements	—	(25,000)	—
Total net assets (liabilities)	\$—	(\$174,755)	\$—

(1) Includes approximately \$2.9 million of deferred premiums, which will be paid as the applicable contracts settle.

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

Acquisitions. The fair value of assets acquired and liabilities assumed are measured as of the acquisition date by a third-party valuation specialist using a combination of income and market approaches, which are not observable in the market and are therefore designated as Level 3 inputs. Significant inputs include expected discounted future cash flows from estimated reserve quantities, estimates for timing and costs to produce and develop reserves, oil and natural gas forward prices, and a risk-adjusted discount rate. See “Note 3 - Acquisitions and Divestitures” for additional discussion.

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 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 9 - Income Taxes

The Company provides for income taxes at the statutory rate of 21%. Reported income tax benefit (expense) differs from the amount of income tax benefit (expense) that would result from applying domestic federal statutory tax rates to pretax income (loss). 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 June 30, 2022 and 2021, the Company’s effective income tax rates were 1% and 4%, respectively. For both the six months ended June 30, 2022 and 2021, the Company’s effective income tax rate was 1%. The primary differences between the effective tax rates for the three and six months ended June 30, 2022 and 2021 and the statutory rate resulted from the valuation allowance recorded against the Company’s net deferred tax assets beginning in the second quarter of 2020 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. A significant item of objective negative evidence considered was the cumulative historical three-year pre-tax loss and a net deferred tax asset position at June 30, 2022, driven primarily by the impairments of evaluated oil and gas properties recognized beginning in the second quarter of 2020 and continuing through the fourth quarter of 2020. This limits the ability to consider other subjective evidence such as the Company’s potential for future growth. Since the second quarter of 2020, based on the evaluation of the evidence available, the Company concluded that it is more likely than

not that the net deferred tax assets will not be realized. As a result, the Company has recorded a valuation allowance, reducing the net deferred tax assets as of June 30, 2022 to zero.

The Company currently believes it is reasonably possible it could achieve a three-year cumulative level of profitability within the next 12 months, which would enhance its ability to conclude that it is more likely than not that the deferred tax assets would be realized and support a release of substantially all or a portion of the valuation allowance. However, the exact timing and amount of the release is unknown at this time. The Company will continue to evaluate whether the valuation allowance is needed in future reporting periods based on available information each reporting period. As long as the Company continues to conclude that the valuation allowance against its net deferred tax assets is necessary, the Company will have no significant deferred income tax expense or benefit. The valuation allowance does not preclude the Company from utilizing the tax attributes if it recognizes taxable income.

Note 10 - 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 six months ended June 30, 2022:

	Six Months Ended June 30, 2022	
	RSU Equity Awards (In thousands)	Weighted Average Grant Date Fair Value
Unvested, beginning of the period	968	\$34.04
Granted	355	\$60.02
Vested	(354)	\$35.28
Forfeited	(42)	\$14.59
Unvested, end of the period	927	\$22.66

Grant activity for the six months ended June 30, 2022 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 \$60.02.

The aggregate fair value of RSU Equity Awards that vested during the six months ended June 30, 2022 was \$21.5 million. As of June 30, 2022, unrecognized compensation costs related to unvested RSU Equity Awards were \$33.2 million and will be recognized over a weighted average period of 2.2 years.

Cash-Settled Awards

No restricted stock units that may be settled in cash ("Cash-Settled RSU Awards") or cash-settled stock appreciation rights ("Cash SARs") were granted to employees during the three or six months ended June 30, 2022 or 2021. The following table summarizes the Company's liabilities for cash-settled awards and the classification in the consolidated balance sheets for the periods indicated:

	June 30, 2022	December 31, 2021
	(In thousands)	
Cash SARs	\$6,306	\$7,884
Cash-Settled RSU Awards	1,287	1,382
Other current liabilities	7,593	9,266
Cash-Settled RSU Awards	1,406	6,366
Other long-term liabilities	1,406	6,366
Total Cash-Settled RSU Awards	\$8,999	\$15,632

Share-Based Compensation Expense (Benefit), Net

Share-based compensation expense associated with the RSU Equity Awards, Cash-Settled RSU Awards, and Cash SARs, net of amounts capitalized, 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(In thousands)			
RSU Equity Awards	\$4,323	\$3,242	\$7,689	\$5,850
Cash-Settled RSU Awards	(3,662)	3,007	(3,425)	7,449
Cash SARs	(4,018)	3,676	(1,578)	8,542
	(3,357)	9,925	2,686	21,841
Less: amounts capitalized to oil and gas properties	147	(4,646)	(1,730)	(8,954)
Total share-based compensation expense (benefit), net	(\$3,210)	\$5,279	\$956	\$12,887

See “Note 10 - Share-Based Compensation” of the Notes to Consolidated Financial Statements in the 2021 Annual Report for details of the Company’s equity-based incentive plans.

Note 11 - Stockholders’ Equity

Increase in Authorized Common Shares

The Company filed an amendment to its certificate of incorporation, which became effective on May 25, 2022, to increase the number of authorized shares of common stock from 78,750,000 to 130,000,000, as approved by the Company’s shareholders at the 2022 Annual Meeting of Shareholders on May 25, 2022.

Note 12 - Accounts Receivable, Net

	June 30, 2022	December 31, 2021
	(In thousands)	
Oil and natural gas receivables	\$274,476	\$171,837
Joint interest receivables	15,434	13,751
Other receivables	73,273	49,053
Total	363,183	234,641
Allowance for credit losses	(2,228)	(2,205)
Total accounts receivable, net	\$360,955	\$232,436

Note 13 - Accounts Payable and Accrued Liabilities

	June 30, 2022	December 31, 2021
	(In thousands)	
Accounts payable	\$221,044	\$151,836
Revenues and royalties payable	284,470	294,143
Accrued capital expenditures	60,492	64,412
Accrued interest	40,087	59,600
Total accounts payable and accrued liabilities	\$606,093	\$569,991

Note 14 - Supplemental Cash Flow

	Six Months Ended June 30,	
	2022	2021
	(In thousands)	
Supplemental cash flow information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$15,149	\$14,576
Investing cash flows from operating leases	19,318	8,402
Non-cash investing and financing activities:		
Change in accrued capital expenditures	\$56,213	\$47,247
Change in asset retirement costs	2,237	2,567
ROU assets obtained in exchange for lease liabilities:		
Operating leases	\$26,971	\$9,710

Special Note Regarding Forward Looking Statements

This report 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 report that address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements, including such things as:

- 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 2021 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 and access to existing lines of credit;
- changes in the supply of and demand for oil and natural gas, including as a result of the COVID-19 pandemic and various governmental actions taken to mitigate its impact or 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 seismic, drilling, completions and other equipment, waste and water disposal infrastructure, and personnel;
- 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;
- the potential impact of future drilling on production from existing wells;
- difficulties encountered in delivering oil and natural gas to commercial markets;
- the uncertainty of our ability to attract capital and obtain financing on favorable terms;
- 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;
- 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 the accompanying unaudited consolidated financial statements and our 2021 Annual Report, which include additional information about our business practices, significant accounting policies, risk factors, and the transactions that underlie our financial results.

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 Lower Spraberry shales, and 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.

Second Quarter 2022 Highlights

- Total production for the three months ended June 30, 2022 was 100.7 MBoe/d, a decrease of 2% from the three months ended March 31, 2022, primarily due to normal production decline and increased downtime due to an escalation in capital-efficient workover activity partially offset by new wells placed on production during the second quarter of 2022. Total production for the six months ended June 30, 2022 increased 20% from the six months ended June 30, 2021, primarily due to new wells acquired in the Primexx Acquisition as well as new wells placed on production, partially offset by normal production decline as well as non-core asset divestitures which occurred primarily in the fourth quarter of 2021.
- Operated drilling and completion activity for the three months ended June 30, 2022 along with our drilled but uncompleted and producing wells as of June 30, 2022 are summarized in the table below.

Region	Three Months Ended June 30, 2022				As of June 30, 2022			
	Drilled		Completed		Drilled But Uncompleted		Producing	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Permian	27	25.2	13	12.2	40	36.9	774	685.8
Eagle Ford	8	7.4	15	13.0	8	7.4	603	543.5
Total	35	32.6	28	25.2	48	44.3	1,377	1,229.3

- Operational capital expenditures, exclusive of leasehold and seismic, for the second quarter of 2022 were \$237.8 million, of which approximately 80% were in the Permian with the remaining balance in the Eagle Ford. See “—Liquidity and Capital Resources—2022 Capital Budget and Funding Strategy” for additional details.
- On June 24, 2022, we issued \$600.0 million in aggregate principal amount of our 7.50% Senior Notes in a private placement for proceeds of approximately \$588.0 million, net of underwriting discounts and commissions. Also on June 24, 2022, using the proceeds from the offering of the 7.50% Senior Notes, along with borrowings under the Credit Facility, we redeemed all of the outstanding 6.125% Senior Notes and all of the outstanding Second Lien Notes.
- Recorded net income for the three months ended June 30, 2022 of \$348.0 million, or \$5.62 per diluted share, compared to net loss for the three months ended June 30, 2021 of \$11.7 million, or \$0.25 per diluted share. The variance between the periods was driven primarily by an increase in operating revenues in the second quarter of 2022 driven by an approximate 70% increase in the total average realized sales price and an increase of 13% in production volumes compared to the second quarter of 2021 as well as a decrease in the loss on derivative contracts to approximately \$81.6 million during the second quarter of 2022 compared to approximately \$190.5 million during the second quarter of 2021. This increase was partially offset by an increase in operating expenses as well as the loss recognized upon the redemption of the 6.125% Senior Notes and Second Lien Notes of \$42.4 million. See “—Results of Operations” below for further details.

Results of Operations

The following table sets forth certain operating information with respect to the Company's oil and natural gas operations for the periods indicated:

	Three Months Ended				Six Months Ended June 30,			
	June 30, 2022	March 31, 2022	Change	% Change	2022	2021	Change	% Change
Total production								
Oil (MBbls)								
Permian	4,290	4,469	(179)	(4 %)	8,759	6,320	2,439	39 %
Eagle Ford	1,299	1,377	(78)	(6 %)	2,676	3,463	(787)	(23 %)
Total oil	5,589	5,846	(257)	(4 %)	11,435	9,783	1,652	17 %
Natural gas (MMcf)								
Permian	8,875	8,590	285	3 %	17,465	13,346	4,119	31 %
Eagle Ford	1,437	1,525	(88)	(6 %)	2,962	3,372	(410)	(12 %)
Total natural gas	10,312	10,115	197	2 %	20,427	16,718	3,709	22 %
NGLs (MBbls)								
Permian	1,622	1,455	167	11 %	3,077	2,291	786	34 %
Eagle Ford	232	252	(20)	(8 %)	484	523	(39)	(7 %)
Total NGLs	1,854	1,707	147	9 %	3,561	2,814	747	27 %
Total production (MBoe)								
Permian	7,391	7,356	35	— %	14,747	10,835	3,912	36 %
Eagle Ford	1,771	1,883	(112)	(6 %)	3,654	4,548	(894)	(20 %)
Total barrels of oil equivalent	9,162	9,239	(77)	(1 %)	18,401	15,383	3,018	20 %
Total daily production (Boe/d)	100,685	102,655	(1,970)	(2 %)	101,665	84,991	16,674	20 %
Oil as % of total daily production	61 %	63 %			62 %	64 %		
Benchmark prices ⁽¹⁾								
WTI (per Bbl)	\$108.42	\$94.38	\$14.04	15 %	\$101.44	\$61.95	\$39.49	64 %
Henry Hub (per Mcf)	7.50	4.57	2.93	64 %	6.04	2.85	3.19	112 %
Average realized sales price (excluding impact of derivative settlements)								
Oil (per Bbl)								
Permian	\$110.71	\$94.52	\$16.19	17 %	\$102.45	\$60.97	\$41.48	68 %
Eagle Ford	111.53	95.02	16.51	17 %	103.03	62.14	40.89	66 %
Total oil	110.90	94.64	16.26	17 %	102.59	61.38	41.21	67 %
Natural gas (per Mcf)								
Permian	6.14	4.20	1.94	46 %	5.18	2.88	2.30	80 %
Eagle Ford	7.27	5.18	2.09	40 %	6.20	2.92	3.28	112 %
Total natural gas	6.29	4.35	1.94	45 %	5.33	2.89	2.44	84 %
NGL (per Bbl)								
Permian	41.06	40.25	0.81	2 %	40.67	23.76	16.91	71 %
Eagle Ford	38.53	35.93	2.60	7 %	37.18	22.10	15.08	68 %
Total NGLs	40.74	39.61	1.13	3 %	40.20	23.45	16.75	71 %
Total average realized sales price (per Boe)								
Permian	80.64	70.29	10.35	15 %	75.48	44.13	31.35	71 %
Eagle Ford	92.75	78.50	14.25	18 %	85.40	52.02	33.38	64 %
Total average realized sales price	\$82.98	\$71.97	\$11.01	15 %	\$77.45	\$46.46	\$30.99	67 %

	Three Months Ended				Six Months Ended June 30,			
	June 30, 2022	March 31, 2022	\$ Change	% Change	2022	2021	\$ Change	% Change
Revenues (in thousands)								
Oil								
Permian	\$474,936	\$422,404	\$52,532	12 %	\$897,340	\$385,307	\$512,033	133 %
Eagle Ford	144,876	130,845	14,031	11 %	275,721	215,180	60,541	28 %
Total oil	619,812	553,249	66,563	12 %	1,173,061	600,487	572,574	95 %
Natural gas								
Permian	54,469	36,069	18,400	51 %	90,538	38,442	52,096	136 %
Eagle Ford	10,444	7,907	2,537	32 %	18,351	9,858	8,493	86 %
Total natural gas	64,913	43,976	20,937	48 %	108,889	48,300	60,589	125 %
NGLs								
Permian	66,592	58,563	8,029	14 %	125,155	54,423	70,732	130 %
Eagle Ford	8,938	9,055	(117)	(1 %)	17,993	11,559	6,434	56 %
Total NGLs	75,530	67,618	7,912	12 %	143,148	65,982	77,166	117 %
Total revenues								
Permian	595,997	517,036	78,961	15 %	1,113,033	478,172	634,861	133 %
Eagle Ford	164,258	147,807	16,451	11 %	312,065	236,597	75,468	32 %
Total revenues	\$760,255	\$664,843	\$95,412	14 %	\$1,425,098	\$714,769	\$710,329	99 %
Additional per Boe data								
Lease operating expense								
Permian	\$7.33	\$6.85	\$0.48	7 %	\$7.09	\$4.46	\$2.63	59 %
Eagle Ford	10.59	8.99	1.60	18 %	9.77	8.49	1.28	15 %
Total lease operating expense	\$7.96	\$7.29	\$0.67	9 %	\$7.62	\$5.65	\$1.97	35 %
Production and ad valorem taxes								
Permian	\$4.66	\$3.89	\$0.77	20 %	\$4.28	\$2.43	\$1.85	76 %
Eagle Ford	5.89	4.82	1.07	22 %	5.34	3.10	2.24	72 %
Total production and ad valorem taxes	\$4.90	\$4.08	\$0.82	20 %	\$4.49	\$2.63	\$1.86	71 %
Gathering, transportation and processing								
Permian	\$2.69	\$2.33	\$0.36	15 %	\$2.51	\$2.65	(\$0.14)	(5 %)
Eagle Ford	1.93	1.92	0.01	1 %	1.92	2.05	(0.13)	(6 %)
Total gathering, transportation and processing	\$2.54	\$2.25	\$0.29	13 %	\$2.39	\$2.47	(\$0.08)	(3 %)

(1) Reflects calendar average daily spot market prices.

Revenues

The following table reconciles the changes in oil, natural gas, NGLs, and total revenue for the period presented by reflecting the effect of changes in volume and in the underlying commodity prices:

	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)	(24,322)	856	5,823	(17,643)
Price increase	90,885	20,081	2,089	113,055
Net increase	66,563	20,937	7,912	95,412
Revenues for the three months ended June 30, 2022 ⁽¹⁾	\$619,812	\$64,913	\$75,530	\$760,255
Percent of total revenues	81 %	9 %	10 %	

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

	Oil	Natural Gas	NGLs	Total
	(In thousands)			
Revenues for the six months ended June 30, 2021 ⁽¹⁾	\$600,487	\$48,300	\$65,982	\$714,769
Volume increase	101,401	10,716	17,515	129,632
Price increase	471,173	49,873	59,651	580,697
Net increase	572,574	60,589	77,166	710,329
Revenues for the six months ended June 30, 2022 ⁽¹⁾	\$1,173,061	\$108,889	\$143,148	\$1,425,098
Percent of total revenues	82 %	8 %	10 %	

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

Revenues for the three months ended June 30, 2022 of \$760.3 million increased \$95.4 million, or 14%, compared to revenues of \$664.8 million for the three months ended March 31, 2022. The increase was primarily attributable to a 17% increase in the average realized sales price for oil, which rose to \$110.90 per Bbl from \$94.64 per Bbl, as well as a 45% increase in the average realized sales price for natural gas, which rose to \$6.29 per Mcf from \$4.35 per Mcf. The increase in the average realized price for oil and natural gas was partially offset by a 2% decrease in production, as discussed above.

Revenues for the six months ended June 30, 2022 of \$1.4 billion increased \$710.3 million, or 99%, compared to revenues of \$714.8 million for the same period of 2021. The increase was primarily attributable to a 67% increase in the average realized sales price of oil which rose to \$102.59 per Bbl from \$61.38 per Bbl as well as a 20% increase in production as discussed above.

Operating Expenses

	Three Months Ended							
	June 30, 2022	Per	March 31, 2022	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Lease operating	\$72,940	\$7.96	\$67,328	\$7.29	\$5,612	8 %	\$0.67	9 %
Production and ad valorem taxes	44,873	4.90	37,678	4.08	7,195	19 %	0.82	20 %
Gathering, transportation and processing	23,267	2.54	20,775	2.25	2,492	12 %	0.29	13 %
Depreciation, depletion and amortization	109,409	11.94	102,979	11.15	6,430	6 %	0.79	7 %
General and administrative	10,909	1.19	17,121	1.85	(6,212)	(36 %)	(0.66)	(36 %)
Merger, integration and transaction	—	—	769	0.08	(769)	(100 %)	(0.08)	(100 %)

	Six Months Ended June 30,							
	2022	Per	2021	Per	Total Change		Boe Change	
		Boe		Boe	\$	%	\$	%
(In thousands, except per Boe and % amounts)								
Lease operating	\$140,268	\$7.62	\$86,913	\$5.65	\$53,355	61 %	\$1.97	35 %
Production and ad valorem taxes	82,551	4.49	40,397	2.63	42,154	104 %	1.86	71 %
Gathering, transportation and processing	44,042	2.39	38,012	2.47	6,030	16 %	(0.08)	(3 %)
Depreciation, depletion and amortization	212,388	11.54	154,115	10.02	58,273	38 %	1.52	15 %
General and administrative	28,030	1.52	27,864	1.81	166	1 %	(0.29)	(16 %)
Merger, integration and transaction	769	0.04	—	—	769	— %	0.04	— %

Lease Operating Expenses. Lease operating expenses for the three months ended June 30, 2022 increased to \$72.9 million compared to \$67.3 million for the three months ended March 31, 2022, primarily due to increases in workover costs as well as certain operating costs such as fuel, power and equipment rentals. Lease operating expense per Boe for the three months ended June 30, 2022 increased to \$7.96 compared to \$7.29 for the three months ended March 31, 2022, primarily due to the increases in operating costs mentioned above as well as the distribution of fixed costs spread over slightly lower production volumes.

Lease operating expenses for the six months ended June 30, 2022 increased to \$140.3 million compared to \$86.9 million for the same period of 2021, primarily due to the increase in production from wells acquired in the Primexx Acquisition as well as increases in certain operating expenses such as fuel, power and chemicals. Lease operating expense per Boe for the six months ended June 30, 2022 increased to \$7.62 compared to \$5.65 for the same period of 2021, primarily due to the increase in certain operating expenses as discussed above as well as the increase in certain operating expenses associated with the Primexx Acquisition.

Production and Ad Valorem Taxes. For the three months ended June 30, 2022, production and ad valorem taxes increased 19% to \$44.9 million compared to \$37.7 million for the three months ended March 31, 2022, which is primarily related to a 14% increase in total revenues which increased production taxes, as well as an increase in ad valorem taxes due to higher expected property tax valuations as a result of higher commodity prices during 2021 compared to 2020. Production and ad valorem taxes as a percentage of total revenues increased to 5.9% for the second quarter of 2022 as compared to 5.7% of total revenues for the three months ended March 31, 2022, primarily due to an increase in ad valorem taxes during the second quarter of 2022 as discussed above.

For the six months ended June 30, 2022, production and ad valorem taxes increased 104% to \$82.6 million compared to \$40.4 million for the same period of 2021, which is primarily related to a 99% increase in total revenues which increased production taxes, as well as an increase in ad valorem taxes as discussed in the paragraph above. Production and ad valorem taxes as a percentage of total revenues increased to 5.8% for the six months ended June 30, 2022, as compared to 5.7% of total revenues for the same period of 2021, primarily due to an increase in ad valorem taxes during the six months ended June 30, 2022 as discussed above.

Gathering, Transportation and Processing Expenses. For the three months ended June 30, 2022, gathering, transportation and processing expenses increased 12% to \$23.3 million compared to \$20.8 million for the three months ended March 31, 2022, which is primarily related to an agreement entered into with a third party in the second quarter of 2022 which provides long-term processing assurance in the Permian.

For the six months ended June 30, 2022, gathering, transportation and processing expenses increased 16% to \$44.0 million compared to \$38.0 million for the same period of 2021, which was primarily related to the 20% increase in production volumes between the two periods.

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

	Three Months Ended				Six Months Ended June 30,			
	June 30, 2022		March 31, 2022		2022		2021	
	Amount	Per Boe	Amount	Per Boe	Amount	Per Boe	Amount	Per Boe
	(In thousands, except per Boe)							
DD&A of evaluated oil and gas properties	\$107,400	\$11.72	\$100,763	\$10.91	\$208,163	\$11.31	\$149,538	\$9.72
Depreciation of other property and equipment	432	0.05	476	0.05	908	0.05	1,005	0.07
Amortization of other assets	598	0.06	780	0.08	1,378	0.07	1,722	0.11
Accretion of asset retirement obligations	979	0.11	960	0.11	1,939	0.11	1,850	0.12
DD&A	\$109,409	\$11.94	\$102,979	\$11.15	\$212,388	\$11.54	\$154,115	\$10.02

For the three months ended June 30, 2022, DD&A increased to \$109.4 million from \$103.0 million for the three months ended March 31, 2022 primarily attributable to higher capital expenditures during the three months ended June 30, 2022 and increases in future development cost assumptions.

For the six months ended June 30, 2022, DD&A increased to \$212.4 million from \$154.1 million for the same period in 2021 primarily attributable to a production increase of 20% as well as the addition of properties acquired in the Primexx Acquisition.

General and Administrative, Net of Amounts Capitalized (“G&A”). G&A for the three months ended June 30, 2022 decreased to \$10.9 million compared to \$17.1 million for the three months ended March 31, 2022, primarily due to a decrease in the fair value of cash settled awards as a result of the decrease in our stock price between the two periods.

G&A for the six months ended June 30, 2022 was effectively flat at \$28.0 million compared to \$27.9 million for the same period in 2021.

Other Income and Expenses

Interest Expense, Net of Capitalized Amounts. The following table sets forth the components of our interest expense, net of capitalized amounts for the periods indicated:

	Three Months Ended			Six Months Ended June 30,		
	June 30, 2022	March 31, 2022	Change	2022	2021	Change
	(In thousands)					
Interest expense on Senior Unsecured Notes	\$29,224	\$29,022	\$202	\$58,246	\$49,004	\$9,242
Interest expense on Second Lien Notes	6,633	7,192	(559)	13,825	23,250	(9,425)
Interest expense on Credit Facility	7,754	7,110	644	14,864	15,787	(923)
Amortization of debt issuance costs, premiums and discounts	3,371	3,750	(379)	7,121	8,916	(1,795)
Other interest expense	13	22	(9)	35	58	(23)
Capitalized interest	(26,304)	(25,538)	(766)	(51,842)	(47,965)	(3,877)
Interest expense, net of capitalized amounts	\$20,691	\$21,558	(\$867)	\$42,249	\$49,050	(\$6,801)

Interest expense, net of capitalized amounts, incurred during the three months ended June 30, 2022 decreased \$0.9 million to \$20.7 million compared to \$21.6 million for the three months ended March 31, 2022. The decrease is primarily due to an increase in capitalized interest compared to the three months ended March 31, 2022.

Interest expense, net of capitalized amounts, incurred during the six months ended June 30, 2022 decreased \$6.8 million to \$42.2 million compared to \$49.1 million for the same period of 2021. The decrease is primarily due to the reduction in interest expense and the write-off of the discount associated with the Second Lien Notes exchange in November 2021, lower borrowings on the Credit Facility compared to the same period of 2021 and an increase in capitalized interest, partially offset by an increase in interest expense primarily related to the issuance of the 8.00% Senior Notes in July 2021. See “Note 7 - Borrowings” of the Notes to Consolidated Financial Statements in our 2021 Annual Report for further discussion of the Second Lien Notes exchange.

See “Note 6 - Borrowings” for details of the issuance of the 7.50% Senior Notes and redemptions of the 6.125% Senior Notes and Second Lien Notes.

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

	Three Months Ended		Six Months Ended June 30,	
	June 30, 2022	March 31, 2022	2022	2021
	(In thousands)			
Loss on oil derivatives	\$75,910	\$325,348	\$401,258	\$326,594
Loss on natural gas derivatives	5,738	28,181	33,919	15,513
Loss on NGL derivatives	—	4,771	4,771	4,872
Loss on contingent consideration arrangements	—	—	—	2,617
Loss on September 2020 Warrants liability	—	—	—	55,390
Loss on derivative contracts	\$81,648	\$358,300	\$439,948	\$404,986

See “Note 7 - Derivative Instruments and Hedging Activities” and “Note 8 - Fair Value Measurements” for additional information.

Income Tax Expense. We recorded income tax expense of \$3.0 million and \$0.5 million for the three months ended June 30, 2022 and March 31, 2022, respectively.

We recorded income tax expense of \$3.5 million compared to income tax benefit of \$1.4 million for the six months ended June 30, 2022 and 2021, respectively.

Since the second quarter of 2020, we have concluded that it is more likely than not that the net deferred tax assets will not be realized and have recorded a full valuation allowance against our deferred tax assets. As long as we continue to conclude that the valuation allowance is necessary, we do not expect to have significant deferred income tax expense or benefit. See “Note 9 - Income Taxes” for further discussion.

Liquidity and Capital Resources

Outlook. Oil prices steadily increased throughout 2021 and remained on an upward trajectory throughout the first half of 2022. As a result of rapid economic growth and improved industry fundamentals, we are experiencing inflationary cost pressures on many different service items including labor, materials, and equipment. We expect to continue to face inflationary pressure into 2023.

2022 Capital Budget and Funding Strategy. Our primary uses of capital are for the exploration and development of our oil and natural gas properties. Our 2022 operational capital budget is \$790.0 million to \$810.0 million, with over 85% 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. Our 2022 capital expenditure program was developed to reflect reduced reinvestment rates and balance capital deployment for more consistent cash flow generation and to drive capital efficiency through an enhanced multi-zone, scaled development program.

The following table is a summary of our capital expenditures⁽¹⁾ for the three and six months ended June 30, 2022:

	Three Months Ended		Six Months Ended
	March 31, 2022	June 30, 2022	June 30, 2022
	(In millions)		
Operational capital	\$157.4	\$237.8	\$395.2
Capitalized interest	25.5	26.3	51.8
Capitalized G&A	11.6	11.3	22.9
Total	\$194.5	\$275.4	\$469.9

(1) Capital expenditures, presented on an accrual basis, includes drilling, completions, facilities, and equipment, and excludes land, seismic, and asset retirement costs.

We believe that existing cash and cash equivalents, any positive 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 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. For the six months ended June 30, 2022, cash and cash equivalents decreased \$3.8 million to \$6.1 million compared to \$9.9 million at December 31, 2021.

	Six Months Ended June 30,	
	2022	2021
	(In thousands)	
Net cash provided by operating activities	\$653,595	\$313,268
Net cash used in investing activities	(435,756)	(217,387)
Net cash used in financing activities	(221,621)	(112,317)
Net change in cash and cash equivalents	(\$3,782)	(\$16,436)

Operating Activities. For the six months ended June 30, 2022, net cash provided by operating activities was \$653.6 million compared to \$313.3 million for the same period in 2021. The change in net cash provided by operating activities was predominantly attributable to the following:

- An increase in revenue primarily driven by a 67% increase in total average realized sales price, as well as a 20% increase in production volumes, and
- An offsetting increase in the cash paid for commodity derivative settlements.

Production, realized prices, and operating expenses are discussed in Results of Operations. See “Note 7 - Derivative Instruments and Hedging Activities” and “Note 8 - 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 six months ended June 30, 2022, net cash used in investing activities was \$435.8 million compared to \$217.4 million for the same period in 2021. The increase in net cash used in investing activities was primarily attributable to the following:

- An increase in operational capex, and
- An increase due to a cash payment of \$19.2 million in January 2022 for the settlement of a contingent consideration agreement.

Financing Activities. We finance a portion of our capital expenditures, acquisitions and working capital requirements with borrowings under the Credit Facility, term debt and equity offerings. For the six months ended June 30, 2022, net cash used in financing activities was \$221.6 million compared to \$112.3 million for the same period of 2021. The increase in net cash used in financing activities was primarily attributable to the following:

- Redemptions of the 6.125% Senior Notes and Second Lien Notes, and
- An offsetting cash inflow due to the issuance of the 7.50% Senior Notes.

See “Note 6 – Borrowings” for additional information on our debt transactions.

Credit Facility. As of June 30, 2022, our Credit Facility had a borrowing base of \$1.6 billion, with an elected commitment amount of \$1.6 billion, borrowings outstanding of \$779.0 million at a weighted average interest rate of 4.16%, and \$16.4 million in letters of credit outstanding. On May 2, 2022, as a result of the spring 2022 redetermination, the borrowing base and elected commitment amount of \$1.6 billion were reaffirmed.

See “Note 6 – Borrowings” for additional information related to the Credit Facility.

Material Cash Requirements. As of June 30, 2022, 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 2021 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 2021 Annual Report for additional details.

Since December 31, 2021, there have been no material changes from what was disclosed in our 2021 Annual Report other than the following:

- Changes to the borrowings under our Credit Facility,
- Amended frac service contract executed in the first quarter of 2022 through the remainder of 2022 with a remaining obligation of approximately \$20.0 million as of June 30, 2022,
- Extensions of two drilling rigs executed in the second quarter of 2022 for the next 12 to 18 months for an incremental obligation of approximately \$25.0 million as of June 30, 2022, and
- Issuance of the 7.50% Senior Notes due 2030 and redemptions of the 6.125% Senior Notes due 2024 and Second Lien Notes due 2025 in the second quarter of 2022.

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 2021 Annual Report. Except as set forth below, there have been no material changes to our critical accounting estimates since December 31, 2021, which are disclosed in “Part II, Item 7A. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2021 Annual Report

Oil and Natural Gas Properties

The table below presents various pricing scenarios to demonstrate the sensitivity of our June 30, 2022 cost center ceiling to changes in 12-month average benchmark crude oil and natural gas prices underlying the 12-Month Average Realized Prices. The sensitivity analysis is as of June 30, 2022 and, accordingly, does not consider drilling and completion activity, acquisitions or dispositions of oil and gas properties, production, changes in crude oil and natural gas prices, and changes in development and operating costs occurring subsequent to June 30, 2022 that may require revisions to estimates of proved reserves. See also “Part I, Item 1A. Risk Factors—If oil and natural gas prices remain depressed for extended periods of time, we may be required to make significant downward adjustments to the carrying value of our oil and natural gas properties” in our 2021 Annual Report.

	12-Month Average Realized Prices		Excess (deficit) of cost center ceiling over net book value, less related deferred income taxes	Increase (decrease) of cost center ceiling over net book value, less related deferred income taxes
	Crude Oil (\$/Bbl)	Natural Gas (\$/Mcf)	(In millions)	(In millions)
Full Cost Pool Scenarios				
June 30, 2022 Actual	\$85.62	\$4.82	\$4,819	
Crude Oil and Natural Gas Price Sensitivity				
Crude Oil and Natural Gas +10%	\$94.20	\$5.34	\$5,935	\$1,116
Crude Oil and Natural Gas -10%	\$77.04	\$4.31	\$3,703	(\$1,116)
Crude Oil Price Sensitivity				
Crude Oil +10%	\$94.20	\$4.82	\$5,833	\$1,014
Crude Oil -10%	\$77.04	\$4.82	\$3,805	(\$1,014)
Natural Gas Price Sensitivity				
Natural Gas +10%	\$85.62	\$5.34	\$4,920	\$101
Natural Gas -10%	\$85.62	\$4.31	\$4,718	(\$101)

Recently Adopted and Recently Issued Accounting Standards

See “Note 1 - Description of Business and Basis of Presentation” 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, 2021, which are disclosed in “Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of our 2021 Annual Report on Form 10-K.

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 June 30, 2022 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 June 30, 2022:

	Three Months Ended June 30, 2022		
	Oil	Natural Gas	Total
	(In thousands)		
Fair value liability as of June 30, 2022 ⁽¹⁾	(\$255,404)	(\$4,808)	(\$260,212)
Impact of a 10% increase in forward commodity prices	(\$358,950)	(\$10,820)	(\$369,770)
Impact of a 10% decrease in forward commodity prices	(\$154,241)	\$1,161	(\$153,080)

(1) Spot prices for oil and natural gas were \$104.83 and \$5.42, respectively, as of June 30, 2022.

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 June 30, 2022, we had \$779.0 million outstanding under the Credit Facility with a weighted average interest rate of 4.16%. 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 \$7.8 million, based on the balance outstanding as of June 30, 2022. See “Note 6 - 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 June 30, 2022.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the second quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings

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 2021 Annual Report on Form 10-K. 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
4.1	<u>Indenture, dated as of June 24, 2022, by and among the Company, Callon Petroleum Operating Company, Callon (Permian) LLC, Callon (Eagle Ford) LLC, Callon (Permian) Minerals LLC, Callon (Niobrara) LLC, Callon (Utica) LLC and Callon Marcellus Holding, Inc. and U.S. Bank Trust Company, National Association, as trustee.</u>	8-K	4.1	6/24/2022
10.1	<u>Purchase Agreement dated as of June 9, 2022, among Callon Petroleum Company, the Guarantors and Wells Fargo Securities, LLC, as representative of the several initial purchasers.</u>	8-K	10.1	6/9/2022
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>August 4, 2022</u>
<u>/s/ Kevin Haggard</u> Kevin Haggard	Senior Vice President and Chief Financial Officer	<u>August 4, 2022</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: August 4, 2022

/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: August 4, 2022

/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 June 30, 2022, 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: August 4, 2022

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

Date: August 4, 2022

/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.