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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 OR 15(d)
of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 2, 2024

APA CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	001-40144	86-1430562
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

2000 W. Sam Houston Pkwy. S., Suite 200
Houston, Texas 77042-3643
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (713) 296-6000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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, $0.625 par value	APA	Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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. ☐

Item 8.01. Other Events.

As previously reported, on April 1, 2024, APA Corporation, a Delaware corporation (“APA”), completed its acquisition of Callon Petroleum Company, a Delaware corporation (“Callon”), pursuant to the Agreement and Plan of Merger, dated January 3, 2024, by and among APA, Astro Comet Merger Sub Corp., a Delaware corporation and wholly owned subsidiary of APA (“Merger Sub”), and Callon. At the closing, Merger Sub merged with and into Callon, with Callon as the surviving entity (the “Merger”).

This Current Report on Form 8-K is being filed to provide the financial statements and pro forma financial information required by Rule 3-05 and Article 11 of Regulation S-X in connection with APA’s offering of securities in transactions registered under the Securities Act of 1933, as amended, or exempt from registration thereunder.

The pro forma financial information included in this Current Report on Form 8-K has been presented for informational purposes only, as required by Article 11 of Regulation S-X. It does not purport to represent the actual results of operations that APA and Callon would have achieved had the companies been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined company may achieve after completion of the Merger.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The unaudited consolidated balance sheet of Callon as of March 31, 2024 and the related consolidated statements of operations, stockholders’ equity, and cash flows for the three months ended March 31, 2024 and 2023, and the notes related thereto, are filed as Exhibit 99.1 attached hereto and incorporated herein by reference.

(b) Pro forma financial information.

The unaudited pro forma combined statement of operations of APA for the nine months ended September 30, 2024, giving effect to the Merger as if it had been completed on January 1, 2023, and the notes related thereto, are filed as Exhibit 99.2 attached hereto and incorporated herein by reference.

(d) Exhibits

Exhibit No.	Description
*99.1	Unaudited consolidated balance sheet of Callon Petroleum Company as of March 31, 2024 and the related consolidated statements of operations, stockholders’ equity, and cash flows for the three months ended March 31, 2024 and 2023 and the related notes.
*99.2	Unaudited pro forma combined statement of operations of APA Corporation for the nine months ended September 30, 2024 giving effect to the Merger as if it had been completed on January 1, 2023, and the related notes.
*104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

* Indicates exhibits filed herewith.

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 hereunto duly authorized.

APA CORPORATION

Date: December 2, 2024

By: /s/ Rebecca A. Hoyt
Rebecca A. Hoyt
Senior Vice President, Chief Accounting Officer, and Controller

Exhibit 99.1

Callon Petroleum Company

Consolidated Financial Statements as of March 31, 2024, and for the Three Months Ended March 31, 2024 and 2023 (Unaudited)

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Consolidated Financial Statements (Unaudited)

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

	March 31, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,547	$ 3,325
Accounts receivable, net	222,243	206,791
Fair value of derivatives	25,109	11,857
Other current assets	32,996	30,154
Total current assets	299,895	252,127
Oil and natural gas properties, successful efforts accounting method:		
Proved properties, net	5,182,879	5,086,973
Unproved properties	1,062,775	1,063,033
Total oil and natural gas properties, net	6,245,654	6,150,006
Other property and equipment, net	28,011	26,784
Deferred income taxes	173,136	180,963
Other assets, net	76,077	101,596
Total assets	**$ 6,822,773**	**$ 6,711,476**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 520,379	$ 526,446
Fair value of derivatives	41,710	24,147
Other current liabilities	85,512	96,369
Total current liabilities	647,601	646,962
Long-term debt	2,024,660	1,918,655
Asset retirement obligations	43,441	42,653
Fair value of derivatives	16,660	29,880
Other long-term liabilities	79,635	81,965
Total liabilities	**2,811,997**	**2,720,115**
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value, 130,000,000 shares authorized; 66,509,845 and 66,474,525 shares outstanding, respectively	665	665
Capital in excess of par value	4,191,027	4,186,524
Accumulated deficit	(180,916)	(195,828)
Total stockholders' equity	**4,010,776**	**3,991,361**
Total liabilities and stockholders' equity	**$ 6,822,773**	**$ 6,711,476**

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

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

	Three Months Ended March 31,	
	2024	2023
Operating Revenues:		
Oil	$395,999	$409,556
Natural gas	17,209	23,586
Natural gas liquids	42,442	43,370
Sales of purchased oil and gas	107,971	83,534
Total operating revenues	563,621	560,046
Operating Expenses:		
Lease operating	74,764	75,102
Production and ad valorem taxes	27,512	32,721
Gathering, transportation and processing	29,769	25,977
Exploration	2,156	2,232
Cost of purchased oil and gas	109,108	86,061
Depreciation, depletion and amortization	142,743	125,965
General and administrative	32,359	27,798
Merger, integration and transaction	54,477	—
Total operating expenses	472,888	375,856
Income From Operations	**90,733**	**184,190**
Other (Income) Expenses:		
Interest expense	41,927	46,306
(Gain) loss on derivative contracts	13,023	(25,645)
Other (income) expense	12,733	(6,414)
Total other (income) expense	67,683	14,247
Income Before Income Taxes	**23,050**	**169,943**
Income tax benefit (expense)	(8,138)	50,695
Net Income	**$ 14,912**	**$220,638**
Net Income Per Common Share:		
Basic	$ 0.22	$ 3.58
Diluted	$ 0.22	$ 3.57
Weighted Average Common Shares Outstanding:		
Basic	66,503	61,625
Diluted	66,828	61,874

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 Shares	Common Stock $	Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2023	**66,475**	**$665**	**$4,186,524**	**($ 195,828)**	**$ 3,991,361**
Net income	—	—	—	14,912	14,912
Restricted stock units	35	—	4,503	—	4,503
Balance at March 31, 2024	**66,510**	**$665**	**$4,191,027**	**($ 180,916)**	**$ 4,010,776**

	Common Stock Shares	Common Stock $	Capital in Excess of Par	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2022	**61,622**	**$616**	**$4,022,194**	**($ 597,029)**	**$ 3,425,781**
Net income	—	—	—	220,638	220,638
Restricted stock units	3	—	3,339	—	3,339
Balance at March 31, 2023	**61,625**	**$616**	**$4,025,533**	**($ 376,391)**	**$ 3,649,758**

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

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

	Three Months Ended March 31,	
Cash flows from operating activities:	**2024**	**2023**
Net income	$ 14,912	$ 220,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	142,743	125,965
Amortization of non-cash debt related items, net	2,786	2,631
Deferred income tax (benefit) expense	7,827	(51,977)
(Gain) loss on derivative contracts	13,023	(25,645)
Cash received (paid) for commodity derivative settlements, net	3,149	(779)
Non-cash expense related to share-based awards	5,413	1,881
Payments for cash-settled long-term incentive awards	(4,833)	—
Other, net	8,498	(1,184)
Changes in current assets and liabilities:		
Accounts receivable	(16,400)	24,019
Other current assets	(2,101)	(1,618)
Accounts payable and accrued liabilities	(39,477)	(46,018)
Net cash provided by operating activities	**135,540**	**247,913**
Cash flows from investing activities:		
Capital expenditures	(207,829)	(204,900)
Acquisition of oil and gas properties	(5,265)	(5,991)
Proceeds from sales of assets	1,011	2,054
Cash paid for settlement of contingent consideration arrangement	(12,500)	—
Other, net	749	(1,072)
Net cash used in investing activities	**(223,834)**	**(209,909)**
Cash flows from financing activities:		
Borrowings on credit facility	799,950	669,500
Payments on credit facility	(694,950)	(707,200)
Other, net	(484)	(329)
Net cash provided by (used in) financing activities	**104,516**	**(38,029)**
Net change in cash and cash equivalents	16,222	(25)
Balance, beginning of period	3,325	3,395
Balance, end of period	**$ 19,547**	**$ 3,370**

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

Index to the Notes to the Consolidated Financial Statements

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 sustainable development of high-quality assets in the Permian Basin in 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.

Merger Agreement

On January 3, 2024, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with APA Corporation ("APA") and Astro Comet Merger Sub Corp., a wholly owned subsidiary of APA ("Merger Sub"). The Merger Agreement provides that, among other things and subject to the terms and conditions of the Merger Agreement, (i) Merger Sub will be merged with and into Callon (the "Merger"), with Callon surviving and continuing as the surviving corporation in the Merger as a wholly owned, direct subsidiary of APA, and (ii) at the effective time of the Merger (the "Effective Time"), each outstanding share of common stock of Callon (other than Excluded Shares (as defined in the Merger Agreement)) will be converted into the right to receive, without interest, 1.0425 shares of common stock of APA, with cash in lieu of fractional shares.

The Company's board of directors (the "Board of Directors") has unanimously (i) determined that the Merger Agreement and the transactions contemplated thereby are in the best interests of, and advisable to, Callon and Callon shareholders, (ii) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, (iii) resolved to recommend that Callon stockholders approve the Merger Agreement and the transactions contemplated thereby, and (iv) approved the execution, delivery and performance by Callon of the Merger Agreement and the consummation of the transactions contemplated thereby.

On March 27, 2024, the Company held a special meeting of its shareholders at which the shareholders approved the adoption of the Merger Agreement and the transactions contemplated thereby.

On April 1, 2024, the Merger was completed and, as such, the Company's common stock was subsequently delisted from the New York Stock Exchange and deregistered under the Securities Exchange Act of 1934, as amended, and Callon ceased to be a publicly traded company.

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. 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 Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Annual Report") and are supplemented by the notes included in this report. The financial statements and related notes included in this report should be read in conjunction with the Company's 2023 Annual Report.

Recently Issued Accounting Standards

As of March 31, 2024, no new accounting standards were issued and not yet adopted that are applicable to the Company and that would have a material effect on the Company’s unaudited interim consolidated financial statements and related disclosures.

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 expenses in the consolidated statements of operations. See “Note 4 — Revenue Recognition” of the Notes to Consolidated Financial Statements in the 2023 Annual Report for more information regarding the types of contracts under which oil, natural gas, and NGL production revenue is generated.

Oil and Gas Purchase and Sale Arrangements

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

Accounts Receivable from Revenues from Contracts with Customers

Net accounts receivable include amounts billed and currently due from revenues from contracts with customers of our oil and natural gas production, which had a balance at March 31, 2024 and December 31, 2023 of $145.7 million and $132.3 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

On January 3, 2024, the Company entered into the Merger Agreement with APA and Merger Sub, which subsequently closed on April 1, 2024. See “Note 1 — Description of Business and Basis of Presentation” for further discussion.

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

Note 4 — Property and Equipment, Net

As of March 31, 2024 and December 31, 2023, total property and equipment, net consisted of the following:

	March 31, 2024	December 31, 2023
Oil and natural gas properties, successful efforts accounting method	(In thousands)	
Proved properties	$ 9,894,751	$ 9,657,105
Accumulated depreciation, depletion, amortization and impairments	(4,711,872)	(4,570,132)
Proved properties, net	5,182,879	5,086,973
Unproved properties	1,062,775	1,063,033
Total oil and natural gas properties, net	**$ 6,245,654**	**$ 6,150,006**
Other property and equipment	$ 40,474	$ 41,011
Accumulated depreciation	(12,463)	(14,227)
Other property and equipment, net	**$ 28,011**	**$ 26,784**

Note 5 — Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding for the periods presented. The calculation of diluted earnings per share includes the potential dilutive impact of non-vested restricted stock units outstanding during the periods presented, as calculated using the treasury stock method, unless their effect is anti-dilutive.

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except per share amounts)	
Net Income	**$ 14,912**	**$ 220,638**
Basic weighted average common shares outstanding	66,503	61,625
Dilutive impact of restricted stock units	325	249
Diluted weighted average common shares outstanding	**66,828**	**61,874**
Net Income Per Common Share		
Basic	$ 0.22	$ 3.58
Diluted	$ 0.22	$ 3.57
Restricted stock units (1)	17	42
Warrants (1)	481	481

(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:

	March 31, 2024	December 31, 2023
	(In thousands)	
6.375% Senior Notes due 2026	$ 320,783	$ 320,783
Senior Secured Revolving Credit Facility due 2027	470,000	365,000
8.0% Senior Notes due 2028	650,000	650,000
7.5% Senior Notes due 2030	600,000	600,000
Total principal outstanding	**2,040,783**	**1,935,783**
Unamortized deferred financing costs for Senior Notes	(16,123)	(17,128)
Long-term debt (1)	**$ 2,024,660**	**$ 1,918,655**

(1) Excludes unamortized deferred financing costs related to the Company's senior secured revolving credit facility of $11.0 million and $12.8 million as of March 31, 2024 and December 31, 2023, respectively, which are classified in "Other assets, net" in the consolidated balance sheets.

Senior Secured Revolving Credit Facility

The Company has a senior secured revolving credit facility with a syndicate of lenders (the "Credit Facility") that, as of March 31, 2024, had a maximum credit amount of $5.0 billion, a borrowing base of $2.0 billion and an elected commitment amount of $1.5 billion, with borrowings outstanding of $470.0 million at a weighted-average interest rate of 7.41%, and letters of credit outstanding of $21.4 million. The credit agreement governing the Credit Facility (the "Credit Agreement") provides for interest-only payments until October 19, 2027 when the Credit Agreement matures and any outstanding borrowings are due.

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

The borrowing base under the Credit Agreement is subject to regular redeterminations in the spring and fall of each year, as well as special redeterminations described in the Credit Agreement, which in each case may reduce the amount of the borrowing base.

Covenants

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

Under the Credit Agreement, the Company must maintain the following financial covenants determined as of the last day of the quarter: (1) a Leverage Ratio (as defined in the Credit Agreement) of no more than 3.50 to 1.00 and (2) a Current Ratio (as defined in the Credit Agreement) of not less than 1.00 to 1.00. The Company was in compliance with these covenants at March 31, 2024.

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).

Merger with APA

Upon the closing of the Merger on April 1, 2024, all indebtedness under the Company's Credit Agreement and 2026 Notes was repaid, and the aggregate principal balance remaining outstanding under the Company's 2028 Notes and 2030 Notes was reduced to $24 million as follows:

- The Company repaid the aggregate $472 million owed under the Company's Credit Agreement, including principal, accrued and unpaid interest, and certain fees;
- The Company redeemed the outstanding $321 million principal amount of its 2026 Notes at a redemption price equal to 101.063% of their principal amount, plus accrued and unpaid interest to the redemption date; and
- The Company closed cash tender offers for its 2028 Notes and 2030 Notes, accepting for purchase $1.2 billion aggregate principal amount of notes. The Company paid holders an aggregate $1.3 billion in cash, reflecting principal, premium to par, early tender consent fee, and accrued and unpaid interest.

On May 6, 2024, all remaining indebtedness under the Company's 2028 Notes and 2030 Notes was repaid when the Company fully redeemed the remaining outstanding $8 million principal amount of its 2028 Notes at a redemption price equal to 101.588% of their principal amount and $16 million principal amount of its 2030 Notes at a redemption price equal to 102.803% of their principal amount, in each case, plus accrued and unpaid interest to the redemption date.

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, put and call options, and basis differential swaps to manage fluctuations in cash flows resulting from changes in commodity prices. The Company does not use these instruments for speculative or trading purposes.

Counterparty Risk and Offsetting

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

The Company strives to minimize its credit exposure to any individual counterparty and, as such, the Company has outstanding commodity derivative instruments with eight counterparties as of March 31, 2024. All of the counterparties to the Company's commodity derivative instruments are also lenders under the Company's Credit Facility. Therefore, each of the Company's counterparties allow the Company to satisfy any need for margin obligations associated with commodity derivative instruments where the Company is in a net liability position with the collateral securing the Credit Facility, thus eliminating the need for independent collateral posting.

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

While the Company monitors counterparty creditworthiness on an ongoing basis, it cannot predict sudden changes in counterparties' creditworthiness. In addition, even if such changes are not sudden, the Company may be limited in its ability to mitigate an increase in counterparty credit risk. Should one of these counterparties not perform, the Company may not realize the benefit of some of its derivative instruments under lower commodity prices while continuing to be obligated under higher commodity price contracts subject to any right of offset under the agreements. Counterparty credit risk is considered when determining the fair value of a derivative instrument. See "Note 8 — Fair Value Measurements" for further discussion.

Contingent Consideration Arrangements

Percussion Earn-Out Obligation. In the third quarter of 2023, the Company completed its acquisition of oil and gas properties in the Delaware Basin from Percussion Petroleum Management II, LLC ("Percussion"). The transaction was structured as the acquisition by Callon Petroleum Operating Company of 100% of the limited liability company interests of Percussion's wholly owned subsidiary, Percussion Petroleum Operating II, LLC (the "Percussion Acquisition"). As a result of the Percussion Acquisition, the Company assumed an earn-out obligation from Percussion Petroleum Operating II, LLC, where the Company could be required to pay up to $62.5 million in the aggregate if the average daily settlement price of WTI crude oil exceeds $60.00 per barrel for each of the 2023, 2024, and 2025 calendar years. The specified threshold for 2023 was met and the Company paid $12.5 million, net, in January 2024, which is classified as cash flows from investing activities in the consolidated statements of cash flows.

Contingent Eagle Ford Consideration. In the third quarter of 2023, the Company completed its sale of all its oil and gas properties in the Eagle Ford (the "Eagle Ford Divestiture") with Ridgemar Energy Operating, LLC ("Ridgemar"). As a result of the Eagle Ford Divestiture, the Company received a contingent consideration arrangement from Ridgemar. The Company could receive up to $45.0 million if the average daily settlement price of WTI crude oil for 2024 is at least $80.00 per barrel. If the average daily settlement price of WTI crude oil for 2024 is less than $80.00 per barrel but at least $75.00 per barrel, then the Company would receive $20.0 million.

The Company determined that the Percussion Earn-Out Obligation and Contingent Eagle Ford Consideration receipt were not clearly and closely related to the Percussion Acquisition and Eagle Ford Divestiture membership interest purchase agreements, and therefore bifurcated these embedded features and recorded these derivatives at their acquisition date fair value and divestiture date fair value of $34.9 million and $10.9 million, respectively, in the consolidated financial statements. As of March 31, 2024, the estimated fair values of the Percussion Earn-Out Obligation and Contingent Eagle Ford Consideration were $40.4 million and $23.1 million, respectively, and are presented in "Fair value of derivatives" in the consolidated balance sheets.

Financial Statement Presentation and Settlements

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

	As of March 31, 2024		
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
		(In thousands)	
Derivative Assets			
Commodity derivative instruments	$ 8,154	($ 6,145)	$ 2,009
Contingent consideration arrangements	23,100	—	23,100
Fair value of derivatives - current	**$ 31,254**	**($ 6,145)**	**$ 25,109**
Derivative Liabilities			
Commodity derivative instruments [1]	($ 24,085)	$ 6,145	($ 17,940)
Contingent consideration arrangements	(23,770)	—	(23,770)
Fair value of derivatives - current	**($ 47,855)**	**$ 6,145**	**($ 41,710)**
Commodity derivative instruments	$ —	$ —	$ —
Contingent consideration arrangements	(16,660)	—	(16,660)
Fair value of derivatives - non-current	**($ 16,660)**	**$ —**	**($ 16,660)**

(1) Includes approximately $2.6 million of deferred premiums, which will be paid as the applicable contracts settle.

	As of December 31, 2023		
	Presented without Effects of Netting	Effects of Netting	As Presented with Effects of Netting
	(In thousands)		
Derivative Assets			
Commodity derivative instruments	$ 25,813	($ 13,956)	$ 11,857
Fair value of derivatives - current	**$ 25,813**	**($ 13,956)**	**$ 11,857**
Commodity derivative instruments	$ —	$ —	$ —
Contingent consideration arrangements	12,580	—	12,580
Other assets, net	**$ 12,580**	**$ —**	**$ 12,580**
Derivative Liabilities			
Commodity derivative instruments (1)	($ 25,603)	$ 13,956	($ 11,647)
Contingent consideration arrangements	(12,500)	—	(12,500)
Fair value of derivatives - current	**($ 38,103)**	**$ 13,956**	**($ 24,147)**
Commodity derivative instruments	$ —	$ —	$ —
Contingent consideration arrangements	(29,880)	—	(29,880)
Fair value of derivatives - non-current	**($ 29,880)**	**$ —**	**($ 29,880)**

(1) Includes approximately $4.1 million of deferred premiums, which will be paid as the applicable contracts settle.

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
(Gain) loss on oil derivatives	$15,958	($23,344)
Gain on natural gas derivatives	(3,389)	(2,301)
Loss on NGL derivatives	424	—
Loss on contingent consideration arrangements	30	—
(Gain) loss on derivative contracts	**$13,023**	**($25,645)**

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Cash flows from operating activities		
Cash received (paid) on oil derivatives	$ 1,809	($7,398)
Cash received on natural gas derivatives	1,673	6,619
Cash paid on NGL derivatives	(333)	—
Cash received (paid) for commodity derivative settlements, net	$ 3,149	($ 779)
Cash flows from investing activities		
Cash paid for settlement of contingent consideration arrangement	$12,500	$ —

Derivative Positions

Listed in the tables below are the outstanding oil, natural gas, and NGL derivative contracts as of March 31, 2024:

Oil Contracts (WTI)		For the Remainder 2024
Deferred Premium Put Contracts (1)(2)		
Total volume (Bbls)		503,000
Weighted average price per Bbl	$	80.40
Three-Way Collar Contracts		
Total volume (Bbls)		2,939,381
Weighted average price per Bbl		
Ceiling (short call)	$	78.93
Floor (long put)	$	58.20
Floor (short put)	$	48.20

(1) Deferred premium put contracts are a combination of a short fixed price swap and a long call option which then performs as a long put position.
(2) Premiums associated with the Company's deferred premium puts were approximately $2.6 million, which will be paid as the applicable contracts settle.

Natural Gas Contracts (Henry Hub)		For the Remainder 2024
Collar Contracts		
Total volume (MMBtu)		5,061,421
Weighted average price per MMBtu		
Ceiling (short call)	$	3.33
Floor (long put)	$	3.00
Natural Gas Contracts (Waha Basis Differential)		
Swap Contracts		
Total volume (MMBtu)		5,500,000
Weighted average price per MMBtu	($	1.06)
Natural Gas Contracts (HSC Basis Differential)		
Swap Contracts		
Total volume (MMBtu)		11,000,000
Weighted average price per MMBtu	($	0.42)

NGL Contracts (Mont Belvieu Normal Butane)		For the Remainder 2024
Swap Contracts		
Total volume (Bbls)		53,715
Weighted average price per Bbl	$	33.18
NGL Contracts (Mont Belvieu Isobutane)		
Swap Contracts		
Total volume (Bbls)		17,458
Weighted average price per Bbl	$	33.18

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 for which the Company makes its own assumptions about how market participants would price the assets and liabilities.

Fair Value of Financial Instruments

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

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

	March 31, 2024		December 31, 2023	
	Principal Amount	Fair Value	Principal Amount	Fair Value
	(In thousands)			
6.375% Senior Notes	320,783	324,193	320,783	320,119
8.0% Senior Notes	650,000	679,400	650,000	665,164
7.5% Senior Notes	600,000	635,262	600,000	606,414
Total	**$1,570,783**	**$1,638,855**	**$1,570,783**	**$1,591,697**

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Commodity Derivative Instruments. The fair value of commodity derivative instruments is derived using a third-party income approach valuation model that utilizes market-corroborated inputs that are observable over the term of the commodity derivative contract. The Company’s fair value calculations also incorporate an estimate of the counterparties’ default risk for commodity derivative assets and an estimate of the Company’s default risk for commodity derivative liabilities. As the inputs in the model are substantially observable over the term of the commodity derivative contract and as there is a wide availability of quoted market prices for similar commodity derivative contracts, the Company designates its commodity derivative instruments as Level 2 within the fair value hierarchy. See “Note 7 — Derivative Instruments and Hedging Activities” for further discussion.

Contingent Consideration Arrangements—Embedded Derivative Financial Instruments. The embedded options within the contingent consideration arrangements are considered financial instruments under ASC 815. The Company engages a third-party valuation specialist using an option pricing model approach to measure the fair value of the embedded options on a recurring basis. The valuation includes significant inputs such as forward oil price curves, time to expiration, and implied volatility. The model provides for the probability that the specified pricing thresholds would be met for each settlement period, estimates undiscounted payouts, and risk adjusts for the discount rates inclusive of adjustments for each of the counterparty’s credit quality. As these inputs are substantially observable for the full term of the contingent consideration arrangements, the inputs are considered Level 2 inputs 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 March 31, 2024 and December 31, 2023:

	March 31, 2024		
	Level 1	Level 2	Level 3
		(In thousands)	
Derivative Assets			
Commodity derivative assets	$ —	$ 2,009	$ —
Contingent consideration arrangements	—	23,100	—
Total net assets	**$ —**	**$ 25,109**	**$ —**
Derivative Liabilities			
Commodity derivative liabilities (1)	$ —	($ 17,940)	$ —
Contingent consideration arrangements	—	(40,430)	—
Total net liabilities	**$ —**	**($ 58,370)**	**$ —**

(1) Includes approximately $2.6 million of deferred premiums, which will be paid as the applicable contracts settle.

	December 31, 2023		
	Level 1	Level 2	Level 3
		(In thousands)	
Derivative Assets			
Commodity derivative assets	$ —	$ 11,857	$ —
Contingent consideration arrangements	—	12,580	—
Total net assets	**$ —**	**$ 24,437**	**$ —**
Derivative Liabilities			
Commodity derivative liabilities (1)	$ —	($ 11,647)	$ —
Contingent consideration arrangements	—	(42,380)	—
Total net liabilities	**$ —**	**($ 54,027)**	**$ —**

(1) Includes approximately $4.1 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

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

Note 9 — Income Taxes

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

For the three months ended March 31, 2024 and 2023, the Company recognized income tax expense of $8.1 million and income tax benefit of $50.7 million, respectively. The income tax benefit in the first quarter of 2023 was a result of the release of the valuation allowance recorded against the Company's net deferred tax assets as discussed further below.

Deferred Tax Asset Valuation Allowance

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

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 three months ended March 31, 2024:

	Three Months Ended March 31, 2024	
	RSU Equity Awards (In thousands)	Weighted Average Grant Date Fair Value
Unvested, beginning of the period	**855**	**$ 39.46**
Granted	660	$ 31.33
Vested	(50)	$ 32.41
Forfeited	(28)	$ 38.95
Unvested, end of the period	**1,437**	**$ 35.98**

Grant activity for the three months ended March 31, 2024 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 $31.33.

The aggregate fair value of RSU Equity Awards that vested during the three months ended March 31, 2024 was $1.7 million. As of March 31, 2024, unrecognized compensation costs related to unvested RSU Equity Awards were $36.7 million and will be recognized over a weighted average period of 2.3 years.

Cash-Settled Awards

As of March 31, 2024 and December 31, 2023, the Company had a total liability of $2.6 million and $2.2 million, respectively, for outstanding Cash-Settled Awards (as defined below). As of March 31, 2024, Cash-Settled Awards consisted of restricted stock unit awards that may be settled in cash ("Cash-Settled RSU Awards") and stock appreciation rights to be settled in cash ("Cash SARs" and, collectively with the Cash-Settled RSU Awards, the "Cash-Settled Awards").

Share-Based Compensation Expense, Net

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
RSU Equity Awards expense	$ 4,987	$ 3,626
Cash-Settled Awards expense (benefit)	426	(1,745)
Total share-based compensation expense, net	**$ 5,413**	**$ 1,881**

See "Note 11 — Compensation Plans" of the Notes to Consolidated Financial Statements in the 2023 Annual Report for details of the Company's equity-based incentive plans.

Note 11 — Accounts Receivable, Net

	March 31, 2024	December 31, 2023
	(In thousands)	
Oil and natural gas receivables	$ 145,723	$ 132,332
Joint interest receivables	23,633	34,555
Other receivables	54,413	41,072
Total	223,769	207,959
Allowance for credit losses	(1,526)	(1,168)
Total accounts receivable, net	**$ 222,243**	**$ 206,791**

Note 12 — Accounts Payable and Accrued Liabilities

	March 31, 2024	December 31, 2023
	(In thousands)	
Accounts payable	$ 159,609	$ 204,339
Revenues and royalties payable	243,631	226,804
Accrued capital expenditures	88,591	59,599
Accrued interest	28,548	35,704
Total accounts payable and accrued liabilities	**$ 520,379**	**$ 526,446**

Note 13 — Supplemental Cash Flow

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)	
Supplemental cash flow information:		
Interest paid	$ 46,295	$ 54,233
Income taxes paid (1)	—	—
Non-cash investing and financing activities:		
Change in accrued capital expenditures	$ 29,786	$ 67,460
Change in asset retirement costs	524	568

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

Note 14 — Subsequent Events

The Company has evaluated subsequent events through December 2, 2024 and have noted nothing material for disclosure other than the following:

Merger with APA

The Merger with APA closed on April 1, 2024. See “Note 1 — Description of Business and Basis of Presentation” for further discussion.

Repayment of Borrowings Outstanding

After the closing of the Merger with APA, the Company’s outstanding indebtedness under the Credit Agreement and the Senior Notes was fully repaid. See “Note 6 — Borrowings” for further discussion.

UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

On April 1, 2024, APA Corporation ("APA" or the "Company") completed its acquisition of Callon Petroleum Company ("Callon"), through the merger of Astro Comet Merger Sub Corp., a Delaware corporation and a wholly owned subsidiary of APA ("Merger Sub"), with and into Callon (the "merger"), pursuant to the Agreement and Plan of Merger, dated as of January 3, 2024 (the "Merger Agreement"), among APA, Merger Sub, and Callon. Upon completing the merger, Callon stockholders received, in exchange for each eligible share of Callon common stock, 1.0425 shares of APA common stock, par value $0.625 per share ("APA common stock").

The following unaudited pro forma combined statement of operations ("pro forma statement of operations") has been prepared from the respective historical consolidated financial statements of APA and Callon, adjusted to give effect to (i) the merger, (ii) the extinguishment of Callon's outstanding debt, and (iii) the issuance of new debt (collectively, the "Transactions"). The pro forma statement of operations combines the historical consolidated statements of operations of APA and Callon for the nine months ended September 30, 2024, and for the three months ended March 31, 2024, respectively, giving effect to the Transactions as if they had been consummated on January 1, 2023.

The pro forma statement of operations contains certain reclassification adjustments to conform the historical Callon financial statement presentation to APA's financial statement presentation.

The pro forma statement of operations has been developed from and should be read in conjunction with:

- the audited consolidated financial statements of APA included in its Annual Report on Form 10-K for the year ended December 31, 2023;
- the audited consolidated financial statements of Callon for the year ended December 31, 2023, included in APA's Current Report on Form 8-K/A filed on June 13, 2024;
- the unaudited consolidated financial statements of APA included in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2024;
- the unaudited consolidated financial statements of Callon included in this Form 8-K for the quarter ended March 31, 2024; and
- other information relating to APA and Callon contained in or incorporated by reference into this filing.

The pro forma statement of operations is provided for illustrative purposes only and is not intended to represent what APA's financial position or results of operations would have been had the Transactions actually been consummated on the assumed dates, nor does it purport to project the future operating results or the financial position of the combined company following the merger. The pro forma statement of operations does not fully reflect continuing events that may occur as a result of the merger, including, but not limited to, the anticipated realization of savings from potential operating efficiencies, cost savings, or economies of scale that the combined company may achieve with respect to the combined operations. Events occurring subsequent to completion of the merger, including costs associated with subsequent integration activities and integrated savings recognized through September 30, 2024 are incorporated in the pro forma statement of operations based on actual results incurred and are more fully described in APA's Quarterly Report on Form 10-Q for the quarter ended September 30, 2024.

The pro forma statement of operations has been prepared to reflect adjustments to APA's historical consolidated financial information as if the Transactions had been consummated on January 1, 2023. Accordingly, the pro forma statement of operations reflects the following:

- the merger is accounted for as a business combination using the acquisition method of accounting, with APA identified as the acquirer, and the issuance of shares of APA common stock as merger consideration;
- each eligible share of Callon common stock and each Callon equity award converted or settled as part of the merger was converted automatically into the right to receive 1.0425 shares of APA common stock, in accordance with the terms of the Merger Agreement;
- the assumption of merger-related expenses and liabilities;
- the reclassification of certain of Callon's historical amounts to conform to APA's financial statement presentation;
- the recognition of the estimated tax impact of the pro forma adjustments; and
- the extinguishment of Callon's senior notes and credit facility and subsequent refinancing by APA.

Assumptions and estimates underlying the pro forma adjustments are described in the accompanying notes, which should be read in conjunction with the pro forma statement of operations. The fair value of Callon's assets and liabilities is based on the actual assets and liabilities of Callon that existed as of the date the merger was completed. In addition, the value of the consideration paid by APA upon completion of the merger is based on the price of APA common stock on the date the merger was completed. In APA's opinion, all adjustments are based on available information and assumptions that APA believes are reasonable and necessary to present fairly the pro forma information.

APA CORPORATION
UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2024
(in millions, except per share data)

	APA Historical (Note 1)	Callon Historical (Note 1)	Reclassification Adjustments (Note 4)		Transaction Accounting and Financing Adjustments (Note 3)		Pro Forma Combined
REVENUES AND OTHER:							
Oil, natural gas, and natural gas liquids production revenues	$ 6,007	$ 456	$ —		$ —		$ 6,463
Purchased oil and gas sales	1,018	108	—		—		1,126
Total revenues	7,025	564	—		—		7,589
Derivative instrument losses, net	(17)	(13)	—		—		(30)
Gain on divestitures, net	284	—	—		—		284
Loss on previously sold Gulf of Mexico properties	(83)	—	—		—		(83)
Other, net	26	(13)	—		—		13
	7,235	538	—		—		7,773
OPERATING EXPENSES:							
Lease operating expenses	1,216	75	—		—		1,291
Gathering, processing, and transmission	328	30	—		—		358
Purchased oil and gas costs	665	109	—		—		774
Taxes other than income	205	28	—		—		233
Exploration	248	2	—		—		250
General and administrative	270	32	—		—		302
Transaction, reorganization, and separation	156	54	—		(114)	**(a)**	96
Depreciation, depletion, and amortization	1,613	143	(1)	**(a)**	(3)	**(b)**	1,752
Asset retirement obligation accretion	112	—	1	**(a)**	2	**(c)**	115
Impairments	1,111	—	—		—		1,111
Financing costs, net	276	42	—		(9)	**(d)**	309
	6,200	515	—		(124)		6,591
NET INCOME BEFORE INCOME TAXES	1,035	23	—		124		1,182
Current income tax provision	845	—	—		—		845
Deferred income tax provision (benefit)	(503)	—	8	**(b)**	26	**(e)**	(469)
Income tax expense	—	8	(8)	**(b)**	—		—
NET INCOME INCLUDING NONCONTROLLING INTERESTS	693	15	—		98		806
Net income attributable to noncontrolling interest – Egypt	243	—	—		—		243
NET INCOME ATTRIBUTABLE TO COMMON STOCK	$ 450	$ 15	$ —		$ 98		$ 563
NET INCOME PER COMMON SHARE:							
Basic	$ 1.30					**(f)**	$ 1.52
Diluted	$ 1.29					**(f)**	$ 1.52
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING:							
Basic	348				22	**(f)**	370
Diluted	348				22	**(f)**	370

NOTES TO THE UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS

NOTE 1. Basis of Presentation

The APA historical financial information has been derived from APA's Quarterly Report on Form 10-Q for the nine months ended September 30, 2024. The Callon historical financial information has been derived from Callon's unaudited consolidated financial statements for the three months ended March 31, 2024 included in this Form 8-K. Certain financial line items in Callon's statement of operations have been presented under the most comparable financial line-item caption reflected in APA's historical financial information. Results of operations for the combined entity related to periods subsequent to completion of the merger on April 1, 2024, are reflected in APA's historical financial information for the nine months ended September 30, 2024. Certain of Callon's historical amounts have been reclassified to conform to APA's financial statement presentation as further discussed in Note 4—Reclassification Adjustments. This pro forma financial statement should be read in conjunction with the historical financial statements and related notes thereto of APA and Callon.

The pro forma statement of operations gives effect to the Transactions as if they had occurred on January 1, 2023.

The pro forma statement of operations reflect pro forma adjustments that are described in the accompanying notes and are based on currently available information. In APA's opinion, all adjustments have been made that are necessary to present fairly the pro forma statement of operations. The pro forma statement of operations does not purport to represent what the combined company's financial position or results of operations would have been if the Transactions had actually occurred on the dates indicated. Additionally, the unaudited pro forma results are not intended to be a projection of future results and do not include any future cost savings or other synergies that may result from the Callon acquisition or any estimated costs that have not yet been incurred. Actual results may differ materially from the assumptions and estimates reflected in this pro forma statement of operations.

NOTE 2. Purchase Price Allocation

APA determined it is the accounting acquirer in the merger, which is accounted for under the acquisition method of accounting for business combinations in accordance with Accounting Standards Codification 805, "Business Combinations." The allocation of the estimated purchase price with respect to the merger is based upon APA's estimates of, and assumptions related to, the fair value of assets and liabilities assumed as of the date the merger was completed, using currently available information and is subject to change if additional information about the facts and circumstances that existed at the acquisition date becomes available. APA expects to finalize the purchase price allocation as soon as practicable, but no later than one year from April 1, 2024.

Based upon the merger consideration transferred, the fair value of the assets acquired and liabilities assumed is recorded as follows (shown in millions, except exchange ratio and price per share data):

Consideration transferred:		
Callon common stock outstanding on April 1, 2024, prior to completion of the merger		67
Exchange ratio		1.0425
Shares of APA common stock issued		69
Closing price per share of APA common stock (a)	$	34.53
Fair value of APA common stock to be issued as consideration	**$**	**2,394**
Fair value of APA equity-based awards issued in exchange for Callon equity-based awards (b)		20
Other consideration transferred		24
Total consideration transferred	**$**	**2,438**
Fair value of assets acquired:		**Fair Value**
Current assets	$	282
Property, plant, and equipment		4,493
Deferred tax asset		575
Other assets		11
Total assets acquired	**$**	**5,361**
Fair value of liabilities assumed:		
Current liabilities		616
Long-term debt		2,113
Asset retirement obligations		136
Other long-term obligations		58
Total liabilities assumed	**$**	**2,923**
Assets acquired and liabilities assumed	**$**	**2,438**

(a) Represents the market price of APA Common Stock on April 1, 2024.

(b) Additional consideration represents the fair value of APA shares that replaced Callon equity awards that are attributable to pre-merger services provided.

Under the Merger Agreement, each Callon stockholder was entitled to receive 1.0425 shares of APA common stock for, as applicable, (i) each eligible share of Callon common stock and (ii) each Callon equity award converted or settled as part of the merger, with cash in lieu of fractional shares.

NOTE 3. Pro Forma Adjustments

Adjustments included in the column labeled "Transaction Accounting and Financing Adjustments" in the pro forma statement of operations are as follows:

(a) Reflects the transaction accounting adjustment to reclassify the nonrecurring transaction costs of approximately $114 million as if the Transactions had occurred on January 1, 2023. Nonrecurring transaction costs include advisory, legal, regulatory, accounting, valuation, and other professional fees that are not capitalized as part of the Transactions.

(b) Reflects the pro forma adjustment of $3 million for DD&A expense based on an assumed DD&A rate applied to the purchase price allocation for proved properties. DD&A for oil and gas properties was calculated in accordance with the successful efforts method of accounting for oil and gas properties using the combined companies estimated proved reserves as if the Transactions had occurred on January 1, 2023.

(c) Reflects the pro forma adjustment of $2 million for additional accretion expense based on the higher estimated fair value of the assumed Callon asset retirement obligation.

(d) Reflects the pro forma adjustment of $9 million related to the extinguishment of the historical Callon debt and the issuance of a new $1.5 billion senior unsecured delayed-draw term loan by APA, cash, and the use of APA's existing credit facility. For the purposes of the pro forma financial statements it was assumed that the remaining debt was repaid using APA's existing credit facility and cash available as of December 31, 2023. The unsecured delayed-draw term loan will mature in three years. Pro forma interest expense includes estimates for the new term loan, including the impact of changes to amortization of debt issuance costs and from purchase accounting adjustments. The pro forma interest expense is based on a weighted average interest rate of 7.1%. The actual interest rate will be based on market and other conditions. For each 1/8% (12.5 basis points) change in the estimated weighted average interest rate for the new term loan, interest expense would increase or decrease by approximately $2 million per year. The pro forma interest expense associated with APA's existing credit facility is based on a weighted average interest rate of 6.6%.

(e) An estimated deferred tax provision of $26 million was recorded for the transaction accounting adjustments using APA's statutory rate in effect.

(f) The adjustments on APA Common Stock and basic and diluted earnings per share are summarized below:

	Nine Months Ended September 30, 2024	
Numerator		
Basic and diluted combined pro forma net income attributable to APA common stockholders	$	563
Denominator		
Basic:		
Historical basic weighted average APA shares outstanding		348
Shares of APA common stock issued assuming the Transactions occurred on January 1, 2023		22
Pro forma basic weighted average APA shares outstanding		370
Pro forma basic net income per share attributable to common APA stockholders	$	1.52
Diluted:		
Historical diluted weighted average APA shares outstanding		348
Shares of APA common stock issued assuming the Transactions occurred on January 1, 2023		22
Pro forma diluted weighted average APA shares outstanding		370
Pro forma diluted net income per share attributable to common APA stockholders	$	1.52

NOTE 4. Reclassification Adjustments

The Callon historical statement of operations has been derived from its unaudited consolidated financial statements for the three months ended March 31, 2024 included in this Form 8-K. Certain financial line items in Callon's statement of operations have been presented under the most comparable financial line-item caption reflected in APA's historical financial information. Results of operations for the combined entity related to periods subsequent to completion of the merger on April 1, 2024, are reflected in APA's historical financial information for the nine months ended September 30, 2024.

Reclassifications have been made to the historical presentation of Callon's statement of operations to conform to the financial statement presentation of APA as follows:

Reclassification Adjustments of Callon's Statement of Operations

The following adjustments have been made to the accompanying unaudited pro forma statement of operations to reclassify certain of Callon's historical amounts to conform to the historical presentation of APA:

(a) Represents reclassification of $1 million of Callon's "Depreciation, depletion, and amortization" to "Asset retirement obligation accretion."

(b) Represents reclassification of $8 million of Callon's "Income tax expense" to "Deferred income tax provision (benefit)." Callon's "Current income tax provision" for the period presented was immaterial.