



Hammerhead Energy Inc.

Consolidated Financial Statements
As at and for the Three and Six Months Ended
June 30, 2023

Dated: August 3, 2023

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

<i>As at</i> <i>(Cdn\$ thousands)</i>	Note	June 30, 2023	December 31, 2022
ASSETS			
Current assets			
Cash		4,960	8,833
Accounts receivable		59,071	89,235
Prepaid expenses and deposits		12,905	4,564
Risk management contracts	17	24,961	19,293
Total current assets		101,897	121,925
Property, plant and equipment	5	1,805,841	1,644,199
Total assets		1,907,738	1,766,124
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		107,760	135,547
Current portion of lease obligations	8	1,213	1,180
Risk management contracts	17	3,568	7,286
Total current liabilities		112,541	144,013
Bank debt	6	275,992	179,800
Term debt	7	81,790	78,932
Non-current portion of lease obligations	8	3,331	3,945
Warrant liability	10	29,305	21,971
Decommissioning obligations	9	22,274	23,115
Deferred tax liabilities		65,623	31,720
Total liabilities		590,856	483,496
SHAREHOLDERS' EQUITY			
Common share capital	12	331,979	585,732
Preferred share capital	12	—	606,131
Contributed surplus		1,103,471	96,417
Deficit		(118,568)	(5,652)
Total shareholders' equity		1,316,882	1,282,628
Total liabilities and shareholders' equity		1,907,738	1,766,124

Commitments and contractual obligations

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See accompanying notes to the interim condensed consolidated financial statements (unaudited).

Approved by the Board of Directors,

(signed)

Stewart Hanlon

Director and Audit Committee Chair

(signed)

Scott Sobie

President and Chief Executive Officer

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT (LOSS) AND COMPREHENSIVE PROFIT (LOSS) (UNAUDITED)

<i>(Cdn\$ thousands, except per share amounts)</i>	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022
REVENUE					
Oil and gas revenue	15	171,072	249,908	388,126	439,450
Royalties		(16,572)	(32,034)	(41,497)	(49,925)
Oil and natural gas revenue, net of royalties		154,500	217,874	346,629	389,525
RISK MANAGEMENT CONTRACTS					
Realized gain (loss) on risk management contracts	17	19,175	(42,530)	18,935	(65,268)
Unrealized (loss) gain on risk management contracts	17	(11,674)	26,173	9,386	(40,319)
		7,501	(16,357)	28,321	(105,587)
OTHER INCOME					
		294	1,939	605	2,180
		162,295	203,456	375,555	286,118
EXPENSES					
Operating		33,757	28,503	63,616	53,577
Transportation		20,481	18,168	41,488	34,899
General and administrative		9,702	6,633	17,814	11,844
Transaction costs	4	94	—	9,061	—
Share-based compensation	13	2,454	4,712	7,248	7,887
Depletion, depreciation and impairment	5	57,057	37,230	107,575	72,964
Finance	16	8,755	6,352	15,395	11,929
(Gain) loss on foreign exchange		(3,274)	4,720	(3,327)	2,603
Loss (gain) on warrant revaluation	10	4,794	145	15,220	(136)
Listing expense	4	—	—	180,478	—
Total expenses		133,820	106,463	454,568	195,567
Net profit (loss) and comprehensive profit (loss) before income taxes					
		28,475	96,993	(79,013)	90,551
Deferred income tax expense		7,732	—	33,903	—
Net profit (loss) and comprehensive profit (loss)					
		20,743	96,993	(112,916)	90,551
Net profit (loss) per common share					
Basic ¹		0.23	3.63	(1.64)	3.14
Diluted ¹		0.22	1.46	(1.64)	1.27

1 For the periods ended June 30, 2022, the Company's basic and diluted earnings per share is the net profit per common share of Hammerhead Resources Inc., and the weighted average common shares outstanding has been scaled by the applicable exchange ratio following the completion of the business combination with DCRD (note 4).

See accompanying notes to the interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended
(Cdn\$ thousands)

	Note	June 30, 2023	June 30, 2022
Common share capital			
Balance, beginning of period		585,732	584,275
Common shares exchanged per business combination	4, 12	(585,732)	—
Issuance of new HEI Common Shares per business combination	4, 12	585,732	—
Issuance for exchange of preferred shares	4, 12	606,131	—
Issuance for exercise of 2020 Warrants	4, 10	21,684	—
Issuance to DCRD shareholders	4, 12	109,597	—
Long-term retention program	4, 13	5,793	—
Reduction of stated capital	12	(1,000,000)	—
Issuance for exercise of Legacy RSUs and Legacy Options	12	3,042	80
Balance, end of period		331,979	584,355
Preferred share capital			
Balance, beginning of period		606,131	606,131
Exchange of preferred shares for HEI Common Shares	12	(606,131)	—
Balance, end of period		—	606,131
Contributed surplus			
Balance, beginning of period		96,417	83,704
Recognized under share-based compensation plans	13	9,890	11,227
Reduction of stated capital	12	1,000,000	—
Exercise of Legacy RSUs and Legacy Options		(2,836)	(80)
Balance, end of period		1,103,471	94,851
Deficit			
Balance, beginning of period		(5,652)	(230,752)
Net (loss) profit		(112,916)	90,551
Balance, end of period		(118,568)	(140,201)
Total shareholders' equity, beginning of period		1,282,628	1,043,358
Total shareholders' equity, end of period		1,316,882	1,145,136

See accompanying notes to the interim condensed consolidated financial statements (unaudited).

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

<i>(Cdn\$ thousands)</i>	Note	Three Months Ended		Six Months Ended	
		June 30, 2023	2022	June 30, 2023	2022
OPERATING ACTIVITIES					
Net profit (loss)		20,743	96,993	(112,916)	90,551
Adjustments for non-cash items:					
Unrealized loss (gain) on risk management contracts	17	11,674	(26,173)	(9,386)	40,319
Share-based compensation	13	2,454	4,712	7,248	7,887
Depletion, depreciation and impairment	5	57,057	37,230	107,575	72,964
Finance, non-cash	16	2,535	4,218	5,058	8,362
Unrealized (gain) loss on foreign exchange		(3,346)	4,460	(3,512)	2,386
Loss (gain) on warrant revaluation	10	4,794	145	15,220	(136)
Deferred income tax expense		7,732	—	33,903	—
Transaction costs, non-cash	4, 13, 18	—	—	5,793	—
Listing expense, non-cash	4	—	—	180,478	—
Settlement of decommissioning obligations	9	(54)	—	(54)	(123)
Realized foreign exchange gain on warrant repurchase		(196)	—	(196)	—
Change in non-cash working capital	14	(27,538)	8,038	(37,815)	(22,124)
Net cash from operating activities		75,855	129,623	191,396	200,086
FINANCING ACTIVITIES					
Drawdown of bank debt		75,468	10,500	132,510	47,500
Repayment of bank debt		(3,314)	(70,000)	(35,314)	(89,000)
Purchase and cancellation of Warrants	10	(17,267)	—	(17,267)	—
Settlement of 2013 Warrants	4, 10	—	—	(168)	—
Proceeds from common shares issued		126	—	206	—
Payment of lease obligations		(293)	(256)	(581)	(507)
Net cash from (used in) financing activities		54,720	(59,756)	79,386	(42,007)
INVESTING ACTIVITIES					
Additions to property, plant and equipment ("PP&E")	5	(95,266)	(50,387)	(267,708)	(132,875)
Net change in accounts payable related to the addition of PP&E	14	(37,043)	(18,027)	(6,924)	(31,053)
Net cash used in investing activities		(132,309)	(68,414)	(274,632)	(163,928)
Net change in cash		(1,734)	1,453	(3,850)	(5,849)
Cash, beginning of period		6,666	5,023	8,833	12,239
Foreign exchange revaluation		28	(152)	(23)	(66)
Cash, end of period		4,960	6,324	4,960	6,324

See accompanying notes to the interim condensed consolidated financial statements (unaudited).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and six months ended June 30, 2023 and 2022.

1. REPORTING ENTITY

Hammerhead Energy Inc. ("HEI", "Hammerhead", or the "Company") was incorporated in Alberta on September 1, 2022. Refer to note 4 Business Combination for additional information on the amalgamation of HEI on February 23, 2023. These unaudited interim condensed consolidated financial statements (the "Interim Financial Statements") are comprised of the accounts of HEI and its wholly owned subsidiaries, Hammerhead Resources ULC, Prairie Lights Power GP Inc. and Prairie Lights Power Limited Partnership. Prior period amounts are those of Hammerhead Resources Inc., which continued as the operating entity, Hammerhead Resources ULC, following the amalgamation.

HEI is an oil and natural gas exploration, development and production company. HEI's reserves, producing properties and exploration prospects are located in the Deep Basin of West Central Alberta where it is developing multi-zone, liquids-rich oil and gas plays. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these Interim Financial Statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

The Company is controlled by Riverstone Holdings LLC ("Riverstone"). The Company's head office is located at Eighth Avenue Place, East Tower, Suite 2700, 525-8th Avenue SW, Calgary, Alberta, Canada, T2P 1G1.

2. BASIS OF PRESENTATION

(a) Statement of compliance

The Interim Financial Statements were approved and authorized for issue by the Company's Board of Directors on August 3, 2023. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of Hammerhead Resources Inc., as at December 31, 2022 and 2021 and for the years ended December 31, 2022, 2021 and 2020 and the notes thereto (the "Annual Financial Statements"). Hammerhead Resources Inc. was amalgamated to form Hammerhead Resources ULC, which continues as the operating entity of HEI following the business combination described in note 4. The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements.

(b) Basis of measurement

The Interim Financial Statements have been prepared on a historical cost basis except for the warrant liability (note 10) and the risk management contracts (note 17), which are measured at fair value.

(c) Functional and presentation currency

The Interim Financial Statements are presented in Canadian dollars ("Cdn\$"), which is also the Company's functional currency. All references to US\$ or USD are to United States dollars.

(d) Use of estimates and judgements

The preparation of the Interim Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are outlined in the Annual Financial Statements.

3. CHANGES IN ACCOUNTING STANDARDS

Effective for periods beginning on or after January 1, 2023, the International Accounting Standard Board has published a new standard, IFRS 17 Insurance Contracts, as well as amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; IAS 12 Income Taxes; and IAS 1 Presentation of Financial Statements. The Company has adopted this standard and these amendments and determined no significant impact to the Company's Interim Financial Statements.

4. BUSINESS COMBINATION

On February 23, 2023, the Company completed a plan of arrangement pursuant to a business combination agreement with Decarbonization Plus Acquisition Corporation IV ("DCRD"), an affiliate of the Company's controlling shareholder, Riverstone, and certain other parties and their respective securityholders. Pursuant to the plan of arrangement, DCRD amalgamated with a wholly owned subsidiary of the Company which was incorporated for the purpose of effecting the business combination to form Hammerhead Energy Inc. ("HEI"). Also pursuant to the plan of arrangement, Hammerhead Resources Inc. ("HHR") amalgamated with a wholly owned subsidiary of DCRD incorporated to effect the business combination to form Hammerhead Resources ULC, a wholly owned subsidiary of HEI.

HEI Class A Common Shares ("HEI Common Shares") and warrants to purchase HEI Common Shares ("HEI Warrants") are traded on the Nasdaq Stock Market LLC ("Nasdaq") under the symbols "HHR" and "HHRW", respectively and the Toronto Stock Exchange ("TSX") under the symbols "HHR" and "HHR.WT", respectively.

As a result of the business combination, the following occurred:

- HHR's approximately 392.6 million common shares were exchanged for approximately 25.1 million HEI Common Shares,
- HHR's approximately 500.9 million preferred shares were exchanged for approximately 56.1 million HEI Common Shares,
- HHR's approximately 35.0 million 2020 Warrants were exchanged for approximately 1.6 million HEI Common Shares,
- HHR's approximately 6.0 million warrants to purchase common shares issued in 2013 were settled for a cash payment of \$0.028 per warrant, totaling approximately \$0.2 million,
- HHR's limited recourse loans under the long-term retention program of approximately \$5.8 million were terminated,
- DCRD's approximately 8.0 million common shares were exchanged for approximately 8.0 million HEI Common Shares,
- DCRD's approximately 28.5 million warrants to purchase DCRD common shares were exchanged for approximately 28.5 million HEI Warrants,
- HHR's approximately 10.5 million options were exchanged for approximately 0.7 million options to purchase HEI Common Shares ("Legacy Options"), and
- HHR's approximately 83.4 million restricted share units were exchanged for approximately 5.3 million restricted share units to acquire HEI Common Shares ("Legacy RSUs")

HEI issued a total of 90,778,275 HEI Common Shares, 28,549,991 HEI Warrants, 5,329,938 Legacy RSUs and 671,539 Legacy Options to the former securityholders of HHR and DCRD in connection with the business combination.

The transaction is a business combination under common control and applies IFRS 2 Share Based Payment as DCRD does not meet the definition of a business under IFRS 3 Business Combinations. On closing, the Company accounted for the fair value of the HEI Common Shares issued to DCRD shareholders at the market price of DCRD's publicly traded common shares on February 23, 2023. The total fair value of the HEI Common Shares issued to DCRD shareholders was \$109.6 million. As part of the amalgamation, HEI acquired cash, prepaid expenses, accounts payable, related party payables and warrant liabilities. The fair value of the HEI Common Shares issued to DCRD shareholders less the sum of the net liabilities acquired was accounted for as listing expense.

The following table reconciles the elements of the business combination:

<i>(Cdn\$ thousands)</i>	Amalgamation under IFRS 2
<i>Total fair value of consideration</i>	
8,032,671 shares at US\$10.07 per common share (US\$80.9 million)	109,597
<i>less the following</i>	
Cash	156
Prepaid expenses	3,705
Less: Accounts payable	(24,179)
Less: Due to related parties	(18,457)
Less: Warrant liabilities ¹	(32,106)
Total listing expense	180,478

¹ Warrant liabilities include Public Warrants and Private Placement Warrants. See note 10 for additional information.

The listing expense is presented in the interim condensed consolidated statements of profit (loss) and comprehensive profit (loss). The related party payables included \$9.5 million due to HEI that was eliminated upon closing and \$8.9 million due to Riverstone. All related party payable balances were settled as at March 31, 2023.

For the three and six months ended June 30, 2023, the Company expensed \$0.1 million and \$9.1 million, respectively, in transaction costs (three and six months ended June 30, 2022 - nil).

5. PROPERTY, PLANT AND EQUIPMENT ("PP&E")

The following table reconciles movements of PP&E during the period:

<i>(Cdn\$ thousands)</i>	Development and Production Assets	Corporate Assets	Right-of-Use Assets	Total
PP&E, at cost:				
Balance - December 31, 2021	2,123,153	10,926	6,411	2,140,490
Additions	379,220	1,857	1,451	382,528
Balance - December 31, 2022	2,502,373	12,783	7,862	2,523,018
Additions	267,758	1,459	—	269,217
Balance - June 30, 2023	2,770,131	14,242	7,862	2,792,235
Accumulated depletion, depreciation and impairment				
Balance - December 31, 2021	721,852	7,588	2,211	731,651
Depletion and depreciation	144,133	1,982	1,053	147,168
Balance - December 31, 2022	865,985	9,570	3,264	878,819
Depletion, depreciation and impairment	105,860	1,088	627	107,575
Balance - June 30, 2023	971,845	10,658	3,891	986,394
Net book value - December 31, 2022	1,636,388	3,213	4,598	1,644,199
Net book value - June 30, 2023	1,798,286	3,584	3,971	1,805,841

At June 30, 2023, an estimated \$2.6 billion in future development costs associated with the proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2022 – \$2.8 billion).

(a) Capitalization of general and administrative and share-based compensation expenses

During the six months ended June 30, 2023, \$3.0 million (year ended December 31, 2022 – \$5.1 million) of directly attributable general and administrative expenses and \$2.6 million (year ended December 31, 2022 – \$4.1 million) of share-based compensation expenses were capitalized to PP&E assets. These amounts directly related to development activities conducted during the period.

(b) Impairment

At June 30, 2023 and December 31, 2022, the Company assessed its production and development assets for indicators of impairment and none were noted. In June 2023, the Company discontinued its Prairie Lights Power project, which indicated a change in expected use and therefore impairment of the asset. The fair value less costs of disposal was estimated at \$1.0 million and an impairment of \$6.8 million was recorded in profit (loss).

6. BANK DEBT

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
Syndicated facility ¹	260,992	164,800
Operating facility	15,000	15,000
Total bank debt outstanding	275,992	179,800

¹ Included in the syndicated facility is a draw of US\$33.0 million. As at June 30, 2023, the US\$ draw was translated to Cdn\$43.7 million.

The Company's bank debt is held in a credit facility with a syndicate of lenders. Under the credit facility, determination of the borrowing base is made by the lenders at their sole discretion, and is subject to re-determinations semiannually. On May 30, 2023, the semiannual re-determination was completed and the Company's credit facility was reaffirmed at \$350.0 million, consisting of a \$330.0 million revolving syndicated facility and a \$20.0 million operating facility.

As at June 30, 2023, Hammerhead was compliant with all covenants and cross default clauses stated in the credit facility agreement. Covenants include reporting requirements and limitations on excess cash, indebtedness, equity issuances, acquisitions, dispositions, hedging, encumbrances, asset retirement obligations, as well as other standard business operating covenants. The Company is not subject to financial covenants. The lenders have first lien on all of the assets held by the Company and its subsidiaries.

Amounts borrowed under the credit facility bear interest based on the referenced Canadian prime lending rate or the bankers' acceptance rate in effect, at the Company's option, plus an applicable margin or fee, respectively. The applicable rate is determined by the ratio of first lien indebtedness to earnings before interest, taxes, depreciation, depletion and impairment. The credit facility also includes standby fees on balances not drawn.

The following ranges are the applicable prime margin, bankers' acceptance and standby fees:

	Margin on Canadian Prime Rate	Bankers' Acceptance Fee	Standby Fee
Credit facility	1.75% - 5.25%	2.75% - 6.25%	0.69% - 1.56%

Letters of Credit

The Company has guaranteed letters of credit in both Canadian and US dollars. As at June 30, 2023, the Company's Canadian dollar denominated letters of credit were guaranteed through Export Development Canada ("EDC") and totaled \$14.3 million (December 31, 2022 - \$13.8 million). The Company's US dollar denominated letters of credit totaled US\$0.7 million (Cdn\$0.9 million) as at June 30, 2023 and December 31, 2022.

7. TERM DEBT

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
2020 Senior Notes – outstanding principal	120,648	120,648
Principal repayment, net of outstanding PIK interest ¹	(37,702)	(42,414)
Foreign exchange revaluation ²	(1,156)	698
Total carrying value of long-term debt	81,790	78,932

¹ The Company repaid \$78.6 million of principal on its 2020 Senior Notes on September 26, 2022. The repayment was net of accumulated PIK interest of \$32.1 million. Total accrued unpaid PIK as at June 30, 2023 is \$8.8 million.

² The term debt is issued in US dollars and is revalued to Canadian dollars at each reporting period using the period end foreign exchange rate.

Term debt consists of the 2020 Senior Notes, which have a maturity date of July 10, 2024. The notes bear interest at 12% per annum and provide the option of paying interest as cash or as paid-in-kind (“PIK”). PIK interest is added to the principal balance and is due on maturity.

As at June 30, 2023, the Company was in compliance with all covenants related to term debt. There are no maintenance financial covenants related to the term debt; however, there are standard business operating covenants, as well as covenants that may limit the Company’s ability to incur additional debt.

8. LEASE OBLIGATIONS

The Company incurs lease payments related to office facilities in Calgary and Grande Prairie, as well as leased equipment for operations. The Company has recognized lease liabilities measured at the present value of the remaining lease payments using an incremental borrowing rate for the Calgary and Grande Prairie offices of 4.6% and 7.0%, respectively. The incremental borrowing rate for the leased equipment was 4.7%.

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
Balance, beginning of period	5,125	4,957
Additions and modifications	—	1,451
Interest expense	120	257
Lease payments	(701)	(1,540)
Balance, end of period	4,544	5,125
Current portion	1,213	1,180
Long-term portion	3,331	3,945

Property taxes associated with the above leases are classified as variable payments not linked to an index. Such items are charged to operating expense and general and administrative expense in the interim condensed consolidated statements of profit (loss) and comprehensive profit (loss) and are immaterial for further disclosure.

9. DECOMMISSIONING OBLIGATIONS

Decommissioning obligations arise as a result of the Company’s net ownership interests in petroleum and natural gas assets including well sites, processing facilities and infrastructure. The following table reconciles the changes in the decommissioning obligation:

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
Balance, beginning of period	23,115	29,569
Obligations incurred	1,282	2,963
Settlements ¹	(54)	(123)
Change in rates	—	(9,948)
Change in estimates	(2,415)	73
Accretion of decommissioning obligations ²	346	581
Balance, end of period	22,274	23,115

1 For the period ended December 31, 2022, all obligations were indirectly settled through a government subsidy, whereby third party service providers were reimbursed on behalf of HEI.

2 Accretion of the decommissioning obligation due to the passage of time is presented within finance expense in the interim condensed consolidated statements of profit (loss) and comprehensive profit (loss). See note 16.

At June 30, 2023, key assumptions for the carrying amount of the decommissioning obligations include a risk free rate of 3.3% and an inflation rate of 2.1% (December 31, 2022 – 3.3% and 2.1%, respectively). As at June 30, 2023, the undiscounted and uninflated amount of the estimated cash flows required to settle the obligation is \$32.0 million (December 31, 2022 – \$30.2 million), which is estimated to be incurred within the next 36 years.

10. WARRANT LIABILITY

Business Combination

Upon close of the business combination with DCRD (note 4) in Q1 2023, the 2013 Warrants were settled for a cash payment of \$0.028 per warrant and the 2020 Warrants were exercised on a cashless basis and converted to HEI Common Shares. The Company also assumed public and private warrants ("Public Warrants" and "Private Placement Warrants", collectively "the HEI Warrants") in connection with the business combination.

Warrant Purchase and Cancellation

On June 2, 2023, the Company completed a substantial issuer bid (the "Offer") to purchase for cancellation up to 20,000,000 of its HEI Warrants at the purchase price of US\$1.00 per HEI Warrant. Following the expiration of the Offer, 12,852,235 HEI Warrants, consisting of all 12,737,500 of the outstanding Private Placement Warrants held by an affiliate of Riverstone and an additional 114,735 of the Public Warrants, were purchased for cancellation by the Company. The Company funded the Offer by drawing on the existing credit facility.

The following table summarizes the warrants outstanding:

<i>Number of warrants (000's)</i>	June 30, 2023	December 31, 2022
2020 Warrants	—	35,020
2013 Warrants	—	6,000
Public Warrants	15,698	—
Total	15,698	41,020

The HEI Warrants each entitle their holders to purchase one common share at an exercise price of US\$11.50 per HEI Common Share, which is variable in Cdn\$. Accordingly, they are classified as a liability rather than equity as the HEI Warrants do not meet the 'fixed for fixed' requirement. The HEI Warrants became exercisable on March 25, 2023 and will expire on February 23, 2028, or earlier upon redemption or liquidation in accordance with the warrant terms. The Public Warrants are exercisable on a cash basis at the holder's option.

At the option of the Company, the Public Warrants may be redeemed at a price of US\$0.01 per HEI Warrant, upon at least 30 days' prior written notice, provided that the last reported sales price equals or exceeds US\$18.00 per HEI Common Share for any 20 trading days within the 30 trading-day period ending on the third business day prior to the date on which the Company gives notice of such redemption and provided certain other conditions are met.

Further, at the option of the Company, the Public Warrants may also be redeemed at a price of \$0.10 per HEI Warrant, upon at least 30 days' prior written notice, if, among other things, the last reported sales price equals or exceeds US\$10.00 per HEI Common Share on the trading day prior to the date on which notice of the redemption is given. In such a case, Warrant holders will be able to exercise their HEI Warrants prior to redemption for a number of HEI Common Shares determined by reference to a make-whole table.

The HEI Warrants were initially recorded at the fair value acquired through the business combination (note 4). The HEI Warrants are reassessed at the end of each reporting period with subsequent changes in fair value recognized through income as a non-cash item. The Public Warrants are considered a level 1 financial instrument as valuations are based on the trading price of the Public Warrants on the Nasdaq, which are quoted and observable market prices. For the Warrants purchased and cancelled through the Offer, the fair value was determined as the Offer price on June 2, 2023 immediately prior to cancellation.

The change in fair value of all warrants during the period is summarized in the following table:

<i>(Cdn\$ thousands)</i>	2020 Warrants	2013 Warrants	Public Warrants	Private Warrants	Total
Fair value at December 31, 2021	11,189	171	—	—	11,360
Change in fair value	10,614	(3)	—	—	10,611
Fair value at December 31, 2022	21,803	168	—	—	21,971
Warrants acquired	—	—	17,782	14,324	32,106
Change in fair value	(119)	—	12,357	2,982	15,220
Foreign exchange revaluation	—	—	(680)	(193)	(873)
Cancellation of warrants	—	—	(154)	(17,113)	(17,267)
Exercise or settlement of warrants	(21,684)	(168)	—	—	(21,852)
Fair value at June 30, 2023	—	—	29,305	—	29,305

11. EQUITY COMMITMENT

Upon the close of the business combination with DCRD (note 4), all of HHR's remaining equity commitments were terminated.

12. SHARE CAPITAL

Authorized

HEI is authorized to issue an unlimited number of Class A common shares ("HEI Common Shares") and first preferred shares (the "First Preferred Shares") in an amount equal to not more than 20% of the number of issued and outstanding HEI Common Shares at the time of issuance of any First Preferred Shares.

Reduction in Stated Capital

On June 8, 2023, the Company's shareholders approved a reduction in stated capital of \$1.0 billion, without any payment or distribution to the shareholders. As a result of the reduction in stated capital, \$1.0 billion was added to contributed surplus.

(a) Common shares

Issued and Outstanding

The following table summarizes common shares issued and outstanding as at June 30, 2023:

	Number of Shares (000's)	Amount (Cdn\$ thousands)
Balance, December 31, 2022	392,561	585,732
Common shares converted per business combination	(392,561)	(585,732)
Issuance of new HEI Common Shares per business combination	25,085	585,732
Issuance for exchange of preferred shares	56,068	606,131
Issuance for exercise of 2020 Warrants	1,592	21,684
Issuance to DCRD shareholders	8,033	109,597
Long term retention program	—	5,793
Exercise of Legacy RSUs and Legacy Options	278	3,042
Reduction of stated capital	—	(1,000,000)
Balance, June 30, 2023	91,056	331,979

Upon the close of the business combination with DCRD (note 4), Hammerhead Energy Inc. issued 90.8 million HEI Common Shares to the shareholders of DCRD and HHR.

(b) Preferred shares

As of December 31, 2022, HHR had 500.9 million preferred shares outstanding at a carrying amount of \$606.1 million. These shares were Series I through IV and VI through IX, first preferred shares issued in various years. Upon the close of the business

combination with DCRD (note 4), the outstanding preferred shares were exchanged for 56.1 million common shares of HEI, with no change to the carrying amount of \$606.1 million.

(c) Per share amounts

The Company uses the treasury stock method to determine the dilutive effect of Legacy Options, Legacy RSUs, Restricted Share Awards ("RSAs"), warrants and convertible preferred shares. Under this method, only "in-the-money" dilutive instruments impact the calculation of diluted profit (loss) per common share.

The following table outlines the adjustments made to net profit (loss), in computing the basic and diluted net profit (loss) per common share for the periods ended June 30, 2023 and 2022:

<i>(Cdn\$ thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2023	2022	June 30, 2023	2022
<i>Basic</i>				
Net profit (loss) ¹	20,743	96,993	(112,916)	90,551
Effect of Series VII cumulative preferred share dividends ^{1,2}	—	(6,168)	(4,090)	(12,051)
Net profit (loss) attributable to ordinary equity holders - basic ¹	20,743	90,825	(117,006)	78,500
<i>Diluted</i>				
Net profit (loss) ¹	20,743	90,825	(112,916)	78,500
Effect of Series VII cumulative preferred share dividends ^{1,2}	—	—	(4,090)	—
Effect of 2020 warrant revaluation	—	145	—	(134)
Net profit (loss) attributable to ordinary equity holders - diluted ¹	20,743	90,970	(117,006)	78,366

1 For the periods ended June 30, 2022, the Company's net profit and net profit attributable to ordinary shareholders, basic and diluted, refers to Hammerhead Resources Inc.

2 For the six months ended June 30, 2023, Series VII cumulative preferred share dividends have been incorporated up until the close of the business combination with DCRD (note 4).

In computing the diluted profit per common share for the three months ended June 30, 2023, the Company excluded the effect of all HEI Warrants and RSAs as they were anti-dilutive. In computing the diluted profit per common share for the three months ended June 30, 2022, the Company excluded the effect of 0.7 million Legacy Options, 0.4 million 2013 warrants, 3.6 million convertible preferred shares and a nominal amount of Legacy RSUs as they were anti-dilutive.

In computing the diluted loss per common share for the six months ended June 30, 2023, the Company excluded the effect of all Legacy Options, Legacy RSUs, RSAs and warrants as they were anti-dilutive. In computing the diluted profit per common share for the six months ended June 30, 2022, the Company excluded the effect of 0.7 million Legacy Options, 0.4 million 2013 warrants, 3.5 million convertible preferred shares and 1.2 million Legacy RSUs as they were anti-dilutive.

The following table outlines the weighted average number of common shares outstanding used in the calculation of basic and diluted net profit (loss) per common share:

<i>Number of shares (000's)</i>	Three Months Ended		Six Months Ended	
	June 30, 2023	2022	June 30, 2023	2022
Weighted average common shares outstanding, basic ¹	91,000	24,996	71,306	24,995
Effect of convertible preferred shares	—	31,971	—	31,971
Effect of Legacy Options and Legacy RSUs	5,206	4,259	—	3,656
Effect of common share purchase warrants	—	1,119	—	1,119
Weighted average common shares outstanding, diluted ¹	96,206	62,345	71,306	61,741

1 For the periods ended June 30, 2022, the Company's weighted average common shares outstanding, basic and diluted refers to Hammerhead Resources Inc., and has been scaled by the applicable exchange ratio following the completion of the business combination with DCRD (note 4).

13. SHARE-BASED COMPENSATION

The Company has an Equity Incentive Award Plan for officers and employees which provides for the granting of RSAs and Performance Share Awards. The Company also has a Legacy Share Award plan under which the Legacy Options and Legacy RSUs were previously granted. The maximum number of total common shares reserved for issuance under both plans is ten percent of common shares outstanding.

Restricted Share Awards

RSAs are awarded to officers and employees from time to time. Following exercise, RSAs are settled through the issuance of one common share of the Company from treasury. Each RSA vests within three years of the grant date, typically in one-third increments, and has a maximum term of five years to expiry.

Share based compensation expense is calculated by reference to the fair value the awards granted and is determined at the grant date using the 5-day weighted average closing price of the Company's common shares as traded on the TSX in Canadian dollars.

The following table summarizes information regarding RSAs outstanding at June 30, 2023:

	Number of RSAs (000's)
Granted	1,959
Forfeited	(14)
Balance at June 30, 2023	1,945
Exercisable at June 30, 2023	—

Legacy Options

Following the business combination (note 4) HHR's stock options were exchanged for HEI Legacy Options. Legacy Options to acquire common shares were granted to officers and employees from time to time under the Company's Legacy Stock Option plan. Options granted under this plan are to be settled through the issuance of new common shares of the Company and have a maximum term of ten years to expiry. Following the close of the business combination with DCRD (note 4), each Legacy Option granted permits the holder to purchase one common share of the Company for \$7.83 per share.

The following table summarizes information regarding Legacy Options outstanding at June 30, 2023:

	Number of Options (000's)
Issued February 23, 2023	672
Exercised	(22)
Balance at June 30, 2023	650
Exercisable at June 30, 2023	650

Legacy RSUs

Following the business combination (note 4) HHR's RSUs were exchanged for HEI Legacy RSUs. Under the Company's Legacy RSU plan, they were awarded to officers and employees from time to time. The Legacy RSUs granted under this plan are to be settled through the issuance of common shares of the Company and have a maximum term of five years to expiry. Following the close of the business combination with DCRD (note 4), each Legacy RSU granted permits the holder to purchase one common share of the Company for \$0.16 per share.

The following table summarizes information regarding Legacy RSUs outstanding at June 30, 2023:

	Number of RSUs (000's)
Issued February 23, 2023	5,330
Exercised	(257)
Balance at June 30, 2023	5,073
Exercisable at June 30, 2023	5,073

Long-Term Retention Program

Upon the close of the business combination with DCRD (note 4), the loans under the long-term retention program were terminated. The loss on the loans was recognized in transaction costs in the interim condensed consolidated statements of profit (loss) and comprehensive profit (loss). Total value of the loans outstanding as of February 23, 2023 was \$5.8 million.

Share-Based Compensation Expense

The total fair value associated with RSAs, Legacy Options, and Legacy RSUs is recognized over the service period using cliff or graded vesting, resulting in share-based compensation expense as outlined in the following table:

<i>(Cdn\$ thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Share-based compensation payments	3,407	6,790	9,890	11,227
Capitalized to developed and producing assets	(953)	(2,078)	(2,642)	(3,340)
Share-based compensation expense	2,454	4,712	7,248	7,887

Upon the close of the business combination with DCRD (note 4), all Legacy Options and Legacy RSUs vested, resulting in net share-based compensation expense of \$4.4 million for the period ended June 30, 2023.

14. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

Changes in non-cash working capital and cash interest transactions are summarized in the following table:

<i>(Cdn\$ thousands)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Source (use) of cash:				
Accounts receivable	20,171	(1,624)	30,164	(30,521)
Prepaid expenses and deposits	(2,970)	(2,114)	(8,341)	(1,681)
Accounts payable and accrued liabilities	(81,782)	(6,251)	(27,787)	(20,975)
Non-cash working capital acquired	—	—	(38,775)	—
	(64,581)	(9,989)	(44,739)	(53,177)
Related to operating activities	(27,538)	8,038	(37,815)	(22,124)
Related to investing activities	(37,043)	(18,027)	(6,924)	(31,053)
	(64,581)	(9,989)	(44,739)	(53,177)
Other:				
Interest paid	5,757	2,094	9,870	3,568
Interest received	—	4	—	7

15. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company's revenue from contracts with customers consists of crude oil, natural gas and natural gas liquids sales and treating, processing and gathering income.

Hammerhead's crude oil and field condensate, natural gas and natural gas liquids are generally sold under variable price contracts. The transaction price for variable priced contracts is based on the commodity market price, adjusted for quality, location or other factors. Hammerhead is required to deliver nominated volumes of crude oil and field condensate, natural gas and natural gas liquids to the contract counterparty. Each barrel equivalent of commodity delivered is considered to be a distinct performance obligation. The amount of revenue recognized is based on the agreed transaction price and is recognized as performance obligations are satisfied, therefore resulting in revenue recognition in the same month as delivery. Revenues are typically collected on the 25th day of the month following production.

Treating and processing and gathering fees charged to third parties are generally sold under multi-year contracts at fixed fees that vary by volume.

The following table presents the Company's revenue from contracts with customers, disaggregated by revenue source:

<i>(Cdn\$ thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2023	2022	June 30, 2023	2022
Crude oil and field condensate	117,076	125,108	249,556	228,094
Natural gas	34,099	92,161	95,198	150,799
Natural gas liquids ("NGL")	19,897	32,639	43,372	60,557
Total oil and gas revenue	171,072	249,908	388,126	439,450
Treating, processing and gathering	222	370	517	736
Total revenue from contracts with customers	171,294	250,278	388,643	440,186

Included in accounts receivable at June 30, 2023 was \$49.2 million (June 30, 2022 – \$77.9 million) of accrued oil and natural gas sales, which was collected subsequent to quarter end.

HEI has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

16. FINANCE EXPENSE

<i>(Cdn\$ thousands)</i>	Three Months Ended		Six Months Ended	
	June 30, 2023	2022	June 30, 2023	2022
Interest on term debt - PIK	2,359	4,088	4,712	8,108
Interest and fees on bank debt	6,162	2,075	10,077	3,422
Interest on lease obligation	58	59	120	120
Interest on EDC facility - letters of credit	—	—	140	25
Accretion of decommissioning obligations	176	130	346	254
Total finance expense	8,755	6,352	15,395	11,929

17. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair values of financial instruments

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the observable inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Values are based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

- Level 2 – Values are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace. Prices in level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Values are based on prices or valuation techniques that are not based on observable market data.

Assessment of the significance of a particular observable input to the fair value measurement requires judgement and may affect the placement within the fair value hierarchy. The Company has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash, accounts receivable, accounts payable and accrued liabilities** - The carrying amounts approximate fair value due to the short-term maturity of these instruments.
- **Bank debt and term debt** - The bank debt and term debt are valued at amortized cost. The amortized costs approximates the fair value of both the bank debt and term debt.
- **Risk management contracts** - The fair value of the risk management contracts are a level 2 in the fair value hierarchy. Risk management contracts are valued using valuation techniques with observable market inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations and third-party option valuation models. The models incorporate various inputs including the foreign exchange spot and forward rates, and forward rate curves and volatilities of the underlying commodity.
- **Warrant liability** - The fair value of the warrant liability is classified as level 1. Inputs to the change in fair value are disclosed in note 10.

During the six months ended June 30, 2023 and 2022, there were no transfers of any financial assets or liabilities between levels.

(b) Risk management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities such as:

- Credit risk
- Liquidity risk
- Market risk

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and gas marketers.

Risk Management Contracts

HEI's risk management contracts are subject to master netting agreements that create a legally enforceable right to offset by counterparty, where the currency and timing of settlement are the same. The following is a summary of HEI's financial assets and financial liabilities and associated amounts subject to offsetting at June 30, 2023 and December 31, 2022. The net asset amounts represent the maximum exposure to credit risk for risk management contracts at each reporting date.

June 30, 2023	Gross Assets (Liabilities)	Amount Offset Assets (Liabilities)	Net Amount Presented
<i>(Cdn\$ thousands)</i>			
Current:			
Risk management contract assets	26,412	(1,451)	24,961
Risk management contract liabilities	(5,019)	1,451	(3,568)
Net asset	21,393	—	21,393

December 31, 2022	Gross Assets (Liabilities)	Amount Offset Assets (Liabilities)	Net Amount Presented
<i>(Cdn\$ thousands)</i>			
Current:			
Risk management contract assets	28,356	(9,063)	19,293
Risk management contract liabilities	(16,349)	9,063	(7,286)
Net asset	12,007	—	12,007

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity, and equity issuances along with its planned capital expenditure program. At June 30, 2023, the Company had \$74.0 million of borrowing capacity under the credit facility.

In the next twelve months, HEI's credit facility will undergo two borrowing base redeterminations. The Company has determined that its current financial obligations, including current commitments (note 19), are adequately funded from the available borrowing capacity and from funds derived from operations. However, any reduction in the borrowing base could result in a material impact to HEI's liquidity. Management believes that future funds generated from operations and available borrowing capacity will be sufficient to settle HEI's financial liabilities.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Company's income or the value of its financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

HEI enters into risk management contracts to manage its exposure to commodity price fluctuations, which have served to protect and provide certainty on a portion of the Company's cash flows.

The following tables list the fair value of all outstanding risk management contracts by commodity type:

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
Crude oil	2,397	(5,801)
Natural gas	18,996	17,808
Total net asset	21,393	12,007

The following table summarizes commodity risk management contracts outstanding as at June 30, 2023:

Remaining Term	Reference	Total Daily Volume (bbls/d)	Weighted Average (Price/bbls)
Crude Oil Swaps			
Jul 1, 2023 – Sep 30, 2023	US\$ WTI	7,000	75.28
Jul 1, 2023 – Dec 31, 2023	US\$ WTI	1,100	65.00

Remaining Term	Reference	Total Daily Volume (GJ/d)	Total Daily Volume (MMbtu/d)	Weighted Average (CDN\$/GJ)	Weighted Average (US\$/MMbtu)
Natural Gas Swaps					
Jul 1, 2023 - Sep 30, 2023	CDN\$ AECO	30,000	—	4.96	—
Jul 1, 2023 - Dec 31, 2023	US\$ AECO - NYMEX	—	30,000	—	(1.48)
Natural Gas Collar					
Jul 1, 2023 - Dec 31, 2023	US\$ NYMEX	—	30,000	—	5.00 - 9.80

The following tables show the breakdown of realized and unrealized gains and losses recognized by commodity type:

Three Months Ended June 30, 2023	Crude Oil	Natural Gas	NGL	Total
<i>(Cdn\$ thousands)</i>				
Realized gain on risk management contracts	1,727	17,448	—	19,175
Unrealized gain (loss) on risk management contracts	4,867	(16,541)	—	(11,674)
Gain on risk management contracts	6,594	907	—	7,501

Three Months Ended June 30, 2022	Crude Oil	Natural Gas	NGL	Total
<i>(Cdn\$ thousands)</i>				
Realized loss on risk management contracts	(22,863)	(16,231)	(3,436)	(42,530)
Unrealized gain on risk management contracts	9,041	12,843	4,289	26,173
(Loss) gain on risk management contracts	(13,822)	(3,388)	853	(16,357)

Six Months Ended June 30, 2023	Crude Oil	Natural Gas	NGL	Total
<i>(Cdn\$ thousands)</i>				
Realized gain on risk management contracts	2,134	16,799	2	18,935
Unrealized gain on risk management contracts	8,198	1,188	—	9,386
Gain on risk management contracts	10,332	17,987	2	28,321

Six Months Ended June 30, 2022	Crude Oil	Natural Gas	NGL	Total
<i>(Cdn\$ thousands)</i>				
Realized loss on risk management contracts	(37,417)	(20,728)	(7,123)	(65,268)
Unrealized (loss) gain on risk management contracts	(24,321)	(18,968)	2,970	(40,319)
Loss on risk management contracts	(61,738)	(39,696)	(4,153)	(105,587)

The Company's operational results and financial condition are largely dependent on the commodity price received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors.

(c) Capital management

Hammerhead's objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its business plans. The Company considers its capital structure to include shareholders' equity, the funds available under outstanding debt and equity agreements, funds from operations and adjusted working capital. Modifications to Hammerhead's capital structure can be accomplished through issuing common and preferred shares, issuing new debt, adjusting capital spending and acquiring or disposing of assets, though there is no certainty that any of these additional sources of capital would be available if required.

Hammerhead's short-term capital management objective is to fund its capital expenditures using primarily funds from operations, noting value-creating activities may be financed with a combination of funds from operations and other sources of capital. Annualized adjusted EBITDA indicates the Company's ability to generate funds from its asset base on a continuing basis, for future development of its capital program and settlement of financial obligations. Annualized adjusted EBITDA is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

<i>(Cdn\$ thousands)</i>	Three Months Ended June 30,	
	2023	2022
Net profit before income tax	28,475	96,993
Add (deduct):		
Unrealized loss (gain) on risk management contracts	11,674	(26,173)
Transaction costs	94	—
Share-based compensation	2,454	4,712
Depletion, depreciation and impairment	57,057	37,230
Finance expense	8,755	6,352
(Gain) loss on foreign exchange	(3,274)	4,720
Loss on warrant liability	4,794	145
Other income	(294)	(1,939)
Adjusted EBITDA	109,735	122,040
Annualized adjusted EBITDA	438,940	488,160

Previously, working capital was computed including risk management contracts, the current portion of lease obligations and current bank debt. As at June 30, 2023 and December 31, 2022 adjusted working capital has been computed excluding these items. The current presentation of adjusted working capital is aligned with measures used by Management to monitor its liquidity for use in budgeting and capital management decisions. Net debt is used to assess and monitor liquidity at a point in time, while net debt to annualized adjusted EBITDA assists the Company in monitoring its capital structure and financing requirements. Net debt and net debt to annualized adjusted EBITDA are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

<i>(Cdn\$ thousands)</i>	June 30, 2023	December 31, 2022
Cash	(4,960)	(8,833)
Accounts receivable	(59,071)	(89,235)
Prepaid expenses and deposits	(12,905)	(4,564)
Accounts payable and accrued liabilities	107,760	135,547
Adjusted working capital deficit	30,824	32,915
Total bank debt	275,992	179,800
Total term debt	81,790	78,932
Total net debt	388,606	291,647
Annualized adjusted EBITDA	438,940	488,160
Net debt to annualized adjusted EBITDA	0.9	0.6

18. RELATED PARTY TRANSACTIONS

All related party transactions occurred in the normal course of operations.

During the period, the Company completed related party transactions with its controlling shareholder, Riverstone. The Company purchased for cancellation 12,737,500 HEI Warrants from R5 HHR FS Holdings LLC, an affiliate of Riverstone. The Company also completed a plan of arrangement pursuant to a business combination involving DCRD and Riverstone, and incurred \$9.2 million in expenses due to Riverstone as part of the liabilities acquired. Refer to note 10, Warrant Liability and note 4, Business Combination for further information. As of June 30, 2023, the Company does not have any outstanding payables due to Riverstone.

Upon close of the business combination with DCRD the Company terminated \$5.6 million in limited recourse loans previously advanced to key management personnel.

19. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company enters into commitments and contractual obligations in the normal course of operations. Commitments include short-term drilling rig contracts, operating costs for office leases, and firm transportation and processing agreements. Although transportation and processing commitments are required to ensure access to sales markets, the Company actively manages the commitment portfolio to ensure firm commitment levels are in line with future development plans and diversified to multiple sales markets. The Company's firm transportation and processing agreements are terminable in very limited circumstances. If the Company does not meet the commitments with produced volumes, it will be obligated to pay the commitment.

Contractual obligations are comprised of liabilities to third parties incurred for the purpose of managing the Company's capital structure, the liability portion of office building leases, risk management contracts, and decommissioning obligations. HEI does not have guarantees or off-balance sheet arrangements other than as disclosed.

The following table is a summary of the Company's commitments and contractual obligations as at June 30, 2023:

<i>(Cdn\$ thousands)</i>	1 Year	2-3 Years	4-5 Years	Thereafter	Total
Firm transportation and processing	114,836	246,930	212,456	335,667	909,889
Office buildings ¹	920	1,632	1,224	—	3,776
Drilling services	1,190	—	—	—	1,190
Total commitments	116,946	248,562	213,680	335,667	914,855
Accounts payable and accrued liabilities	107,760	—	—	—	107,760
Bank indebtedness – principal ²	—	275,992	—	—	275,992
Bank indebtedness – interest	23,223	—	—	—	23,223
Term debt – principal	—	87,080	—	—	87,080
Term debt – PIK interest	—	5,080	—	—	5,080
Lease obligations ³	1,407	2,170	1,425	—	5,002
Risk management contracts	3,568	—	—	—	3,568
Decommissioning obligations ³	279	514	611	30,613	32,017
Total contractual obligations	136,237	370,836	2,036	30,613	539,722
Total future payments	253,183	619,398	215,716	366,280	1,454,577

1 Relates to non-lease components and non-indexed variable payments.

2 The Company's credit facility is subject to a semi-annual borrowing base review at the sole discretion of the lenders. See note 6 for additional information.

3 These values are undiscounted and will differ from the amounts presented elsewhere in the Interim Financial Statements.