Hammerhead Resources Inc.

Consolidated Financial Statements
As at and for the Three and Nine Months Ended
September 30, 2022

**Dated: November 17, 2022**

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

| *As at*<br>*(Cdn$ thousands)* | Note | September 30, 2022 | December 31, 2021 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash | 16 | 6,590 | 12,239 |
| Accounts receivable | 16 | 64,399 | 49,433 |
| Prepaid expenses and deposits | | 3,363 | 2,751 |
| Risk management contracts | 16 | 7,340 | 289 |
| **Total current assets** | | 81,692 | 64,712 |
| | | | |
| Property, plant and equipment | 4 | 1,505,254 | 1,408,839 |
| Risk management contracts | 16 | 1,031 | — |
| **Total assets** | | 1,587,977 | 1,473,551 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 16 | 111,354 | 116,866 |
| Current portion of lease obligations | 7 | 814 | 1,030 |
| Risk management contracts | 16 | 30,022 | 23,344 |
| **Total current liabilities** | | 142,190 | 141,240 |
| | | | |
| Bank debt | 5 | 107,800 | 106,300 |
| Term debt | 6 | 77,614 | 134,747 |
| Non-current portion of lease obligations | 7 | 3,376 | 3,927 |
| Risk management contracts | 16 | — | 3,050 |
| Warrant liability | 9, 16 | 22,048 | 11,360 |
| Decommissioning obligations | 8 | 21,108 | 29,569 |
| **Total liabilities** | | 374,136 | 430,193 |
| | | | |
| **SHAREHOLDERS’ EQUITY** | | | |
| Common share capital | 11 | 585,542 | 584,275 |
| Preferred share capital | 11 | 606,131 | 606,131 |
| Contributed surplus | | 95,118 | 83,704 |
| Deficit | | (72,950) | (230,752) |
| **Total shareholders’ equity** | | 1,213,841 | 1,043,358 |
| | | | |
| **Total liabilities and shareholders’ equity** | | 1,587,977 | 1,473,551 |
| | | | |
| **Commitments** | 17 | | |

*See accompanying notes to the consolidated financial statements.*

Approved by the Board of Directors,

(signed)
**Stewart Hanlon**
Director and Audit Committee Chair

(signed)
**Scott Sobie**
President and Chief Executive Officer

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

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| *(Cdn$ thousands, except per share amounts)* | Note | **2022** | 2021 | **2022** | 2021 |
| **REVENUE** | | | | | |
| Oil and gas revenue | 14 | **206,518** | 103,047 | **645,968** | 300,660 |
| Royalties | | **(31,728)** | (10,053) | **(81,653)** | (24,066) |
| Oil and natural gas revenue, net of royalties | | **174,790** | 92,994 | **564,315** | 276,594 |
| | | | | | |
| **RISK MANAGEMENT CONTRACTS** | | | | | |
| Realized loss on risk management contracts | 16 | **(28,307)** | (26,707) | **(93,575)** | (59,199) |
| Unrealized gain (loss) on risk management contracts | 16 | **44,774** | (9,302) | **4,455** | (62,887) |
| | | **16,467** | (36,009) | **(89,120)** | (122,086) |
| **OTHER INCOME** | | **380** | 309 | **2,560** | 734 |
| | | **191,637** | 57,294 | **477,755** | 155,242 |
| **EXPENSES** | | | | | |
| Operating | | **26,212** | 21,116 | **79,789** | 61,319 |
| Transportation | | **17,582** | 15,563 | **52,481** | 46,623 |
| General and administrative | | **4,881** | 5,361 | **16,725** | 14,924 |
| Optimization fees | | **—** | 852 | **—** | 6,043 |
| Transaction costs | 3 | **16,021** | — | **16,021** | — |
| Share-based compensation | 12 | **1,055** | 3,414 | **8,942** | 11,282 |
| Depletion and depreciation | 4 | **35,802** | 28,015 | **108,766** | 93,957 |
| Finance | 15 | **6,221** | 4,779 | **18,150** | 15,880 |
| Loss on foreign exchange | | **5,570** | 3,536 | **8,173** | 271 |
| Loss (gain) on warrant revaluation | 9 | **10,824** | (23) | **10,688** | 90 |
| Loss on debt repayment | 6 | **218** | — | **218** | — |
| Loss on asset disposition | | **—** | — | **—** | 13,813 |
| Total expenses | | **124,386** | 82,613 | **319,953** | 264,202 |
| **Net profit (loss) and comprehensive profit (loss)** | | **67,251** | (25,319) | **157,802** | (108,960) |
| | | | | | |
| **Net profit (loss) per common share** | | | | | |
| Basic | | **0.15** | (0.08) | **0.36** | (0.32) |
| Diluted | | **0.06** | (0.08) | **0.15** | (0.32) |

*See accompanying notes to the consolidated financial statements.*

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

| *For the nine months ended*<br>*(Cdn$ thousands)* | Note | September 30, 2022 | September 30, 2021 |
|---|---|---|---|
| **Common share capital** | | | |
| Balance, beginning of period | | 584,275 | 583,483 |
| Long term retention program | 11 | — | 527 |
| Exercise of restricted share units | 11 | 1,267 | 176 |
| Balance, end of period | | 585,542 | 584,186 |
| **Preferred share capital** | | | |
| Balance, beginning of period | | 606,131 | 571,154 |
| Issued in private placement, net of share issue costs | 11 | — | 34,977 |
| Balance, end of period | | 606,131 | 606,131 |
| **Contributed surplus** | | | |
| Balance, beginning of period | | 83,704 | 65,311 |
| Recognized under share-based compensation plans | 12 | 12,668 | 14,786 |
| Exercise of restricted share units | | (1,254) | (176) |
| Balance, end of period | | 95,118 | 79,921 |
| **Deficit** | | | |
| Balance, beginning of period | | (230,752) | (158,931) |
| Net profit (loss) | | 157,802 | (108,960) |
| Balance, end of period | | (72,950) | (267,891) |
| **Total shareholders' equity, beginning of period** | | 1,043,358 | 1,061,017 |
| **Total shareholders' equity, end of period** | | 1,213,841 | 1,002,347 |

*See accompanying notes to the consolidated financial statements.*

## CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| *(Cdn$ thousands)* | Note | 2022 | 2021 | 2022 | 2021 |
| **OPERATING ACTIVITIES** | | | | | |
| Net profit (loss) | | 67,251 | (25,319) | 157,802 | (108,960) |
| Adjustments for non-cash items: | | | | | |
| Unrealized (gain) loss on risk management contracts | 16 | (44,774) | 9,302 | (4,455) | 62,887 |
| Share-based compensation | 12 | 1,055 | 3,414 | 8,942 | 11,282 |
| Depletion, depreciation and impairment | 4 | 35,802 | 28,015 | 108,766 | 93,957 |
| Finance, non-cash | 15 | 2,639 | 3,752 | 11,001 | 10,786 |
| Unrealized loss on foreign exchange | | 3,530 | 3,513 | 5,916 | 289 |
| Loss (gain) on warrant revaluation | 9 | 10,824 | (23) | 10,688 | 90 |
| Settlement of decommissioning obligations | 8 | — | — | (123) | — |
| Loss on debt repayment | 6 | 218 | — | 218 | — |
| Loss on asset disposition | | — | — | — | 13,813 |
| Non-cash settlement under long term retention program | | — | — | — | 527 |
| Realized foreign exchange loss on debt repayment | | 5,168 | — | 5,168 | — |
| Change in non-cash working capital | 13 | 13,425 | 2,838 | (8,699) | 2,900 |
| **Net cash from operating activities** | | 95,138 | 25,492 | 295,224 | 87,571 |
| | | | | | |
| **FINANCING ACTIVITIES** | | | | | |
| Drawdown of bank debt | | 82,000 | — | 129,500 | 30,000 |
| Repayment of bank debt | | (39,000) | (8,000) | (128,000) | (102,800) |
| Repayment of term debt | 6 | (78,621) | — | (78,621) | — |
| Debt repayment transaction costs | 6 | (218) | — | (218) | — |
| Issued Series IX first preferred shares, net of issue costs | 11 | — | — | — | 34,977 |
| Proceeds from common shares issued | | 13 | — | 13 | — |
| Payment of lease obligations | | (260) | (326) | (767) | (1,168) |
| **Net cash used in financing activities** | | (36,086) | (8,326) | (78,093) | (38,991) |
| | | | | | |
| **INVESTING ACTIVITIES** | | | | | |
| Additions to property, plant and equipment ("PP&E") | 4 | (77,332) | (39,606) | (210,207) | (70,159) |
| Proceeds from asset disposition | | — | — | — | 10,027 |
| Net change in accounts payable related to the addition of PP&E | 13 | 18,663 | 18,797 | (12,390) | 11,142 |
| **Net cash used in investing activities** | | (58,669) | (20,809) | (222,597) | (48,990) |
| | | | | | |
| **Net change in cash** | | 383 | (3,643) | (5,466) | (410) |
| **Cash, beginning of period** | | 6,324 | 9,294 | 12,239 | 6,078 |
| **Foreign exchange revaluation** | | (117) | 7 | (183) | (10) |
| **Cash, end of period** | | 6,590 | 5,658 | 6,590 | 5,658 |

*See accompanying notes to the consolidated financial statements.*

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

As at and for the three and nine months ended September 30, 2022 and 2021.

## 1. REPORTING ENTITY

Hammerhead Resources Inc. ("HHR" or the "Company") is an oil and natural gas exploration, development and production company. HHR'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 condensed interim consolidated 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. The Company's head office is located at Eighth Avenue Place, East Tower, Suite 2700, 525-8$^{th}$ Avenue SW, Calgary, Alberta, Canada, T2P 1G1.

## 2. BASIS OF PRESENTATION

### (a) Statement of compliance

These unaudited condensed interim consolidated financial statements (the "Interim Financial Statements") were approved and authorized for issue by the Company's Board of Directors on November 17, 2022.

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in Part I of the CPA Canada Handbook – Accounting. The Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Reporting using accounting polices 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 HHR as at and for the years ended December 31, 2021 and 2020 and the notes thereto (the "Annual Financial Statements"). 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. Certain comparative figures have been reclassified to correspond with current period presentation.

### (b) Basis of measurement

The Interim Financial Statements have been prepared on a historical cost basis except for the warrant liability (note 9) and the risk management contracts (note 16), 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. BUSINESS COMBINATION

On September 26, 2022, the Company announced that it had entered into a business combination agreement with Decarbonization Plus Acquisition Corporation IV ("DCRD"), an affiliate of Riverstone Investment Group LLC, to form a publicly traded company listed on the NASDAQ. The transaction is expected to close before the end of the first quarter of 2023, subject to customary closing conditions, including the receipt of necessary regulatory approvals. Transaction costs incurred for the three and nine months ended September 30, 2022 related to the transaction were $16.0 million.

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

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

| *(Cdn$ thousands)* | Development and Production Assets | Corporate Assets | Right-of-Use Assets | Total |
|---|---|---|---|---|
| PP&E, at cost: | | | | |
| Balance - December 31, 2020 | 2,031,343 | 9,722 | 3,266 | 2,044,331 |
| Additions [1] | 143,170 | 1,204 | 3,145 | 147,519 |
| Dispositions | (51,360) | — | — | (51,360) |
| Balance - December 31, 2021 | 2,123,153 | 10,926 | 6,411 | 2,140,490 |
| Additions [1] | 204,091 | 1,090 | — | 205,181 |
| **Balance - September 30, 2022** | **2,327,244** | **12,016** | **6,411** | **2,345,671** |
| | | | | |
| Accumulated depletion, depreciation and impairment | | | | |
| Balance - December 31, 2020 | 621,093 | 6,107 | 1,470 | 628,670 |
| Depletion, depreciation and impairment | 125,111 | 1,481 | 741 | 127,333 |
| Dispositions | (24,352) | — | — | (24,352) |
| Balance - December 31, 2021 | 721,852 | 7,588 | 2,211 | 731,651 |
| Depletion and depreciation | 106,732 | 1,456 | 578 | 108,766 |
| **Balance - September 30, 2022** | **828,584** | **9,044** | **2,789** | **840,417** |
| | | | | |
| Net book value - December 31, 2021 | 1,401,301 | 3,338 | 4,200 | 1,408,839 |
| **Net book value - September 30, 2022** | **1,498,660** | **2,972** | **3,622** | **1,505,254** |

1 Additions for the nine months ended September 30, 2022 are net of non-cash movements of $(8.8) million related to decommissioning obligation assets and include non-cash charges of $3.7 million related to share-based compensation (December 31, 2021 - $1.2 million and $4.6 million, respectively).

At September 30, 2022, an estimated $2.2 billion in future development costs associated with the proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2021 – $2.4 billion).

### (a) Capitalization of General and Administrative and Share-Based Compensation Expenses

During the nine months ended September 30, 2022, $3.8 million (year ended December 31, 2021 – $4.7 million) of directly attributable general and administrative expenses and $3.7 million (year ended December 31, 2021 – $4.6 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 September 30, 2022 and December 31, 2021, the Company assessed its production and development assets for indicators of impairment and none were noted.

## 5. BANK DEBT

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Syndicated facility | **107,800** | 106,300 |
| Operating facility | **—** | — |
| Total bank debt outstanding | **107,800** | 106,300 |

The Company's bank debt is held in a credit facility with a syndicate of lenders. On June 9, 2022, the Company amended its existing credit facility. Under the amended credit facility agreement, the aggregate principal borrowing base was increased to $300.0 million, consisting of a $280.0 million revolving syndicated facility and a $20.0 million operating facility. The amended credit facility agreement has a term date of May 31, 2023 and a maturity date of May 31, 2024, with an option to extend for an additional 364 days at the lenders' discretion. The total outstanding balance is due on the maturity date.

Under the amended credit facility, determination of the borrowing base is made by the lenders at their sole discretion, and is subject to re-determinations semi-annually as of May 31st and November 30th of the respective year.

As at September 30, 2022, Hammerhead was compliant with all covenants and cross default clauses stated in the amended 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 Company’s assets.

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

The following are the applicable prime margin and bankers' acceptance fee:

| | **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 September 30, 2022 and December 31, 2021, the Company's Canadian dollar denominated letters of credit were guaranteed through Export Development Canada ("EDC") and totaled $13.8 million. The Company's US dollar denominated letters of credit were previously guaranteed by the operating facility, but were transferred to EDC on August 17, 2021. As at September 30, 2022, the Company's US dollar denominated guaranteed letters of credit, translated into Canadian dollars, totaled $1.0 million (December 31, 2021 - $0.9 million).

## 6. TERM DEBT

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| 2020 Senior Notes – outstanding principal | **120,648** | 120,648 |
| Principal repayment, net of outstanding PIK interest [1] | **(44,661)** | 23,374 |
| Foreign exchange revaluation [2] | **1,627** | (9,275) |
| **Total carrying value of long-term debt** | **77,614** | 134,747 |

1 The Company repaid $78.6 million of principal on its 2020 Senior Notes. The repayment is netted with the accumulated PIK interest of $32.1 million. Total accrued unpaid PIK as at September 30, 2022 is $1.8 million.

2 The 2020 Senior Notes are issued in US dollars and are revalued to Canadian dollars at each reporting period, using the period end foreign exchange rate.

The 2020 senior notes agreement ("the 2020 Senior Notes") has 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 of the 2020 Senior Notes and is due on maturity.

On September 26, 2022, the Company repaid, at par value, US$59.3 million of principal and accrued interest on its 2020 Senior Notes, reducing the aggregate principal balance outstanding down to US$56.5 million.

The debt repayment was accounted for in accordance with IFRS 9 Financial Instruments, with the transaction costs of $0.2 million related to the settlement recognized as part of the loss on debt repayment. The following table summarizes the calculation of the loss on repayment of the 2020 Senior Notes:

| *(Cdn$ thousands)* | |
|---|---|
| Net carrying amount of 2020 Senior Notes, prior to repayment | **78,621** |
| Less principal repaid | **(78,621)** |
| Transaction costs incurred | **(218)** |
| Loss on debt repayment | **(218)** |

On settlement of US$57.9 million of principal, $5.2 million of the accumulated unrealized loss recognized for the nine months ended September 30, 2022, was reclassed to realized foreign exchange loss on the statement of profit (loss). The realized foreign exchange loss on debt was offset with a $3.2 million realized foreign exchange gain from the settlement of a foreign currency hedge entered into during the three months ended September 30, 2022.

As at September 30, 2022, the Company was in compliance with all covenants related to the 2020 Senior Notes.

## 7. LEASE OBLIGATIONS

The Company incurs lease payments related to office facilities in Calgary and Grande Prairie. 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 (December 31, 2021 - 4.6% and 7.0%, respectively).

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **4,957** | 3,252 |
| Additions and modifications | **—** | 3,145 |
| Interest expense | **175** | 181 |
| Lease payments | **(942)** | (1,621) |
| Balance, end of period | **4,190** | 4,957 |
| | | |
| Current portion | **814** | 1,030 |
| Long-term portion | **3,376** | 3,927 |

Variable payments which are not linked to an index relate to property tax. Such items are charged to operating expense and general and administrative expense in the consolidated statements of profit (loss) and are immaterial.

## 8. 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 provides a reconciliation of the carrying amount of the obligation associated with the retirement of oil and gas properties:

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Balance, beginning of period | **29,569** | 31,499 |
| Obligations incurred | **2,201** | 2,590 |
| Obligations disposed | **—** | (3,168) |
| Settlements [1] | **(123)** | — |
| Change in rates | **(11,027)** | (1,195) |
| Change in estimates | **73** | (182) |
| Accretion of decommissioning obligations [2] | **415** | 25 |
| **Balance, end of period** | **21,108** | 29,569 |

1 For the period ended September 30, 2022, all obligations were indirectly settled through a government subsidy, whereby third party service providers were reimbursed on behalf of HHR.

2 Accretion of the decommissioning obligation due to the passage of time is presented within finance expense in the consolidated statement of profit (loss). See note 15.

At September 30, 2022, key assumptions on which the carrying amount of the decommissioning obligations is based include a risk free rate of 3.1% and an inflation rate of 1.8% (December 31, 2021 – 1.7% and 1.8%, respectively). As at September 30, 2022, the undiscounted and uninflated amount of the estimated cash flows required to settle the obligation is $29.0 million (December 31, 2021 – $26.7 million), which will be incurred over the next 35 years.

## 9. WARRANT LIABILITY

The following table summarizes the warrants outstanding:

| *Number of warrants (000's)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| 2020 Warrants | **35,020** | 35,020 |
| 2013 Warrants | **6,000** | 6,000 |
| **Total** | **41,020** | 41,020 |

The Company issued warrants in connection with the June 17 and December 8, 2020 investment agreements (the "2020 Warrants") and the 2013 notes issuance (the "2013 Warrants").

The warrants represent standalone written put options and are classified as a liability rather than equity as the warrants provide for a variable number of shares that could be issued, which does not meet the 'fixed for fixed' requirement when classifying between debt or equity. The warrants were recorded at fair value upon inception and were net against the initial proceeds as a debt or equity issuance cost. The 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 warrants are considered a level 3 financial instrument as the initial and subsequent valuations are based on prices or valuation techniques that are not based on observable market data. The 2020 and 2013 Warrants are valued using the Black-Scholes model, which requires several key assumptions including volatility, projected share price and likelihood of a future liquidity event, among other considerations.

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

| *(Cdn$ thousands)* | **2020 Warrants** | **2013 Warrants** | **Total** |
|---|---|---|---|
| Fair value at December 31, 2020 | 11,038 | 226 | 11,264 |
| Change in fair value | 151 | (55) | 96 |
| Fair value at December 31, 2021 | 11,189 | 171 | 11,360 |
| Change in fair value | **10,691** | **(3)** | **10,688** |
| **Fair value at September 30, 2022** | **21,880** | **168** | **22,048** |

## 10. EQUITY COMMITMENT

### (a) June 2020 Equity Commitment

On June 17, 2020, the Company entered into an investment agreement ("the June 2020 Investment Agreement") with an affiliate of its controlling shareholder. Under the June 2020 Investment Agreement, the Company has agreed to issue up to 600.0 million Series IX first preferred shares and 33.7 million common share purchase warrants, in exchange for aggregate cash proceeds of up to $300.0 million. The preferred shares have been classified as equity.

As at September 30, 2022, the remaining equity commitment under the June 2020 Investment Agreement was $166.3 million, for which future draws are subject to approval of the controlling shareholder and satisfaction of certain terms and conditions, at any time prior to June 17, 2024.

| | | *(Cdn$ thousands)* | | | |
|---|---|---|---|---|---|
| | | | Issue Costs | | |
| | Number of Shares *(000's)* | Gross Cash Proceeds | Non-cash | Cash | Net Cash Proceeds |
| As at December 31, 2020 | 200,000 | 100,000 | (10,530) | (1,139) | 98,861 |
| February 5, 2021 | 67,405 | 33,702 | — | (22) | 33,680 |
| **As at December 31, 2021 and September 30, 2022** | **267,405** | **133,702** | **(10,530)** | **(1,161)** | **132,541** |

### (b) December 2020 Equity Commitment

On December 8, 2020, the Company entered into an investment agreement ("the December 2020 Investment Agreement") with an affiliate of one of its shareholders ("the Investor"). Under the December 2020 Investment Agreement, the Company has agreed to issue up to 23.1 million Series IX first preferred shares and 1.3 million common share purchase warrants, in exchange for aggregate cash proceeds of up to $11.6 million. The preferred shares have been classified as equity.

As at September 30, 2022, the remaining equity commitment under the December 2020 Investment Agreement was $6.4 million. The Investor may be required to invest all or a portion of the remaining equity commitment at any time prior to June 17, 2024, subject to further investment made by an affiliate of the controlling shareholder under the June 2020 Investment Agreement.

| | | *(Cdn$ thousands)* | | | |
|---|---|---|---|---|---|
| | | | Issue Costs | | |
| | Number of Shares *(000's)* | Gross Cash Proceeds | Non-cash | Cash | Net Cash Proceeds |
| As at December 31, 2020 | 7,700 | 3,850 | (405) | (199) | 3,651 |
| February 5, 2021 | 2,595 | 1,298 | — | — | 1,298 |
| **As at December 31, 2021 and September 30, 2022** | **10,295** | **5,148** | **(405)** | **(199)** | **4,949** |

## 11. SHARE CAPITAL

### (a) Common shares

**Authorized**

The Company is authorized to issue an unlimited number of voting common shares.

**Issued and outstanding**

The following table summarizes common shares issued and outstanding:

| | Number of shares *(000's)* | Amount *(Cdn$ thousands)* |
|---|---|---|
| Balance, December 31, 2020 | 391,038 | 583,483 |
| Long term retention program | — | 527 |
| Exercise of restricted share units | 110 | 265 |
| Balance, December 31, 2021 | 391,148 | 584,275 |
| Exercise of restricted share units | 1,339 | 1,267 |
| **Balance, September 30, 2022** | **392,487** | **585,542** |

**(b) Preferred shares**

**Authorized**

Refer to note 12 of the Annual Financial Statements for a description of the authorized preferred shares.

**Issued and outstanding**

The following table summarizes preferred shares issued and outstanding:

| | Number of shares *(000's)* | Amount *(Cdn$ thousands)* |
|---|---|---|
| **Series I preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | one share | one dollar |
| **Series II preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | 100,952 | 185,093 |
| **Series III preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | 88,889 | 198,945 |
| **Series IV preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | one share | one dollar |
| **Series VI preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | one share | one dollar |
| **Series VII preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | 33,333 | 95,539 |
| **Series VIII preferred shares** | | |
| Balance, December 31, 2021 and September 30, 2022 | one share | three dollars |
| **Series IX preferred shares** | | |
| Balance, December 31, 2020 | 207,700 | 91,577 |
| Issued in private placement, net of share issue costs (note 10) | 70,000 | 34,977 |
| Balance, December 31, 2021 and September 30, 2022 | 277,700 | 126,554 |
| **Balance, December 31, 2021 and September 30, 2022** | **500,874** | **606,131** |

**(c) Per share amounts**

The Company uses the treasury stock method to determine the dilutive effect of stock options, restricted share units ("RSUs"), 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 three and nine months ended September 30, 2022 and 2021:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | **2022** | 2021 | **2022** | 2021 |
| *Basic* | | | | |
| Net profit (loss) | **67,251** | (25,319) | **157,802** | (108,960) |
| Effect of Series VII cumulative preferred share dividends | **(6,469)** | (5,584) | **(18,521)** | (15,985) |
| Net profit (loss) attributable to ordinary equity holders - basic | **60,782** | (30,903) | **139,281** | (124,945) |
| *Diluted* | | | | |
| Net profit (loss) | **67,251** | (25,319) | **157,802** | (108,960) |
| Effect of Series VII cumulative preferred share dividends | **(6,469)** | (5,584) | **(18,521)** | (15,985) |
| Net profit (loss) attributable to ordinary equity holders - diluted | **60,782** | (30,903) | **139,281** | (124,945) |

In computing the diluted profit per common share for the three months ended September 30, 2022, the Company excluded the effect of 28.2 million warrants and 59.2 million convertible preferred shares as they were anti-dilutive. In computing the diluted loss per common share for the three months ended September 30, 2021, the Company excluded the effect of all share options, RSUs, warrants and convertible preferred shares as they were anti-dilutive.

In computing the diluted profit per common share for the nine months ended September 30, 2022, the Company excluded the effect of 0.4 million RSUs, 28.2 million warrants and 59.2 million convertible preferred shares as they were anti-dilutive. In computing the diluted loss per common share for the nine months ended September 30, 2021, the Company excluded the effect of all share options, RSUs, warrants and convertible preferred shares 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *Number of shares (000's)* | **2022** | 2021 | **2022** | 2021 |
| Weighted average common shares outstanding, basic | **392,309** | 391,113 | **391,549** | 391,102 |
| Effect of convertible preferred shares | **500,324** | — | **500,324** | — |
| Effect of share options and RSUs | **75,124** | — | **65,451** | — |
| Effect of common share purchase warrants | **—** | — | **—** | — |
| Weighted average common shares outstanding, diluted | **967,757** | 391,113 | **957,324** | 391,102 |

## 12. SHARE-BASED COMPENSATION

**Stock options**

The following table summarizes information regarding stock options outstanding at September 30, 2022:

| | Number of Options *(000's)* |
|---|---|
| Balance at December 31, 2020 | 12,219 |
| Expired | (1,339) |
| Forfeited | (177) |
| Balance at December 31, 2021 | 10,703 |
| Expired | **(173)** |
| **Balance at September 30, 2022** | **10,530** |
| **Exercisable at September 30, 2022** | **10,465** |

**Restricted share units**

The following table summarizes information regarding RSUs outstanding at September 30, 2022:

| | Number of RSUs *(000's)* |
|---|---|
| Balance at December 31, 2020 | 18,273 |
| Granted | 43,380 |
| Exercised | (110) |
| Expired | (1,693) |
| Forfeited | (4,872) |
| Balance at December 31, 2021 | 54,978 |
| Granted | **30,431** |
| Exercised | **(1,339)** |
| Expired | **(246)** |
| Forfeited | **(187)** |
| **Balance at September 30, 2022** | **83,637** |
| **Exercisable at September 30, 2022** | **60,914** |

**Share-based compensation expense**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | **2022** | 2021 | **2022** | 2021 |
| Share-based compensation payments | **1,441** | 4,537 | **12,668** | 14,786 |
| Capitalized to developed and producing assets | **(386)** | (1,123) | **(3,726)** | (3,504) |
| **Share-based compensation expense** | **1,055** | 3,414 | **8,942** | 11,282 |

**13. SUPPLEMENTAL INFORMATION**

**Cash Flow Presentation**

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | **2022** | 2021 | **2022** | 2021 |
| Source (use) of cash: | | | | |
| Accounts receivable | **15,555** | 622 | **(14,966)** | (4,600) |
| Prepaid expenses and deposits | **1,070** | 1,791 | **(611)** | (3,275) |
| Accounts payable and accrued liabilities | **15,463** | 19,222 | **(5,512)** | 21,917 |
| | **32,088** | 21,635 | **(21,089)** | 14,042 |
| Related to operating activities | **13,425** | 2,838 | **(8,699)** | 2,900 |
| Related to investing activities | **18,663** | 18,797 | **(12,390)** | 11,142 |
| | **32,088** | 21,635 | **(21,089)** | 14,042 |
| Other: | | | | |
| Interest paid | **3,081** | 937 | **6,649** | 4,998 |
| Interest received | **6** | 1 | **13** | 6 |

## 14. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | **2022** | 2021 | **2022** | 2021 |
| Crude oil & field condensate | **100,118** | 45,131 | **328,212** | 138,493 |
| Natural gas | **80,307** | 41,804 | **231,106** | 111,294 |
| Natural gas liquids ("NGL") | **26,093** | 16,112 | **86,650** | 50,873 |
| **Total oil and gas revenue** | **206,518** | 103,047 | **645,968** | 300,660 |
| Treating, processing & gathering | **369** | 426 | **1,105** | 937 |
| Transportation income | **—** | 8 | **—** | 168 |
| **Total revenue from contracts with customers** | **206,887** | 103,481 | **647,073** | 301,765 |

## 15. FINANCE EXPENSE

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | **2022** | 2021 | **2022** | 2021 |
| Interest on 2020 Senior Notes - Cash | **1,785** | — | **1,785** | — |
| Interest on 2020 Senior Notes - PIK | **2,478** | 3,774 | **10,586** | 10,853 |
| Total interest on 2020 Senior Notes | **4,263** | 3,774 | **12,371** | 10,853 |
| Interest and fees on bank debt | **1,721** | 927 | **5,143** | 4,892 |
| Interest on lease obligation | **55** | 40 | **175** | 142 |
| Interest on EDC facility - letters of credit | **21** | 60 | **46** | 60 |
| Accretion of decommissioning obligations | **161** | (22) | **415** | (67) |
| **Total finance expense** | **6,221** | 4,779 | **18,150** | 15,880 |

## 16. 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 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.

| *As at* | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Financial assets at amortized cost: | | | | |
| Cash | 6,590 | 6,590 | 12,239 | 12,239 |
| Accounts receivable | 64,399 | 64,399 | 49,433 | 49,433 |
| Financial assets at fair value through profit or loss: | | | | |
| Risk management contracts | 8,371 | 8,371 | 289 | 289 |
| Financial liabilities at amortized cost: | | | | |
| Accounts payable and accrued liabilities | 111,354 | 111,354 | 116,866 | 116,866 |
| Bank debt | 107,800 | 107,800 | 106,300 | 106,300 |
| Term debt | 77,614 | 77,614 | 134,747 | 134,747 |
| Financial liabilities at fair value through profit or loss: | | | | |
| Risk management contracts | 30,022 | 30,022 | 26,394 | 26,394 |
| Warrant liability | 22,048 | 22,048 | 11,360 | 11,360 |

Assessment of the significance of a particular 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. Inputs to the change in the fair value are disclosed in the note below.

- **Warrant liability** - The fair value of the warrant liability is a level 3 in the fair value hierarchy. Inputs to the change in fair value of the warrant liability are disclosed in note 9.

During the nine months ended September 30, 2022 and the year ended December 31, 2021, 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

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented, and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company to set appropriate risk limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

## (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.

### Accounts Receivable

As at September 30, 2022, the maximum exposure to credit risk for loans and receivables at the reporting date, by type of customer, was:

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Oil and gas marketers | **62,239** | 43,206 |
| Joint venture | **324** | 528 |
| GST input tax credit | **1,710** | 2,965 |
| Other | **126** | 2,734 |
| **Accounts receivable** | **64,399** | 49,433 |

HHR's allowance for doubtful accounts was nominal as at September 30, 2022 and December 31, 2021. Based on industry experience, the Company considers its accounts receivable to be in default when the receivable is more than 90 days past due. When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty as well as the nature of the past due amount.

### Risk management contracts

Financial assets and liabilities are only offset if HHR has the legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. HHR'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 HHR's financial assets and financial liabilities that were subject to offsetting at September 30, 2022 and December 31, 2021. The net asset amounts represent the maximum exposure to credit risk for risk management contracts at each reporting date.

| **September 30, 2022** | **Gross Assets (Liabilities)** | **Amount Offset Assets (Liabilities)** | **Net Amount Presented** |
|---|---|---|---|
| *(Cdn$ thousands)* | | | |
| Current: | | | |
| Risk management contract assets | **18,672** | **(11,332)** | **7,340** |
| Risk management contract liabilities | **(41,354)** | **11,332** | **(30,022)** |
| Long-term: | | | |
| Risk management contract assets | **1,985** | **(954)** | **1,031** |
| Risk management contract liabilities | **(954)** | **954** | **—** |
| **Net liability** | **(21,651)** | **—** | **(21,651)** |

| **December 31, 2021** | Gross Assets (Liabilities) | Amount Offset Assets (Liabilities) | Net Amount Presented |
|---|---|---|---|
| *(Cdn$ thousands)* | | | |
| Current: | | | |
| Risk management contract assets | 289 | — | 289 |
| Risk management contract liabilities | (23,344) | — | (23,344) |
| Long-term: | | | |
| Risk management contract liabilities | (3,050) | — | (3,050) |
| Net liability | (26,105) | — | (26,105) |

### (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 September 30, 2022, the Company had $192.2 million borrowing capacity under the credit facility.

In the next twelve months, HHR's credit facility will undergo two borrowing base redeterminations. The Company has determined that its current financial obligations, including current commitments (note 17), 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 HHR's liquidity. Management believes that future funds generated from operations and equity issuances under the investment agreements entered into in 2020 will be sufficient to settle HHR’s financial liabilities.

The following table summarizes the timing of cash flows for the Company’s financial liabilities at September 30, 2022:

| *(Cdn$ thousands)* | < 1 Year | 1 to 5 Years | Total |
|---|---|---|---|
| Accounts payable and accrued liabilities | 111,354 | — | 111,354 |
| Estimated interest on bank debt and letters of credit | 7,444 | 29,776 | 37,220 |
| 2020 Senior Notes and estimated interest | — | 93,253 | 93,253 |
| Risk management contracts | 30,022 | — | 30,022 |
| Lease liabilities | 814 | 3,376 | 4,190 |
| **Total financial liabilities** | 149,634 | 126,405 | 276,039 |

Estimated interest for future periods related to the credit facility were calculated using the published Canadian prime lending rate and bankers’ acceptance rate in place as at the period end, plus an applicable margin or fee based on the credit facility agreement terms and the Company’s proportion of debt outstanding under each interest option as at September 30, 2022. The existing maturity date in the credit facility agreement is May 31, 2024, with an option to extend for an additional 364 days at the lenders' discretion. Based on the Company's history of renewals on an annual basis, the principal balance of outstanding bank debt is not assumed to mature in the next five years.

The contractual maturity analysis assumes that both the principal amount of the 2020 Senior Notes, and any PIK interest accrued, is outstanding for the full term to maturity on July 10, 2024. Future PIK interest and principal payments have been converted from US dollars to Canadian dollars using the September 30, 2022 foreign exchange rate.

### (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.

The Company may use risk management contracts to manage market risks as disclosed below. All such transactions are conducted within risk management policies that are reviewed by the Board of Directors. For the fair value of the Company's risk management contracts, see the Commodity Price Risk section below.

#### *Currency Risk*

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company’s petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars; however, Canadian commodity prices are influenced by fluctuations in the Canada to US dollar exchange rate as global oil prices are generally denominated in US dollars.

The Company is also exposed to currency risk in relation to its 2020 Senior Notes, which are denominated in US dollars. A 10% strengthening (weakening) of the US dollar would have contributed a $7.8 million increase (decrease) to the Company’s net loss before tax for the nine months ended September 30, 2022 (nine months ended September 30, 2021 – $13.2 million), resulting from the revaluation of the 2020 Senior Notes.

***Interest Rate Risk***

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk related to borrowings drawn under the credit facility, as the interest charged on the credit facility fluctuates with floating interest rates.

An increase (decrease) in the interest rates of 1% would have increased (decreased) interest expense by $0.6 million for the nine months ended September 30, 2022 (nine months ended September 30, 2021 - $0.9 million).

***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.

HHR 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:

| *(Cdn$ thousands)* | **September 30, 2022** | December 31, 2021 |
|---|---|---|
| Crude oil | **(2,421)** | (13,463) |
| Natural gas | **(16,976)** | (2,773) |
| NGL | **(2,254)** | (9,869) |
| **Total net liability** | **(21,651)** | (26,105) |

The following table summarizes commodity risk management contracts outstanding as at September 30, 2022:

| **Remaining Term** | **Reference** | **Total Daily Volume** *(bbls/d)* | **Weighted Average** *(Price/bbls)* |
|---|---|---|---|
| ***Crude Oil Swaps*** | | | |
| Oct 1, 2022 – Dec 31, 2022 | CDN$ WTI | 1,000 | 72.95 |
| Oct 1, 2022 – Dec 31, 2022 | US$ WTI | 4,100 | 81.16 |
| Jan 1, 2023 – Jun 30, 2023 | US$ WTI | 1,000 | 87.00 |
| Jan 1, 2023 – Dec 31, 2023 | US$ WTI | 1,100 | 65.00 |
| ***NGL Swaps*** | | | |
| Oct 1, 2022 – Dec 31, 2022 | CDN$ OPIS | 1,000 | 27.50 |

| **Remaining Term** | **Reference** | **Total Daily Volume** *(GJ/d)* | **Total Daily Volume** *(MMbtu/d)* | **Weighted Average** *(CDN$/GJ)* | **Weighted Average** *(US$/MMbtu)* |
|---|---|---|---|---|---|
| ***Natural Gas Swaps*** | | | | | |
| Apr 1, 2023 - Sept 30, 2023 | CDN$ AECO | 30,000 | — | 4.96 | — |
| Oct 1, 2022 - Dec 31, 2022 | US$ Dawn | — | 30,000 | — | 3.50 |
| Jan 1, 2023 - Jun 30, 2023 | US$ Dawn | — | 30,000 | — | 3.04 |
| ***Natural Gas Collar*** | | | | | |
| Oct 1, 2022 – Dec 31, 2022 | US$ NYMEX | — | 55,000 | — | 5.00 - 14.50 |
| Jan 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 September 30, 2022 | Crude Oil | Natural Gas | NGL | Total |
|---|---|---|---|---|
| *(Cdn$ thousands)* | | | | |
| Realized loss on risk management contracts | (9,552) | (15,914) | (2,841) | (28,307) |
| Unrealized gain on risk management contracts | 35,363 | 4,766 | 4,645 | 44,774 |
| **Gain (loss) on risk management contracts** | **25,811** | **(11,148)** | **1,804** | **16,467** |

| Three Months Ended September 30, 2021 | Crude Oil | Natural Gas | NGL | Total |
|---|---|---|---|---|
| *(Cdn$ thousands)* | | | | |
| Realized loss on risk management contracts | (17,189) | (6,213) | (3,305) | (26,707) |
| Unrealized gain (loss) on risk management contracts | 7,005 | (11,996) | (4,311) | (9,302) |
| Loss on risk management contracts | (10,184) | (18,209) | (7,616) | (36,009) |

| Nine Months Ended September 30, 2022 | Crude Oil | Natural Gas | NGL | Total |
|---|---|---|---|---|
| *(Cdn$ thousands)* | | | | |
| Realized loss on risk management contracts | (46,969) | (36,642) | (9,964) | (93,575) |
| Unrealized gain (loss) on risk management contracts | 11,042 | (14,202) | 7,615 | 4,455 |
| **Loss on risk management contracts** | **(35,927)** | **(50,844)** | **(2,349)** | **(89,120)** |

| Nine Months Ended September 30, 2021 | Crude Oil | Natural Gas | NGL | Total |
|---|---|---|---|---|
| *(Cdn$ thousands)* | | | | |
| Realized loss on risk management contracts | (40,306) | (12,854) | (6,039) | (59,199) |
| Unrealized loss on risk management contracts | (17,637) | (28,524) | (16,726) | (62,887) |
| Loss on risk management contracts | (57,943) | (41,378) | (22,765) | (122,086) |

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.

HHR manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts. The Company assesses the effects of movement in commodity prices on income before tax. When assessing the potential impact of these commodity price changes, the Company believes a 10% volatility is a reasonable measure. A 10% change in commodity prices would have resulted in the following impact to the Company's unrealized gain (loss) on risk management contracts and net income before tax, assuming all other variables including the Canadian dollar to United States dollar exchange rate, remained constant for the nine months ended September 30, 2022:

| *(Cdn$ thousands)* | **Increase 10%** | **Decrease 10%** |
|---|---|---|
| Crude oil | (11,041) | 11,041 |
| Natural gas | (16,972) | 19,339 |
| NGL | (481) | 481 |

**(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 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. 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. Adjusted EBITDA is not a standardized measure and therefore may not be comparable with the calculation of similar measures by other entities.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| *(Cdn$ thousands)* | 2022 | 2021 | 2022 | 2021 |
| Net profit (loss) before income tax | 67,251 | (25,319) | 157,802 | (108,960) |
| Add (deduct): | | | | |
| Unrealized (gain) loss on risk management contracts | (44,774) | 9,302 | (4,455) | 62,887 |
| Optimization fees | — | 852 | — | 6,043 |
| Transaction costs | 16,021 | — | 16,021 | — |
| Share-based compensation | 1,055 | 3,414 | 8,942 | 11,282 |
| Depletion, depreciation and impairment | 35,802 | 28,015 | 108,766 | 93,957 |
| Finance | 6,221 | 4,779 | 18,150 | 15,880 |
| Loss on foreign exchange | 5,570 | 3,536 | 8,173 | 271 |
| Loss (gain) on warrant liability | 10,824 | (23) | 10,688 | 90 |
| Loss on debt repayment | 218 | — | 218 | — |
| Loss on asset disposition | — | — | — | 13,813 |
| Loss on settlement under long term retention program | — | — | — | 527 |
| Other income, excluding transportation income | (380) | (300) | (2,560) | (566) |
| **Adjusted EBITDA** | 97,808 | 24,256 | 321,745 | 95,224 |

Net debt is used to assess and monitor liquidity at a point in time, while net debt to adjusted EBITDA assists the Company in monitoring its capital structure and financing requirements. Net debt and net debt to adjusted EBITDA are not standardized measures and therefore may not be comparable with the calculation of similar measures by other entities.

| *(Cdn$ thousands)* | September 30, 2022 | December 31, 2021 |
|---|---|---|
| Total bank debt | 107,800 | 106,300 |
| Total term debt | 77,614 | 134,747 |
| Working capital deficit [1] | 60,498 | 76,528 |
| Total net debt | 245,912 | 317,575 |
| Annualized quarterly adjusted EBITDA | 391,232 | 180,048 |
| **Net debt to annualized quarterly adjusted EBITDA** | 0.6 | 1.8 |

1 Working capital deficit is calculated as current liabilities less current assets.

## 17. COMMITMENTS

At September 30, 2022, the Company is committed to future payments under the following agreements:

| *(Cdn$ thousands)* | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Firm transportation & processing | 98,960 | 101,075 | 89,405 | 76,285 | 57,766 | 195,465 | 618,956 |
| Office buildings [1] | 912 | 825 | 763 | 763 | 763 | 191 | 4,217 |
| Drilling services | 1,392 | — | — | — | — | — | 1,392 |
| **Total annual commitments** | 101,264 | 101,900 | 90,168 | 77,048 | 58,529 | 195,656 | 624,565 |

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