

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2022

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 001-39464

HighPeak Energy, Inc.

(Exact name of Registrant as specified in its
charter)

Delaware

(State or other jurisdiction of incorporation or
organization)

84-3533602

(I.R.S. Employer Identification
No.)

421 W. 3rd St., Suite 1000

Fort Worth, Texas

(Address of principal executive offices and zip code)

76102

(Zip Code)

(817) 850-9200

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	HPK	The Nasdaq Stock Market LLC
Warrants to purchase Common Stock	HPKEW	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 10, 2022, there were 113,162,827 shares of common stock, par value \$0.0001 per share, issued and outstanding.



HIGHPEAK ENERGY, INC.
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HIGHPEAK ENERGY, INC.

Definitions of Certain Terms and Conventions Used Herein

Within this Quarterly Report on Form 10-Q (this “Quarterly Report”), the following terms and conventions have specific meanings:

- **“3-D seismic”** means three-dimensional seismic data which is geophysical data that depicts the subsurface strata in three dimensions. 3-D seismic data typically provides a more detailed and accurate interpretation of the subsurface strata than two-dimensional data.
- **“Alamo Acquisitions”** means the recently completed acquisitions of certain crude oil and natural gas properties in Howard and Borden Counties, Texas, collectively, from (i) Alamo Borden County II, LLC (“Alamo II”), Alamo Borden County III, LLC (“Alamo III”) and Alamo Borden County IV, LLC (“Alamo IV”) pursuant to that certain Purchase and Sale Agreement dated February 15, 2022 by and among HighPeak Energy, HighPeak Energy Assets, LLC (together with HighPeak Energy, the “HighPeak Parties”), Alamo II, Alamo III, and Alamo IV and (ii) Alamo Borden County 1, LLC (“Alamo I”) pursuant to that certain Purchase and Sale Agreement dated June 3, 2022 by and among the HighPeak Parties and Alamo I.
- **“ASU”** means Accounting Standards Update.
- **“Basin”** means a large natural depression on the earth’s surface in which sediments generally brought by water accumulate.
- **“Bbl”** means a standard barrel containing 42 United States gallons.
“Bcf” means one billion cubic feet.
- **“Boe”** means a barrel of crude oil equivalent and is a standard convention used to express crude oil and natural gas volumes on a comparable crude oil equivalent basis. Natural gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of natural gas to one Bbl of crude oil or NGL.
- **“Boepd”** means Boe per day.
- **“Bopd”** means one barrel of crude oil per day.
- **“Btu”** means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- **“common stock”** or **“HighPeak Energy common stock”** means the Company’s common stock, par value \$0.0001 per share.
- **“Completion”** The process of treating a drilled well followed by the installation of permanent equipment for the production of crude oil and natural gas, or in the case of a dry hole, the reporting of abandonment to the appropriate agency.
- **“Credit Agreement”** means the Company’s Credit Agreement, dated as of December 17, 2020, as amended from time to time, among HighPeak Energy, Inc., as Borrower, Wells Fargo Bank, National Association, as administrative agent, and the Lenders party thereto.
- **“DD&A”** means depletion, depreciation and amortization.
- **“Development costs”** Costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing the crude oil and natural gas. For a complete definition of development costs, refer to the SEC’s Regulation S-X, Rule 4-10(a)(7).
- **“Development project”** A development project is the means by which petroleum resources are brought to the status of economically producible. As examples, the development of a single reservoir or field, an incremental development in a producing field or the integrated development of a group of several fields and associated facilities with a common ownership may constitute a development project.
- **“Development well”** A well drilled within the proved area of a crude oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.
- **“Differential”** An adjustment to the price of crude oil, NGL or natural gas from an established spot market price to reflect differences in the quality and/or location of crude oil, NGL or natural gas.
- **“Dry hole”** or **“dry well”** A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceed production expenses and taxes.
- **“Economically producible”** The term economically producible, as it relates to a resource, means a resource which generates revenue that exceeds, or is reasonably expected to exceed, the costs of the operation.
- **“EUR”** or **“Estimated ultimate recovery”** The sum of reserves remaining as of a given date and cumulative production as of that date.
- **“Exploratory well”** An exploratory well is a well drilled to find a new field, to find a new reservoir in a field previously found to be productive of crude oil or natural gas in another reservoir or to extend the limits of an existing reservoir. Generally, an exploratory well is any well that is not a development well, an extension well, a service well or a stratigraphic test well as those items are defined by the SEC.
- **“FASB”** Financial Accounting Standards Board.
- **“Field”** An area consisting of a single reservoir or multiple reservoirs all grouped on, or related to, the same individual geological structural feature or stratigraphic condition. The field name refers to the surface area, although it may refer to both the surface and the underground productive formations.
- **“Fifth Amendment”** means the Fifth Amendment to Credit Agreement, dated as of October 14, 2022, by and among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as the existing administrative agent, Wells Fargo Bank, National Association, as the new administrative agent, the guarantors party thereto and the lenders party thereto.
- **“First Amendment”** means the First Amendment to Credit Agreement, dated as of June 23, 2021, among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as administrative agent, and the Guarantors and Lenders party thereto.
- **“Formation”** A layer of rock which has distinct characteristics that differs from nearby rocks.
- **“Fourth Amendment”** means the Fourth Amendment to Credit Agreement, dated as of June 27, 2022, among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as administrative agent, and the Guarantors and Lenders party thereto.
- **“GAAP”** means accounting principles generally accepted in the United States of America.
- **“Gross wells”** means the total wells in which a working interest is owned.
- **“Held by production”** Acreage covered by a mineral lease that perpetuates a company’s right to operate a property as long as the property produces a minimum paying quantity of crude oil or natural gas.

- **“HH”** means Henry Hub, a distribution hub in Louisiana that serves as the delivery location for natural gas futures contracts on the NYMEX.
- **“Hannathon Acquisition”** means the recently completed acquisition of various crude oil and natural gas properties contiguous to the Company’s Signal Peak operating area in Howard County, Texas pursuant to that certain Purchase and Sale Agreement dated as of April 26, 2022, with Hannathon Petroleum, LLC and certain other third-party private sellers set forth therein.
- **“HighPeak Energy”** or the **“Company”** means HighPeak Energy, Inc. and its subsidiaries.
- **“Horizontal drilling”** A drilling technique used in certain formations where a well is drilled vertically to a certain depth and then drilled at a right angle within a specified interval.
- **“Hydraulic fracturing”** is the technique of stimulating the production of hydrocarbons from tight formations. The Company routinely utilizes hydraulic fracturing techniques in its drilling and completion programs. The process involves the injection of water, sand, and chemicals under pressure into the formation to fracture the surrounding rock and stimulate production.
- **“Lease operating expenses”** The expenses of lifting crude oil or natural gas from a producing formation to the surface, constituting part of the current operating expenses of a working interest including labor, superintendence, supplies, repairs, short-lived assets, maintenance, allocated overhead costs, workover, marketing and transportation costs, insurance and other expenses incidental to production, but excluding lease acquisition or drilling or completion expenses.
- **“MBbl”** means one thousand Bbls.
- **“MBoe”** means one thousand Boes.
- **“Mcf”** means one thousand cubic feet and is a measure of natural gas volume.
- **“MMBbl”** means one million Bbls.
- **“MMBtu”** means one million Btus.
- **“MMcf”** means one million cubic feet and is a measure of natural gas volume.
- **“Net acres”** The percentage of total acres an owner has out of a particular number of gross acres or a specified tract. As an example, an owner who has 50% interest in 100 gross acres owns 50 net acres.
- **“Net production”** Production that is owned by us, less royalties and production due others.
- **“NGL”** means natural gas liquids, which are the heavier hydrocarbon liquids that are separated from the natural gas stream; such liquids include ethane, propane, isobutane, normal butane and gasoline.
- **“NYMEX”** means the New York Mercantile Exchange.
- **“OPEC”** means the Organization of Petroleum Exporting Countries.
- **“Operator”** The individual or company responsible for the exploration and/or production of a crude oil or natural gas well or lease.
- **“Plugging”** A downhole tool that is set inside the casing to isolate the lower part of the wellbore.
- **“Pooling”** The bringing together of small tracts or fractional mineral interests in one or more tracts to form a drilling and production unit for a well under applicable spacing rules.
- **“Production costs”** Costs incurred to operate and maintain wells and related equipment and facilities, including depreciation and applicable operating costs of support equipment and facilities and other costs of operating and maintaining those wells and related equipment and facilities. For a complete definition of production costs, refer to the SEC’s Regulation S-X, Rule 4-10(a)(20).
- **“Productive well”** A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of the production exceed production expenses and taxes.
- **“Proration unit”** A unit that can be effectively and efficiently drained by one well, as allocated by a governmental agency having regulatory jurisdiction.
- **“Prospect”** A specific geographic area which, based on supporting geological, geophysical or other data and also preliminary economic analysis using reasonably anticipated prices and costs, is deemed to have potential for the discovery of commercial hydrocarbons.
- **“Proved developed nonproducing reserves”** or **“PDNP”** means proved reserves that are developed nonproducing reserves.
- **“Proved developed producing reserves”** or **“PDP”** means proved reserves that are developed producing reserves.
- **“Proved developed reserves”** means proved reserves that can be expected to be recovered through existing wells with existing equipment and operating methods and can be expected to be recovered through extraction technology installed and operational at the time of the reserve estimate and can be subdivided into PDP and PDNP reserves.
- **“Proved reserves”** Those quantities of crude oil and natural gas, which, by analysis of geosciences and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible crude oil or natural gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons as seen in a well penetration unless geoscience, engineering or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known crude oil elevation and the potential exists for an associated natural gas cap, proved crude oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

- **“Proved undeveloped reserves”** or **“PUD”** means proved reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Undrilled locations can be classified as being PUDs only if a development plan has been adopted indicating that such locations are scheduled to be drilled within five (5) years, unless specific circumstances justify a longer time.
- **“PV-10”** When used with respect to crude oil and natural gas reserves, PV-10 means the estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development and abandonment costs, using prices and costs in effect at the determination date, before income taxes, and without giving effect to non-property related expenses, discounted to a present value using an annual discount rate of 10%. PV-10 is not a financial measure calculated in accordance with GAAP and generally differs from standardized measure, the most directly comparable GAAP financial measure, because it does not include the effects of income taxes on future net revenues. Neither PV-10 nor standardized measure represents an estimate of the fair market value of our crude oil and natural gas properties. We and others in the industry use PV-10 as a measure to compare the relative size and value of proved reserves held by companies without regard to the specific tax characteristics of such entities.
- **“Realized price”** The cash market price less all expected quality, transportation and demand adjustments.
- **“Recompletion”** The process of re-entering an existing wellbore that is either producing or not producing and completing new reservoirs in an attempt to establish or increase existing production.
- **“Reserves”** Reserves are estimated remaining quantities of crude oil and natural gas and related substances anticipated to be economically producible, as of a given date, by application of development projects to known accumulations. In addition, there must exist, or there must be a reasonable expectation that there will exist, the legal right to produce or a revenue interest in the production, installed means of delivering crude oil and natural gas or related substances to market, and all permits and financing required to implement the project.
- **“Reservoir”** A porous and permeable underground formation containing a natural accumulation of producible crude oil and/or natural gas that is confined by impermeable rock or water barriers and is separate from other reservoirs.
- **“Resources”** Quantities of crude oil and natural gas estimated to exist in naturally occurring accumulations. A portion of the resources may be estimated to be recoverable, and another portion may be considered unrecoverable. Resources include both discovered and undiscovered accumulations.
- **“Revolving Credit Facility”** means the Company’s senior secured reserve-based lending facility which matures June 17, 2024.
- **“Royalty”** An interest in a crude oil and natural gas lease that gives the owner the right to receive a portion of the production from the leased acreage (or of the proceeds from the sale thereof) but does not require the owner to pay any portion of the production or development costs on the leased acreage. Royalties may be either landowner’s royalties, which are reserved by the owner of the leased acreage at the time the lease is granted, or overriding royalties, which are usually reserved by an owner of the leasehold in connection with a transfer to a subsequent owner.
- **“SEC”** means the United States Securities and Exchange Commission.
- **“Second Amendment”** means the Second Amendment to Credit Agreement, dated as of October 1, 2021, among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as administrative agent, and the Guarantors and Lenders party thereto.
- **“Service well”** A well drilled or completed for the purpose of supporting production in an existing field. Specific purposes of service wells include natural gas injection, water injection, steam injection, air injection, salt-water disposal, water supply for injection, observation, or injection for in-situ combustion.
- **“Sixth Amendment”** means the Sixth Amendment to Credit Agreement, dated as of October 31, 2022, by and among HighPeak Energy, Inc., as Borrower, Wells Fargo Bank, National Association, as administrative agent, the Guarantors party thereto and the Lenders party thereto.
- **“Spacing”** The distance between wells producing from the same reservoir. Spacing is often expressed in terms of acres, e.g., 100-acre spacing, the distance between horizontal wellbores, e.g., 880-foot spacing or the number of wells per section, e.g., 6-well spacing. It is often established by regulatory agencies and/or the operator to optimize recovery of hydrocarbons.
- **“Spot market price”** The cash market price without reduction for expected quality, transportation and demand adjustments.
- **“Standardized measure”** The present value (discounted at an annual rate of 10 percent) of estimated future net revenues to be generated from the production of proved reserves net of estimated income taxes associated with such net revenues, as determined in accordance with FASB guidelines as well as the rules and regulations of the SEC, without giving effect to non-property related expenses such as indirect general and administrative expenses, and debt service or to DD&A. Standardized measure does not give effect to derivative transactions.
- **“Stratigraphic test well”** A drilling effort, geologically directed, to obtain information pertaining to a specific geologic condition. Such wells customarily are drilled without the intent of being completed for hydrocarbon production. The classification also includes tests identified as core tests and all types of expendable holes related to hydrocarbon exploration. Stratigraphic tests are classified as “exploratory type” if not drilled in a known area or “development type” if drilled in a known area.
- **“Third Amendment”** means the Third Amendment to Credit Agreement, dated as of February 9, 2022, among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as administrative agent, and the Lenders party thereto.
- **“Undeveloped acreage”** Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of crude oil and natural gas regardless of whether such acreage contains proved reserves.
- **“Unit”** The joining of all or substantially all interests in a reservoir or field, rather than a single tract, to provide for development and operation without regard to separate property interests. Also, the area covered by a unitization agreement.
- **“U.S.”** means the United States.
- **“Warrants”** means warrants to purchase one share of HighPeak Energy common stock at a price of \$11.50 per share.
- **“Wellbore”** The hole drilled by the bit that is equipped for crude oil and natural gas production on a completed well. Also called well or borehole.
- **“Working interest”** The right granted to the lessee of a property to explore for and to produce and own natural gas or other minerals. The working interest owners bear the exploration, development and operating costs on either a cash, penalty or carried basis.
- **“Workover”** Operations on a producing well to restore or increase production.
- **“WTI”** means West Texas Intermediate, a light sweet blend of crude oil produced from fields in western Texas and is a grade of crude oil used as a benchmark in crude oil pricing.
- With respect to information on the working interest in wells and acreage, **“net”** wells and acres are determined by multiplying **“gross”** wells and acres by the Company’s working interest in such wells or acres. Unless otherwise specified, wells and acreage statistics quoted herein represent gross wells or acres.
- All currency amounts are expressed in U.S. dollars.

The terms “development costs,” “development project,” “development well,” “economically producible,” “estimated ultimate recovery,” “exploratory well,” “production costs,” “reserves,” “reservoir,” “resources,” “service wells” and “stratigraphic test well” are defined by the SEC. Except as noted, the terms defined in this section are not the same as SEC definitions.

Cautionary Statement Concerning Forward-Looking Statements

This Quarterly Report on Form 10-Q (this “Quarterly Report”) includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements other than statements of historical facts included or incorporated by reference in this Report, including, without limitation, statements regarding the Company’s future financial position, business strategy, budgets, projected revenues, projected costs, and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on the beliefs of management, as well as assumptions made by, and information currently available to, the Company’s management. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as “believes,” “plans,” “expects,” “anticipates,” “forecasts,” “intends,” “continue,” “may,” “will,” “could,” “should,” “future,” “potential,” “estimate” or the negative of such terms and similar expressions as they relate to the Company are intended to identify forward-looking statements, which are generally not historical in nature. The forward-looking statements are based on the Company’s current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company’s control. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different from the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law. Important factors that could cause actual results to differ materially from the Company’s expectations include, but are not limited to, the Company’s assumptions about:

- the market prices of crude oil, NGL, natural gas and other products or services;
- political instability or armed conflict in crude oil or natural gas producing regions, such as the ongoing war between Russia and Ukraine;
- the supply and demand for crude oil, NGL, natural gas and other products or services;
- the integration of acquisitions, including the Alamo Acquisitions and the Hannathon Acquisition;
- the availability of capital resources;
- production and reserve levels;
- drilling risks;
- the length, scope and severity of the ongoing coronavirus disease (“COVID-19”) pandemic, including the effects of related public health concerns and the impact of continued actions taken by governmental authorities and other third parties in response to the pandemic and its impact on commodity prices, supply and demand considerations, and storage capacity;
- economic and competitive conditions;
- capital expenditures and other contractual obligations, including obligations under the senior notes issued during 2022;
- weather conditions;
- inflation rates and the impacts of associated monetary policy responses, including increased interest rates and resulting pressures on economic growth;
- the availability of goods and services and supply chain issues;
- legislative, regulatory or policy changes;
- cyber-attacks;
- occurrence of property acquisitions or divestitures;
- the securities or capital markets and related risks such as general credit, liquidity, market and interest-rate risks; and
- other factors disclosed under “Part I, Items 1 and 2. Business and Properties,” “Part I, Item 1A. Risk Factors,” “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk,” included in the Company’s Annual Report on Form 10-K filed on March 7, 2022 (“Annual Report”), as supplemented by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022 and June 30, 2022 and this Quarterly Report under “Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk,” and elsewhere in this Quarterly Report.

All subsequent written and oral forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, the Company assumes no duty to update or revise its forward-looking statements based on changes in internal estimates or expectations or otherwise.

Additionally, we caution you that reserve engineering is a process of estimating underground accumulations of crude oil, NGL and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of crude oil, NGL and natural gas that are ultimately recovered.

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

HighPeak Energy, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 34,348	\$ 34,869
Accounts receivable	83,201	39,378
Derivatives	17,261	2,199
Inventory	8,181	3,304
Prepaid expenses	5,686	7,154
Deposits	—	50
Total current assets	148,677	86,954
Crude oil and natural gas properties, using the successful efforts method of accounting:		
Proved properties	1,903,134	699,701
Unproved properties	157,046	108,392
Accumulated depletion, depreciation and amortization	(176,799)	(82,478)
Total crude oil and natural gas properties, net	1,883,381	725,615
Other property and equipment, net	3,548	1,600
Other noncurrent assets	6,656	4,791
Total assets	\$ 2,042,262	\$ 818,960
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable - trade	\$ 124,021	\$ 38,144
Accrued liabilities	101,302	32,230
Revenues and royalties payable	12,806	7,502
Derivatives	11,071	13,591
Advances from joint interest owners	7,560	10,841
Other current liabilities	3,590	692
Total current liabilities	260,350	103,000
Noncurrent liabilities:		
Long-term debt, net	561,756	97,929
Deferred income taxes	111,159	55,802
Asset retirement obligations	8,252	4,260
Derivatives	—	4,075
Other	—	831
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, none issued and outstanding at September 30, 2022 and December 31, 2021	—	—
Common stock, \$0.0001 par value, 600,000,000 shares authorized, 113,162,827 and 96,774,185 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	11	10
Additional paid-in capital	1,004,778	617,489
Retained earnings (accumulated deficit)	95,956	(64,436)
Total stockholders' equity	1,100,745	553,063
Total liabilities and stockholders' equity	\$ 2,042,262	\$ 818,960

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

HighPeak Energy, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Operating Revenues:				
Crude oil sales	\$ 189,441	\$ 44,785	\$ 467,305	\$ 116,640
NGL and natural gas sales	14,673	2,687	30,466	4,819
Total operating revenues	<u>204,114</u>	<u>47,472</u>	<u>497,771</u>	<u>121,459</u>
Operating Costs and Expenses:				
Crude oil and natural gas production	19,707	6,710	45,748	13,629
Production and ad valorem taxes	10,526	1,783	25,833	5,990
Exploration and abandonments	290	488	683	1,142
Depletion, depreciation and amortization	42,624	13,917	94,531	43,737
Accretion of discount	125	44	245	116
General and administrative	1,877	1,666	5,833	5,042
Stock-based compensation	10,655	905	29,210	2,894
Total operating costs and expenses	<u>85,804</u>	<u>25,513</u>	<u>202,083</u>	<u>72,550</u>
Income from operations	<u>118,310</u>	<u>21,959</u>	<u>295,688</u>	<u>48,909</u>
Interest and other income	1	—	253	1
Interest expense	(14,608)	(947)	(29,142)	(1,153)
Derivative gain (loss), net	35,798	(10,820)	(42,487)	(24,416)
Other expense	—	—	—	(127)
Income before income taxes	<u>139,501</u>	<u>10,192</u>	<u>224,312</u>	<u>23,214</u>
Income tax expense	31,597	2,145	55,357	4,680
Net income	<u>\$ 107,904</u>	<u>\$ 8,047</u>	<u>\$ 168,955</u>	<u>\$ 18,534</u>
Earnings per share:				
Basic net income	\$ 0.90	\$ 0.07	\$ 1.48	\$ 0.18
Diluted net income	\$ 0.85	\$ 0.08	\$ 1.40	\$ 0.18
Weighted average shares outstanding:				
Basic	108,681	92,676	102,614	92,648
Diluted	115,118	92,678	109,144	92,715
Dividends declared per share	\$ 0.025	\$ 0.125	\$ 0.075	\$ 0.125

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

HighPeak Energy, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(in thousands)
(Unaudited)

Three and Nine Months Ended September 30, 2022

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Retained Earnings (Accumulated Deficit)	Total Stockholders' Equity
Balance, December 31, 2021	96,774	\$ 10	\$ 617,489	\$ (64,436)	\$ 553,063
Dividends declared (\$0.025 per share)	—	—	—	(2,434)	(2,434)
Dividend equivalents declared on outstanding stock options (\$0.025 per share)	—	—	—	(250)	(250)
Stock issued for acquisition	6,960	—	156,599	—	156,599
Stock issuance costs	—	—	(55)	—	(55)
Exercise of warrants	69	—	779	—	779
Stock-based compensation costs:					
Shares issued upon options being exercised	8	—	75	—	75
Compensation costs included in net loss	—	—	2,614	—	2,614
Net loss	—	—	—	(16,510)	(16,510)
Balance, March 31, 2022	103,811	10	777,501	(83,630)	693,881
Dividends declared (\$0.025 per share)	—	—	—	(2,630)	(2,630)
Dividend equivalents declared on outstanding stock options (\$0.025 per share)	—	—	—	(249)	(249)
Stock issued for acquisitions	3,894	1	108,382	—	108,383
Stock issuance costs	—	—	(3)	—	(3)
Exercise of warrants	897	—	6,971	—	6,971
Stock-based compensation costs:					
Shares issued upon options being exercised	4	—	45	—	45
Restricted shares issued to outside directors	21	—	—	—	—
Restricted shares issued to employees	600	—	—	—	—
Compensation costs included in net income	—	—	16,429	—	16,429
Net income	—	—	—	77,561	77,561
Balance, June 30, 2022	109,227	11	909,325	(8,948)	900,388
Dividends declared (\$0.025 per share)	—	—	—	(2,730)	(2,730)
Dividend equivalents declared on outstanding stock options (\$0.025 per share)	—	—	—	(270)	(270)
Stock issued in private placement	3,933	—	85,000	—	85,000
Stock issuance costs	—	—	(232)	—	(232)
Exercise of warrants	3	—	30	—	30
Stock-based compensation costs:					
Shares issued upon options being exercised	—	—	—	—	—
Compensation costs included in net income	—	—	10,655	—	10,655
Net income	—	—	—	107,904	107,904
Balance, September 30, 2022	113,163	\$ 11	\$ 1,004,778	\$ 95,956	\$ 1,100,745

Three and Nine Months Ended September 30, 2021

	Shares Outstanding	Common Stock	Additional Paid-in- Capital	Accumulated Deficit	Total Stockholders' Equity
Balance, December 31, 2020	91,968	\$ 9	\$ 581,426	\$ (107,209)	\$ 474,226
Exercise of warrants	554	—	5,466	—	5,466
Stock-based compensation costs:					
Shares issued upon options being exercised	154	—	1,574	—	1,574
Compensation costs included in net income	—	—	966	—	966
Net income	—	—	—	4,744	4,744
Balance, March 31, 2021	92,676	9	589,432	(102,465)	486,976
Stock-based compensation costs:					
Restricted shares issued to outside directors	53	—	—	—	—
Compensation costs included in net income	—	—	1,023	—	1,023
Net income	—	—	—	5,743	5,743
Balance, June 30, 2021	92,729	9	590,455	(96,722)	493,742
Dividends declared (\$0.125 per share)	—	—	—	(11,593)	(11,593)
Dividend equivalents declared on outstanding stock options (\$0.125 per share)	—	—	—	(1,193)	(1,193)
Stock-based compensation costs:					
Restricted shares issued to outside directors	15	—	—	—	—
Compensation costs included in net income	—	—	905	—	905
Net income	—	—	—	8,047	8,047
Balance, September 30, 2021	92,744	\$ 9	\$ 591,360	\$ (101,461)	\$ 489,908

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

HighPeak Energy, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 168,955	\$ 18,534
Adjustments to reconcile net income to net cash provided by operations:		
Exploration and abandonment expense	134	698
Depletion, depreciation and amortization expense	94,531	43,737
Accretion expense	245	116
Stock-based compensation expense	29,210	2,894
Amortization of debt issuance costs	3,261	259
Amortization of original issue discount on senior notes	4,609	—
Derivative-related activity	(21,656)	19,402
Deferred income taxes	55,357	4,680
Changes in operating assets and liabilities:		
Accounts receivable	(43,822)	(16,168)
Prepaid expenses, inventory and other assets	(7,148)	(7,816)
Accounts payable, accrued liabilities and other current liabilities	19,130	21,401
Net cash provided by operating activities	<u>302,806</u>	<u>87,737</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to crude oil and natural gas properties	(725,107)	(154,599)
Changes in working capital associated with crude oil and natural gas property additions	142,299	15,995
Acquisitions of crude oil and natural gas properties	(258,385)	(53,276)
Proceeds from sales of properties	—	3,234
Other property additions	(2,158)	(453)
Net cash used in investing activities	<u>(843,351)</u>	<u>(189,099)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings under revolving credit facility	450,000	95,000
Repayments under revolving credit facility	(195,000)	—
Proceeds from issuance of senior unsecured notes, net of discount	210,179	—
Proceeds from issuance of common stock in private placement	85,000	—
Debt issuance costs	(9,221)	(1,757)
Proceeds from exercises of warrants	7,780	5,466
Proceeds from subscription receivable from exercises of warrants	—	3,596
Proceeds from exercises of stock options	120	1,574
Dividends paid	(7,636)	(9,274)
Dividend equivalents paid	(908)	(829)
Stock issuance costs	(290)	—
Net cash provided by financing activities	<u>540,024</u>	<u>93,776</u>
Net decrease in cash and cash equivalents	(521)	(7,586)
Cash and cash equivalents, beginning of period	34,869	19,552
Cash and cash equivalents, end of period	<u>\$ 34,348</u>	<u>\$ 11,966</u>
Supplemental cash flow information:		
Interest paid	\$ 18,318	\$ 752
Income taxes paid	\$ —	\$ —
Supplemental disclosure of non-cash transactions:		
Stock issued for acquisition	\$ 264,982	\$ —
Additions to asset retirement obligations	\$ 3,748	\$ 1,841

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

HIGHPEAK ENERGY, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. Organization and Nature of Operations

HighPeak Energy, Inc. ("HighPeak Energy" or the "Company,") is a Delaware corporation, formed in October 2019. See the Company's Annual Report on Form 10-K for the year ended December 31, 2021 for further information regarding the formation of the Company.

HighPeak Energy's common stock and warrants are listed and traded on the Nasdaq Global Market (the "Nasdaq") under the ticker symbols "HPK" and "HPKEW," respectively. The Company is an independent crude oil and natural gas exploration and production company that explores for, develops and produces crude oil, NGL and natural gas in the Permian Basin in West Texas, more specifically, the Midland Basin primarily in Howard and Borden Counties. Our acreage is composed of two core areas, Flat Top primarily in the northern portion of Howard County extending into southern Borden County and Signal Peak in the southern portion of Howard County.

NOTE 2. Basis of Presentation and Summary of Significant Accounting Policies

Presentation. In the opinion of management, the unaudited interim condensed consolidated financial statements of the Company as of September 30, 2022 and for the three and nine months ended September 30, 2022 and 2021 include all adjustments and accruals, consisting only of normal, recurring adjustments and accruals necessary for a fair presentation of the results for the interim periods in conformity with generally accepted accounting principles in the United States ("GAAP"). The operating results for the three and nine months ended September 30, 2022 are not indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). These unaudited interim condensed consolidated financial statements should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Principles of consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries since their acquisition or formation. All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to prior period amounts to conform to the current period's presentation.

Use of estimates in the preparation of financial statements. Preparation of the Company's consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Depletion of crude oil and natural gas properties and evaluations for impairment of proved and unproved crude oil and natural gas properties, in part, is determined using estimates of proved, probable and possible crude oil, NGL and natural gas reserves. There are numerous uncertainties inherent in the estimation of quantities of proved, probable and possible reserves and in the projection of future rates of production and the timing of development expenditures. Similarly, evaluations for impairment of proved crude oil and natural gas properties are subject to numerous uncertainties including, among others, estimates of future recoverable reserves, commodity price outlooks and future undiscounted and discounted net cash flows. In addition, evaluations for impairment of unproved crude oil and natural gas properties on a project-by-project basis are also subject to numerous uncertainties including, among others, estimates of future recoverable reserves, results of exploration activities, commodity price outlooks, planned future sales or expirations of all or a portion of such projects. Other items subject to such estimates and assumptions include, but are not limited to, the carrying value of crude oil and natural gas properties, asset retirement obligations, equity-based compensation, fair value of derivatives and estimates of income taxes. Actual results could differ from the estimates and assumptions utilized.

Cash and cash equivalents. The Company's cash and cash equivalents include depository accounts held by banks with original issuance maturities of 90 days or less. The Company's cash and cash equivalents are generally held in financial institutions in amounts that may exceed the insurance limits of the Federal Deposit Insurance Corporation. However, management believes that the Company's counterparty risks are minimal based on the reputation and history of the institutions selected.

Accounts receivable. As of September 30, 2022 and December 31, 2021, the Company's accounts receivables primarily consist of amounts due from the sale of crude oil, NGL and natural gas of \$70.4 million and \$29.0 million, respectively, and are based on estimates of sales volumes and realized prices the Company anticipates it will receive, \$3.4 million and zero, respectively, of receivables related to electric power infrastructure installed throughout Flat Top by the Company that it will be reimbursed for, current U.S. federal income tax receivables of \$3.2 million and \$3.2 million, respectively, joint interest receivables of \$3.3 million and \$3.1 million, respectively, receivables related to settlements of derivative contracts of \$2.9 million and \$771,000, respectively, and receivables related to refunds from pipe suppliers of zero and \$3.3 million, respectively. The Company's share of crude oil, NGL and natural gas production is sold to various purchasers who must be prequalified under the Company's credit risk policies and procedures. The Company's credit risk related to collecting accounts receivables is mitigated by using credit and other financial criteria to evaluate the credit standing of the entity obligated to make payment on the accounts receivable, and where appropriate, the Company obtains assurances of payment, such as a guarantee by the parent company of the counterparty or other credit support. The Company routinely reviews outstanding balances and establishes allowances for bad debts equal to the estimable portions of accounts receivable for which failure to collect is considered probable. As of September 30, 2022 and December 31, 2021, the Company had no allowance for doubtful accounts.

Concentration of credit risk. The Company is subject to credit risk resulting from the concentration of its crude oil and natural gas receivables with significant purchasers. For the nine months ended September 30, 2022 and 2021, sales to the Company's largest purchaser accounted for approximately 88% and 94%, respectively, of the Company's total crude oil, NGL and natural gas sales revenues. The Company generally does not require collateral and does not believe the loss of this particular purchaser would materially impact its operating results, as crude oil and natural gas are fungible products with well-established markets and numerous purchasers in various regions.

Prepaid expenses. Prepaid expenses are comprised primarily of tubulars and proppant that the Company has prepaid the suppliers to guarantee their availability when needed for our current drilling program, prepaid drilling and completion costs on wells being drilled and completed by third party operators where we own a non-operated working interest, prepaid caliche that will be used on future locations and roads in our development areas, prepaid insurance costs, software maintenance costs and listing fees that will be amortized over the life of the policies and prepaid software maintenance fees that will be amortized over the life of the contracts. Prepaid expenses as of September 30, 2022 and December 31, 2021 is \$5.7 million and \$7.2 million, respectively.

Inventory. Inventory is comprised primarily of crude oil and natural gas drilling or repair items such as tubing, casing, pumps, vessels, operating supplies and ordinary maintenance materials and parts. The materials and supplies inventory are primarily acquired for use in future drilling or repair operations and is carried at the lower of cost or net realizable value, on a weighted average cost basis. Valuation allowances for materials and supplies inventories are recorded as reductions to the carrying values of the materials and supplies inventories in the Company's consolidated balance sheet and as charges to other expense in the consolidated statements of operations. The Company's materials and supplies inventory as of September 30, 2022 and December 31, 2021 is \$8.2 million and \$3.3 million, respectively, and the Company has not recognized any valuation allowance to date.

Crude oil and natural gas properties. The Company utilizes the successful efforts method of accounting for its crude oil and natural gas properties. Under this method, all costs associated with productive wells and nonproductive development wells are capitalized while nonproductive exploration costs and geological and geophysical expenditures are expensed.

The Company does not carry the costs of drilling an exploratory well as an asset in its consolidated balance sheet following the completion of drilling unless both of the following conditions are met: (i) the well has found a sufficient quantity of reserves to justify its completion as a producing well and (ii) the Company is making sufficient progress assessing the reserves and the economic and operating viability of the project.

Due to the capital-intensive nature and the geographical location of certain projects, it may take an extended period of time to evaluate the future potential of an exploration project and the economics associated with making a determination on its commercial viability. In these instances, the project's feasibility is not contingent upon price improvements or advances in technology, but rather the Company's ongoing efforts and expenditures related to accurately predict the hydrocarbon recoverability based on well information, gaining access to other companies' production data in the area, transportation or processing facilities and/or getting partner approval to drill additional appraisal wells. These activities are ongoing and are being pursued constantly. Consequently, the Company's assessment of suspended exploratory well costs is continuous until a decision can be made that the project has found sufficient proved reserves to sanction the project or is noncommercial and is charged to exploration and abandonment expense. See Note 6 for additional information.

The capitalized costs of proved properties are depleted using the unit-of-production method based on proved reserves for leasehold costs and proved developed reserves for drilling, completion and other crude oil and natural gas property costs. Costs of unproved leasehold costs are excluded from depletion until proved reserves are established or, if unsuccessful, impairment is determined.

Proceeds from the sales of individual properties are credited to proved or unproved crude oil and natural gas properties, as the case may be, if doing so does not materially impact the depletion rate of an amortization base. Generally, no gain or loss is recorded until an entire amortization base is sold. However, gain or loss is recorded from the sale of less than an entire amortization base if the disposition is significant enough to materially impact the depletion rate of the remaining properties in the amortization base.

The Company performs assessments of its long-lived assets to be held and used, including proved crude oil and natural gas properties accounted for under the successful efforts method of accounting, whenever events or circumstances indicate that the carrying value of those assets may not be recoverable. An impairment loss is indicated if the sum of the expected future cash flows is less than the carrying amount of the assets. In these circumstances, the Company recognizes an impairment charge for the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets.

Unproved crude oil and natural gas properties are periodically assessed for impairment on a project-by-project basis. These impairment assessments are affected by the estimates of future recoverable reserves, results of exploration activities, commodity price outlooks, planned future sales or expirations of all or a portion of such projects. If the estimated future net cash flows attributable to such projects are not expected to be sufficient to fully recover the costs invested in each project, the Company will recognize an impairment charge at that time.

Other property and equipment, net. Other property and equipment are recorded at cost. The carrying values of other property and equipment, net of accumulated depreciation of \$649,000 and \$438,000 as of September 30, 2022 and December 31, 2021, respectively, are as follows (in thousands):

	September 30, 2022	December 31, 2021
Land	\$ 2,139	\$ 1,122
Transportation equipment	645	202
Buildings	547	—
Leasehold improvements	210	143
Field equipment	7	8
Information technology	—	125
Total other property and equipment, net	<u>\$ 3,548</u>	<u>\$ 1,600</u>

Other property and equipment are depreciated over its estimated useful life on a straight-line basis. Land is not depreciated. Transportation equipment is generally depreciated over five years, buildings are generally depreciated over forty years, field equipment is generally depreciated over seven years and information technology is generally depreciated over three years. Leasehold improvements are amortized over the lesser of their estimated useful lives or the underlying terms of the associated leases.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment to be recorded is measured by the amount by which the carrying amount of the asset exceeds its estimated fair value. The estimated fair value is determined using either a discounted future cash flow model or another appropriate fair value method.

Aid-in-construction assets. As of September 30, 2022 and December 31, 2021, the Company has aid-in-construction assets totaling \$6.2 million and \$3.9 million, respectively, included in other noncurrent assets. The Company contracted with the natural gas gatherer and processor in its Flat Top area to expand its low-pressure natural gas gathering system to transport the Company's natural gas to its processing facility which was contracted to be expanded during the third quarter of 2022 at an additional cost to the Company of \$2.6 million. The Company agreed to incur the cost to construct the system in return for future payments based on gross system throughput, including any third-party natural gas that is potentially tied into the system in the future. Based on the Company's current projections of its natural gas reserves in Flat Top, it is anticipated that the full amount will be paid back in less than four years. The contract calls for future aid-in-construction fundings if expansions of the system are necessary at the sole discretion of the Company.

Leases. The Company enters into leases for drilling rigs, storage tanks, equipment and buildings and recognizes lease expense on a straight-line basis over the lease term. Lease right-of-use assets and liabilities are initially recorded on the lease commencement date based on the present value of lease payments over the lease term. As most of the Company's lease contracts do not provide an implicit discount rate, the Company uses its incremental borrowing rate, which is determined based on information available at the commencement date of a lease. Leases may include renewal, purchase or termination options that can extend or shorten the term of a lease. The exercise of those options is at the Company's sole discretion and is evaluated at inception and throughout the contract to determine if a modification of the lease term is required. Leases with an initial term of 12 months or less are generally not recorded as lease right-of-use assets and liabilities. See Note 10 for additional information.

Current liabilities. Current liabilities as of September 30, 2022 and December 31, 2021 totaled approximately \$260.4 million and \$103.0 million, respectively, including trade accounts payable, derivative liabilities, revenues and royalties payable, advances from joint interest owners and accruals for capital expenditures, operating and general and administrative expenses, interest expense, operating leases, dividends and dividend equivalents and other miscellaneous items.

Debt issuance costs and original issue discount. The Company has paid a total of \$11.8 million in debt issuance costs, \$9.2 million of which was incurred during the nine months ended September 30, 2022, related to the issuance of senior unsecured notes and amendments to its revolving credit facility. Amortization based on the straight-line method over the terms of the senior unsecured notes and the revolving credit facility which approximates the effective interest method was \$3.3 million and \$259,000 during the nine months ended September 30, 2022 and 2021, respectively. In addition, the company realized a \$14.8 million discount on the issuance of its senior unsecured notes that is being amortized over the life of the notes which approximates the effective interest method and was \$4.6 million and zero during the nine months ended September 30, 2022 and 2021, respectively. As of September 30, 2022 and December 31, 2021, the net debt issuance costs and discount are netted against the outstanding long-term debt on the accompanying balance sheets in accordance with GAAP.

Asset retirement obligations. The Company records a liability for the fair value of an asset retirement obligation in the period in which the associated asset is acquired or placed into service, if a reasonable estimate of fair value can be made. Asset retirement obligations are generally capitalized as part of the carrying value of the long-lived asset to which it relates. Conditional asset retirement obligations meet the definition of liabilities and are recorded when incurred and when fair value can be reasonably estimated. See Note 8 for additional information.

Revenue recognition. The Company follows FASB ASC 606, "Revenue from Contracts with Customers," ("ASC 606") whereby the Company recognizes revenues from the sales of crude oil and natural gas to its purchasers and presents them disaggregated on the Company's consolidated statements of operations.

The Company enters into contracts with purchasers to sell its crude oil and natural gas production. Revenue on these contracts is recognized in accordance with the five-step revenue recognition model prescribed in ASC 606. Specifically, revenue is recognized when the Company's performance obligations under these contracts are satisfied, which generally occurs with the transfer of control of the crude oil and natural gas to the purchaser. Control is generally considered transferred when the following criteria are met: (i) transfer of physical custody, (ii) transfer of title, (iii) transfer of risk of loss and (iv) relinquishment of any repurchase rights or other similar rights. Given the nature of the products sold, revenue is recognized at a point in time based on the amount of consideration the Company expects to receive in accordance with the price specified in the contract. Consideration under the crude oil and natural gas marketing contracts is typically received from the purchaser one to two months after production. As of September 30, 2022 and December 31, 2021, the Company had receivables related to contracts with purchasers of approximately \$70.4 million and \$29.0 million, respectively.

Crude Oil Contracts. The Company's crude oil marketing contracts transfer physical custody and title at or near the wellhead, which is generally when control of the crude oil has been transferred to the purchaser. The crude oil produced is sold under contracts using market-based pricing which is then adjusted for the differentials based upon delivery location and crude oil quality. Since the differentials are incurred after the transfer of control of the crude oil, the differentials are included in crude oil sales on the consolidated statements of operations as they represent part of the transaction price of the contract.

Natural Gas Contracts. The majority of the Company's natural gas is sold at the lease location, which is generally when control of the natural gas has been transferred to the purchaser. The natural gas is sold under (i) percentage of proceeds processing contracts or (ii) a hybrid of percentage of proceeds and fee-based contracts. Under the majority of the Company's contracts, the purchaser gathers the natural gas in the field where it is produced and transports it to natural gas processing plants where NGL products are extracted. The NGL products and remaining residue natural gas are then sold by the purchaser. Under percentage of proceeds and hybrid percentage of proceeds and fee-based contracts, the Company receives a percentage of the value for the extracted liquids and the residue natural gas. Since control of the natural gas transfers upstream of the transportation and processing activities, revenue is recognized as the net amount received from the purchaser.

The Company does not disclose the value of unsatisfied performance obligations under its contracts with customers as it applies the practical exemption in accordance with ASC 606. The exemption, as described in ASC 606-10-50-14(a), applies to variable consideration that is recognized as control of the product is transferred to the customer. Since each unit of product represents a separate performance obligation, future volumes are wholly unsatisfied and disclosure of the transaction price allocated to remaining performance obligations is not required.

Derivatives. All the Company's derivatives are accounted for as non-hedge derivatives and are recorded at estimated fair value in the consolidated balance sheets. All changes in the fair values of its derivative contracts are recorded as gains or losses in the earnings of the periods in which they occur. The Company enters into derivatives under master netting arrangements, which, in an event of default, allows the Company to offset payables to and receivables from the defaulting counterparty. The Company classifies the fair value amounts of derivative assets and liabilities executed under master netting arrangements as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty.

The Company's credit risk related to derivatives is a counterparties' failure to perform under derivative contracts owed to the Company. The Company uses credit and other financial criteria to evaluate the credit standing of, and to select, counterparties to its derivative instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

The Company has entered into International Swap Dealers Association Master Agreements (“ISDA Agreements”) with each of its derivative counterparties. The terms of the ISDA Agreements provide the Company and the counterparties with rights of set off upon the occurrence of defined acts of default by either the Company or a counterparty to a derivative, whereby the party not in default may set off all derivative liabilities owed to the defaulting party against all derivative asset receivables from the defaulting party. See Note 5 for additional information.

Income taxes. The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the carrying amounts for income tax purposes and net operating loss and tax credit carryforwards. The amount of deferred taxes on these temporary differences is determined using the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, as applicable, based on tax rates and laws in the respective tax jurisdiction enacted as of the balance sheet date.

The Company reviews its deferred tax assets for recoverability and establishes a valuation allowance based on projected future taxable income, applicable tax strategies and the expected timing of the reversals of existing temporary differences. A valuation allowance is provided when it is more likely than not (likelihood of greater than 50 percent) that some portion or all the deferred tax assets will not be realized. The Company had not established a valuation allowance as of September 30, 2022 and December 31, 2021.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. If all or a portion of the unrecognized tax benefit is sustained upon examination by the taxing authorities, the tax benefit will be recognized as a reduction to the Company’s deferred tax liability and will affect the Company’s effective tax rate in the period it is recognized. See Note 13 for additional information.

The Company records any tax-related interest charges as interest expense and any tax-related penalties as other expense in the consolidated statements of operations of which there have been none to date.

The Company is also subject to Texas Margin Tax. The Company realized no Texas Margin Tax in the accompanying consolidated financial statements as we do not anticipate owing any Texas Margin Tax for the periods presented.

Stock-based compensation. Stock-based compensation expense for stock option awards is measured at the grant date or modification date, as applicable, using the fair value of the award, and is recorded, net of forfeitures, on a straight-line basis over the requisite service period of the respective award. The fair value of stock option awards is determined on the grant date or modification date, as applicable, using a Black-Scholes option valuation model with the following inputs: (i) the grant date’s closing stock price, (ii) the exercise price of the stock options, (iii) the expected term of the stock option, (iv) the estimated risk-free adjusted interest rate for the duration of the option’s expected term, (v) the expected annual dividend yield on the underlying stock and (vi) the expected volatility over the option’s expected term.

Stock-based compensation for HighPeak Energy common stock issued to outside directors with no restrictions thereon, is measured at the grant date using the fair value of the award and is recognized as stock-based compensation in the accompanying financial statements immediately. Stock-based compensation for restricted stock awarded to outside directors, employee members of the board of directors and certain other employees is measured at the grant date using the fair value of the award and is recognized on a straight-line basis over the requisite service period of the respective award.

Segments. Based on the Company’s organizational structure, the Company has one operating segment, which is crude oil and natural gas development, exploration and production. In addition, the Company has a single, company-wide management team that allocates capital resources to maximize profitability and measures financial performance as a single enterprise.

Recently adopted accounting pronouncements. There are no recently adopted accounting pronouncements.

New accounting pronouncements not yet adopted. In October 2021, the FASB issued ASU 2021-08, “Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers.” This update requires the acquirer in a business combination to record contract asset and liabilities following Topic 606 – “Revenue from Contracts with Customers” at acquisition as if it had originated the contract, rather than at fair value. This update is effective for public business entities beginning after December 15, 2022 with early adoption permitted. The Company continues to evaluate the provisions of this update but does not believe the adoption will have a material impact on its financial position, results of operations or liquidity.

The Company considers the applicability and the impact of all ASUs. ASUs not discussed above were assessed and determined to be either not applicable, the effects of adoption are not expected to be material or are clarifications of ASUs previously disclosed.

NOTE 3. Acquisitions

Acquisitions. During the nine months ended September 30, 2022, the Company incurred a total of \$523.4 million in acquisition costs to acquire various crude oil and natural gas properties contiguous to its Signal Peak and Flat Top operating areas primarily in Howard and Borden counties, consisting of approximately 42,855 net acres, including associated producing properties, water system infrastructure and in-field fluid gathering pipelines. Included in the acquisition costs is the issuance of 10,853,634 shares of HighPeak Energy common stock valued at \$265.0 million on the respective closing dates. All the aforementioned acquisitions were accounted for as asset acquisitions as substantially all the gross assets acquired are concentrated in a group of similar identifiable assets. The consideration paid was allocated to the individual assets acquired and liabilities assumed based on their relative fair values. All transaction costs associated with the acquisitions were capitalized.

NOTE 4. Fair Value Measurements

The Company determines fair value based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect the company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The three input levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets.
- Level 2 – quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs for the asset or liability, typically reflecting management's estimate of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore, determined using model-based techniques, including discounted cash flow models.

Assets and liabilities measured at fair value on a recurring basis. Assets and liabilities measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021 are as follows (in thousands):

	As of September 30, 2022			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Commodity price derivatives	\$ —	\$ 17,261	\$ —	\$ 17,261
Liabilities:				
Commodity price derivatives	—	11,071	—	11,071
Total recurring fair value measurements	\$ —	\$ 6,190	\$ —	\$ 6,190
	As of December 31, 2021			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Commodity price derivatives	\$ —	\$ 2,199	\$ —	\$ 2,199
Liabilities:				
Commodity price derivatives – current	—	13,591	—	13,591
Commodity price derivatives – noncurrent	—	4,075	—	4,075
Total liabilities	—	17,666	—	17,666
Total recurring fair value measurements	\$ —	\$ (15,467)	\$ —	\$ (15,467)

Commodity price derivatives. The Company's commodity price derivatives are currently made up of crude oil and natural gas swap contracts. The Company measures derivatives using an industry-standard pricing model that is provided by a third party. The inputs utilized in the third-party discounted cash flow and option-pricing models for valuing commodity price derivatives include forward prices for crude oil, contracted volumes, volatility factors and time to maturity, which are considered Level 2 inputs.

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. Specifically, (i) stock-based compensation is measured at fair value on the date of grant based on Level 1 inputs for restricted stock awards or Level 2 inputs for stock option awards based upon market data, and (ii) the estimates and fair value measurements used for the evaluation of proved property for potential impairment using Level 3 inputs based upon market conditions in the area. The Company assesses the recoverability of the carrying amount of certain assets and liabilities whenever events or changes in circumstances indicate the carrying amount of an asset or liability may not be recoverable. These assets and liabilities can include inventories, proved and unproved crude oil and natural gas properties and other long-lived assets that are written down to fair value when they are impaired or held for sale. The Company did not record any impairments to proved or unproved crude oil and natural gas properties for the periods presented in the accompanying consolidated financial statements.

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the consolidating balance sheets are as follows (in thousands):

	As of September 30, 2022		As of December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Cash and cash equivalents	\$ 34,348	\$ 34,348	\$ 34,869	\$ 34,869
Liabilities:				
Long-term debt:				
10.000% Senior Notes (a)	\$ 225,000	\$ 225,000	\$ —	\$ —

(a) Fair value is determined using Level 2 inputs. The Company's senior unsecured notes are quoted, but not actively traded on major exchanges; therefore, fair value is based on periodic values as quoted on major exchanges. See Note 7 for additional information.

The Company has other financial instruments consisting primarily of accounts receivable, accounts payable, long-term debt, specifically the revolving credit facility, and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities.

NOTE 5. Derivative Financial Instruments

The Company primarily utilizes commodity swap contracts to (i) reduce the effect of price volatility on the commodities the Company produces and sells, and (ii) support the Company's capital budgeting and expenditure plans, (iii) protect the Company's borrowing base under its Revolving Credit Facility, (iv) adhere to the hedge obligations included in the senior unsecured notes and (v) support the payment of contractual obligations.

The following table summarizes the effect of derivatives on the Company's consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Noncash derivative gain (loss), net	\$ 38,098	\$ (6,844)	\$ 21,656	\$ (19,402)
Derivative settlements, net	(2,300)	(3,976)	(64,143)	(5,014)
Derivative gain (loss), net	\$ 35,798	\$ (10,820)	\$ (42,487)	\$ (24,416)

Crude oil production derivatives. The Company sells its crude oil production at the lease and the sales contracts governing such crude oil production are tied directly to, or are correlated with, NYMEX WTI crude oil prices. As such, the Company uses NYMEX WTI derivative contracts to manage future crude oil price volatility.

The Company's outstanding crude oil derivative contracts as of September 30, 2022 and the weighted average crude oil prices per barrel for those contracts are as follows:

	Remainder of 2022	2023			
		First Quarter	Second Quarter	Third Quarter	Total
Crude Oil Price Swaps - WTI:					
Volume (MBbls)	1,072.8	900.0	546.0	276.0	1,722.0
Price per Bbl	\$ 85.85	\$ 73.67	\$ 67.81	\$ 72.30	\$ 71.59

Natural gas production derivatives. The Company sells its natural gas production at the lease and the sales contracts governing such natural gas production are tied directly to, or are correlated with, NYMEX HH natural gas prices. As such, the Company uses NYMEX HH derivative contracts to manage future natural gas price volatility.

The Company's outstanding natural gas derivative contracts as of September 30, 2022 and the weighted average natural gas prices per MMBtu for those contracts are as follows:

	Remainder Of 2022	2023	
		First Quarter	Total
Natural Gas Price Swaps - HH:			
Volume (MMBtu)		460.0	450.0
Price per MMBtu		\$ 9.00	\$ 9.00

The Company uses credit and other financial criteria to evaluate the credit standings of, and to select, counterparties to its derivative financial instruments. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative financial instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

Net derivative assets (liabilities) associated with the Company's open commodity derivatives by counterparty are as follows (in thousands):

	As of September 30, 2022
Bank of America, National Association	\$ 10,835
Citizens Bank, National Association	5,767
Fifth Third Bank, National Association	(10,412)
	<u>\$ 6,190</u>

NOTE 6. Exploratory Well Costs

The Company capitalizes exploratory well and project costs until a determination is made that the well or project has either found proved reserves, is impaired or is sold. The Company's capitalized exploratory well and project costs are included in proved properties in the consolidated balance sheets. If the exploratory well or project is determined to be impaired, the impaired costs are charged to exploration and abandonments expense.

The changes in capitalized exploratory well costs are as follows (in thousands):

	Nine Months Ended September 30, 2022
Beginning capitalized exploratory well costs	\$ 28,076
Additions to exploratory well costs	385,440
Reclassification to proved properties	(319,220)
Exploratory well costs charged to exploration and abandonment expense	—
Ending capitalized exploratory well costs	<u>\$ 94,296</u>

All capitalized exploratory well costs have been capitalized for less than one year based on the date of drilling.

NOTE 7. Long-Term Debt

The components of long-term debt, including the effects of debt issuance costs, are as follows (in thousands):

	September 30, 2022	December 31, 2021
Revolving Credit Facility due 2024	\$ 355,000	\$ 100,000
10.000% Senior Notes due 2024	225,000	—
Discounts, net (a)	(10,212)	—
Debt issuance costs, net (b)	(8,032)	(2,071)
Total debt	<u>561,756</u>	<u>97,929</u>
Less current portion of long-term debt	—	—
Long-term debt, net	<u>\$ 561,756</u>	<u>\$ 97,929</u>

(a) Discounts as of September 30, 2022 and December 31, 2021 consisted of \$14.8 million and zero, respectively, in discounts less accumulated amortization of \$4.6 million and zero, respectively.

(b) Debt issuance costs as of September 30, 2022 and December 31, 2021 consisted of \$11.8 million and \$2.6 million, respectively, in costs less accumulated amortization of \$3.8 million and \$502,000, respectively.

Revolving Credit Facility. In December 2020, the Company entered into a Credit Agreement with Fifth Third Bank, National Association (“Fifth Third”) as the administrative agent and sole lender to establish a revolving credit facility (“Revolving Credit Facility”) that matures on June 17, 2024 (subject to a springing maturity date of October 1, 2023 if the 10.000% Senior Notes are outstanding on such date). The Revolving Credit Facility had an initial borrowing base of \$40.0 million. However, the Company elected to reduce the aggregate elected commitments under the Revolving Credit Facility to \$20.0 million. In June 2021, the Company entered into the First Amendment to, among other things, (i) complete the semi-annual borrowing base redetermination process which increased the borrowing base from \$40.0 million to \$125.0 million and (ii) modify the terms of the Credit Agreement to increase the aggregate elected commitments from \$20.0 million to \$125.0 million. A syndicate of banks joined the credit facility at differing levels of commitments with Fifth Third remaining the administrative agent. In October 2021, the Company entered into the Second Amendment to, among other things, (i) complete a semi-annual borrowing base redetermination process, which increased the borrowing base from \$125.0 million to \$195.0 million and (ii) modify the terms of the Credit Agreement to increase the aggregate elected commitments from \$125.0 million to \$195.0 million. In February 2022, the Company entered into the Third Amendment to, among other things, (i) reduce the borrowing base from \$195.0 million to \$138.8 million, (ii) modify the terms of the Credit Agreement to reduce the aggregate elected commitments from \$195.0 million to \$138.8 million, (iii) update the maturity date to a springing maturity date, which will cause the Credit Agreement to mature on October 1, 2023 if the 10.000% Senior Notes are not retired by that date, (iv) allow the Company to redeem the 10.000% Senior Notes with proceeds of a refinancing, with proceeds of an equity offering or with cash, in each case, subject to certain customary conditions and (v) replace the USD LIBOR rates with Term SOFR rates. In June 2022, simultaneous with the closing of one of the aforementioned acquisitions, the Company entered into the Fourth Amendment to the Revolving Credit Facility to, among other things, (i) increase (a) the aggregate elected commitments to \$400.0 million, (b) the borrowing base to \$400.0 million and (c) the maximum credit amount to \$1.5 billion, (ii) increase the excess cash threshold to \$75.0 million, (iii) modify the affirmative hedging requirement and (iv) increase the number of banks included in the syndicate at differing levels of commitments with Fifth Third remaining the administrative agent. In October 2022, the Company entered into the Fifth Amendment to the Revolving Credit Facility to, among other things, (i) increase the elected commitments to \$525 million and the borrowing base to \$550 million, (ii) require an additional borrowing base redetermination on or about December 1, 2022, (iii) modify the permitted dividends and distributions conditions such that minimum availability under the credit facility must be 25% percent (as opposed to 30% before giving effect to the Fifth Amendment) and (iv) appoint Wells Fargo Bank, National Association (“Wells Fargo”) as the new administrative agent to replace Fifth Third. In addition, in connection with the Fifth Amendment, to the extent the Company incurs any additional specified unsecured senior, senior subordinated or subordinated future indebtedness before June 30, 2023, the Company’s obligation to reduce the borrowing base by an amount equal to 25% of the principal amount of such additional future indebtedness shall be waived. In connection with the Fifth Amendment, the lenders waived two technical events of default existing with the Credit Agreement, as it existed prior to giving effect to the Fifth Amendment, related to entering into and maintaining certain minimum hedges as of the fiscal quarters ending June 30, 2022 and September 30, 2022 and complying with the required current ratio as of the fiscal quarter ending September 30, 2022. In October 2022, the Company entered into the Sixth Amendment to the Revolving Credit Facility to, among other things, (i) change the period to one hundred and twenty (120) days following the Maturity Date for which there can be no scheduled principal payments, mandatory redemption or maturity date for the 2024 Senior Notes (as defined in the Credit Agreement) and the Specified Senior Notes (as defined in the Credit Agreement), (ii) to clarify that the Specified Senior Notes are subject to the restriction on the voluntary redemption by the Company of certain specified additional debt, including the 2024 Senior Notes, (iii) to add a permitted lien basket in connection with the escrow account to be opened in connection with the Specified Senior Notes and (iv) provide for an exception for the restriction on mandatory redemptions of the Specified Senior Notes in connection with the special mandatory redemption provided for with respect to the Specified Senior Notes.

The borrowing capacity under the Revolving Credit Facility is equal to the lowest of (i) the borrowing base (which stands at \$400.0 million as of September 30, 2022 increased to \$550.0 million on October 14, 2022), (ii) the aggregate elected commitments (which stand at \$400.0 million as of September 30, 2022 increased to \$525.0 million on October 14, 2022) and (iii) \$1.5 billion. As of September 30, 2022 and December 31, 2021, the Company had \$355.0 million and \$100.0 million, respectively, outstanding borrowings under the Revolving Credit Facility. Borrowings under the Revolving Credit Facility prior to February 2022 bore interest, at the option of the Company, based on (a) a rate per annum equal to the higher of (i) the prime rate announced from time to time by Fifth Third, (ii) the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System during the last preceding business day plus 0.5 percent and (iii) the Adjusted LIBO Rate for one-month Interest Period, plus a margin (the “Applicable Margin”) which was determined by the Borrowing Base Utilization Percentage as defined in the Revolving Credit Facility or (b) the LIBO Rate for a one, three or six month Interest Period multiplied by the Statutory Reserve Rate. As of February 2022, borrowings under the Revolving Credit Facility bear interest at the option of the Company, based on (a) the prime rate announced from time to time by the administrative agent or (b) a rate equal to the higher of (i) zero percent per annum and (ii) SOFR relating to quotations for 1 or 3 months. Letters of credit outstanding under the Revolving Credit Facility are subject to a per annum fee, representing the Applicable Margin plus 0.125 percent. The Company also pays commitment fees on undrawn amounts under the Revolving Credit Facility equal to 0.50 percent. Borrowings under the Revolving Credit Facility are secured by a first lien security interest on substantially all assets of the Company and its restricted subsidiaries, including mortgages on the Company’s and its restricted subsidiaries’ crude oil and natural gas properties. The Revolving Credit Facility is scheduled to have the borrowing base redetermined on or about December 1, 2022 and semiannually in April and October thereafter. Additionally, the Company and Fifth Third (effective October 14, 2022, Wells Fargo) each have the option for a wild card evaluation between redeterminations.

The Revolving Credit Facility requires the maintenance of a ratio of total debt to EBITDAX, subject to certain adjustments, not to exceed 3.00 to 1.00 as of the last day of any fiscal quarter and a current ratio, subject to certain adjustments, of at least 1.00 to 1.00 as of the last day of any fiscal quarter.

The Company has limited equity cure rights for a breach of the above-listed financial covenants. Additionally, the Revolving Credit Facility contains additional restrictive covenants that limit the ability of the Company and its restricted subsidiaries to, among other things, incur additional indebtedness, incur additional liens, make investments and loans, enter into mergers and acquisitions, make or declare dividends and other payments, enter into certain hedging transactions, sell assets and engage in transactions with affiliates. The Revolving Credit Facility contains customary mandatory prepayments, including a monthly mandatory prepayment if the Consolidated Cash Balance (as defined in the Credit Agreement) is in excess of \$75.0 million. In addition, the Credit Agreement is subject to customary events of default, including a change in control. If an event of default occurs and is continuing, the administrative agent or the majority of the lenders may accelerate any amounts outstanding and terminate lender commitments.

10.000% Senior Notes. In February 2022, the Company issued \$225.0 million aggregate principal amount of 10.000% senior unsecured notes that will mature on February 15, 2024 (“10.000% Senior Notes”). The Company received proceeds, net of \$21.2 million of issuance costs and discounts, of \$203.8 million. The net proceeds were used to pay down the balance of our Revolving Credit Facility to zero at closing and to fund our ongoing capital development program with subsequent draws on the Revolving Credit Facility. Interest on the 10.000% Senior Notes will be payable on August 15 and February 15 of each year.

10.625% Senior Notes. In November 2022, the Company issued \$225.0 million aggregate principal amount of 10.625% senior unsecured notes that will mature on November 15, 2024 (“10.625% Senior Notes”). The Company received proceeds, net of approximately \$25.0 million of issuance costs

and discounts, of approximately \$200.0 million. The net proceeds were used to reduce the outstanding balance of our Revolving Credit Facility at closing and for general corporate purposes. Interest on the 10.625% Senior Notes will be payable on May 15 and November 15 of each year.

The Revolving Credit Facility, 10.000% Senior Notes and 10.625% Senior Notes have hedging obligations that the Company adheres to.

NOTE 8. Asset Retirement Obligations

The Company's asset retirement obligations primarily relate to the future plugging and abandonment of wells and related facilities. Market risk premiums associated with asset retirement obligations are estimated to represent a component of the Company's credit-adjusted risk-free rate that is utilized in the calculations of asset retirement obligations.

Asset retirement obligations activity is as follows (in thousands):

	Nine Months Ended September 30, 2022
Beginning asset retirement obligations	\$ 4,260
Liabilities incurred from wells acquired	3,219
Liabilities incurred from new wells	528
Accretion of discount	245
Ending asset retirement obligations	<u>\$ 8,252</u>

As of September 30, 2022 and December 31, 2021, all asset retirement obligations are considered noncurrent and classified as such in the accompanying consolidated balance sheets.

NOTE 9. Incentive Plans

401(k) Plan. The HighPeak Energy Employees, Inc 401(k) Plan (the "401(k) Plan") is a defined contribution plan established under Section 401 of the Internal Revenue Code of 1986, as amended (the "Code"). All regular full-time and part-time employees of the Company are eligible to participate in the 401(k) Plan after three continuous months of employment with the Company. Participants may contribute up to 80 percent of their annual base salary into the 401(k) Plan. Matching contributions are made to the 401(k) Plan in cash by the Company in amounts equal to 100 percent of a participant's contributions to the 401(k) Plan up to four percent of the participant's annual base salary (the "Matching Contribution"). Each participant's account is credited with the participant's contributions, Matching Contributions and allocations of the 401(k) Plan's earnings. Participants are fully vested in their account balances at their eligibility date. During the nine months ended September 30, 2022 and 2021, the Company contributed \$210,000 and \$167,000 to the 401(k) Plan, respectively.

Long-Term Incentive Plan. The Company's Amended & Restated Long Term Incentive Plan ("LTIP") provides for the grant of stock options, dividend equivalents, cash awards and substitute awards to officers and employees of the Company, as well as stock awards to directors and employees of the Company. The number of shares available for grant pursuant to awards under the LTIP as of September 30, 2022 are as follows:

	September 30, 2022
Approved and authorized awards	14,340,039
Awards issued under plan	(13,769,191)
Awards available for future grant	<u>570,848</u>

Stock Options. Stock option awards were granted to employees on August 24, 2020, November 4, 2021, May 4, 2022 and August 15, 2022. Stock-based compensation expense related to the Company's stock option awards for the nine months ended September 30, 2022 and 2021 was \$17.7 million and \$2.7 million, respectively, and as of September 30, 2022 and December 31, 2021 there was \$1.5 million and \$1.8 million, respectively, of unrecognized stock-based compensation expense related to unvested stock option awards. The unrecognized compensation expense will be recognized on a straight-line basis over the remaining vesting periods of the awards, which is a period of less than two years.

The Company estimates the fair value of stock options granted on the grant date using a Black-Scholes option valuation model, which requires the Company to make several assumptions. The expected term of options granted was determined based on the simplified method of the midpoint between the vesting dates and the contractual term of the options. The risk-free interest rate is based on the U.S. treasury yield curve rate for the expected term of the option at the date of grant and the volatility was based on the volatility of either an index of exploration and production crude oil and natural gas companies or on a peer group of companies with similar characteristics of the Company on the date of grant since the Company had minimal or did not have any trading history. More detailed stock options activity and details are as follows:

	Stock Options	Exercise Price	Remaining Term in Years	Intrinsic Value (in thousands)
Outstanding at December 31, 2020	9,705,495	\$ 10.00	9.7	\$ 57,942
Awards granted	442,500	\$ 14.36		
Exercised	(154,268)	\$ 10.00		
Forfeitures	(10,000)	\$ 10.00		
Outstanding at December 31, 2021	9,983,727	\$ 10.19	8.7	\$ 44,395
Awards granted	1,564,500	\$ 25.07		
Exercised	(12,000)	\$ 10.00		
Forfeitures	(18,999)	\$ 18.66		
Outstanding at September 30, 2022	<u>11,517,228</u>	\$ 12.20	8.2	\$ 115,484
Vested at December 31, 2021	8,551,070	\$ 10.13	8.7	\$ 38,556
Exercisable at December 31, 2021	8,551,070	\$ 10.13	8.7	\$ 38,556
Vested at September 30, 2022	11,218,914	\$ 12.00	8.2	\$ 114,169
Exercisable at September 30, 2022	11,218,914	\$ 12.00	8.2	\$ 114,169

Restricted Stock Issued to Employee Members of the Board. A total of 1,500,500 shares of restricted stock was approved by the board of directors to be granted to certain employee members of the board of the Company on November 4, 2021, which vest on the three-year anniversary of such grant assuming the employees remain in his or her position as of the anniversary date. Therefore, stock-based compensation expense of \$5.4 million was recognized during the nine months ended September 30, 2022 and the remaining \$15.0 million will be recognized over the remaining restricted period, which was based upon the closing price of the stock on the date of the restricted stock issuance. The board of directors also cancelled the previously issued equity-based liability bonuses and approved a total of 600,000 shares of restricted stock to be granted to certain employees of the Company on June 1, 2022, which vest on November 4, 2024, assuming the employees remain in his or her position as of that date and cancelled certain contractual equity-based bonuses to such employees. Therefore, stock-based compensation expense of \$5.0 million was recognized during the nine months ended September 30, 2022, and the remaining \$14.7 million will be recognized over the remaining restricted period, which was based upon the closing price of the stock on the date of the restricted stock issuance.

Stock Issued to Outside Directors. A total of 21,184 shares of restricted stock was approved by the board of directors to be granted to the outside directors of the Company on June 1, 2022, which will vest at the next annual meeting, assuming the board members maintain their positions on the board. Therefore, stock-based compensation expense of \$244,000 was recognized during the nine months ended September 30, 2022 and the remaining \$488,000 will be recognized between October 2022 and June 2023, which was based upon the closing price of the stock on the date of the restricted stock issuance. In addition, a total of 67,779 shares of restricted stock was approved by the board of directors to be granted to the outside directors of the Company on June 1, 2021, which vested in January 2022. Therefore, the remaining stock-based compensation expense of \$284,000 was recognized during the nine months ended September 30, 2022, which was based upon the closing price of the stock on the date of the restricted stock issuance.

NOTE 10. Commitments and Contingencies

Leases. The Company follows ASC Topic 842, "Leases" to account for its operating and finance leases. Therefore, as of September 30, 2022 the Company had right-of-use assets totaling \$444,000 included in other noncurrent assets and operating lease liabilities totaling \$456,000, included in other current liabilities, and as of December 31, 2021 the Company had right-of-use assets totaling \$852,000 included in other noncurrent assets and operating lease liabilities totaling \$856,000, \$513,000 of which are included in other current liabilities and \$343,000 of which are included in other noncurrent liabilities on the accompanying consolidated balance sheets. The Company does not currently have any finance right-of-use leases. Maturities of the operating lease obligations are as follows (in thousands):

	September 30, 2022
Remainder of 2022	\$ 116
2023	349
Total lease payments	465
Less present value discount	(9)
Present value of lease liabilities	<u>\$ 456</u>

Legal actions. From time to time, the Company may be a party to various proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to these proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future annual results of operations. The Company records reserves for contingencies when information available indicates that a loss is probable, and the amount of the loss can be reasonably estimated.

Indemnifications. The Company has agreed to indemnify its directors, officers and certain employees and agents with respect to claims and damages arising from acts or omissions taken in such capacity, as well as with respect to certain litigation.

Environmental. Environmental expenditures that relate to an existing condition caused by past operations and have no future economic benefits are expensed. Environmental expenditures that extend the life of the related property or mitigate or prevent future environmental contamination are capitalized. Liabilities for expenditures that will not qualify for capitalization are recorded when environmental assessment and/or remediation is probable, and the costs can be reasonably estimated. Such liabilities are undiscounted unless the timing of cash payments for the liability is fixed or reliably determinable. Environmental liabilities normally involve estimates that are subject to revision until settlement or remediation occurs.

Crude oil delivery commitments. In May 2021, the Company entered into a crude oil marketing contract with Lion as the purchaser and DKL Permian Gathering, LLC ("DKL") as the gatherer and transporter. The contract includes the Company's current and future crude oil production from the majority of its horizontal wells in Flat Top where DKL is constructing a crude oil gathering system and custody transfer meters to most of the Company's central tank batteries. The contract contains a minimum volume commitment commencing October 2021 based on the gross barrels delivered at the Company's central tank battery facilities and is 5,000 Bopd for the first year, 7,500 Bopd for the second year and 10,000 Bopd for the remaining eight years of the contract. However, the Company has the ability under the contract to cumulatively bank excess volumes delivered to offset future minimum volume commitments. For the period from October 1, 2021 to September 30, 2022, the Company has delivered approximately 19,000 Bopd under the contract. The remaining monetary commitment as of September 30, 2022, if the Company never delivers any additional volumes under the agreement, is approximately \$20.7 million.

Natural gas purchasing replacement contract. In May 2021, the Company entered into a replacement natural gas purchase contract with WTG Gas Processing, L.P. ("WTG") as the gatherer, processor and purchaser of the Company's current and future gross natural gas production in Flat Top. The replacement contract provides the Company with improved natural gas and NGL pricing and requires WTG to expand its current low-pressure gathering system, which eliminates the need for in-field compression in Flat Top to accommodate the Company's increased natural gas production volumes based on the current plan of development. The Company will provide WTG with certain aid-in-construction payments to be reimbursed over time based on throughput through the system. The replacement contract does not contain any minimum volume commitments.

Power contracts. In June 2021, the Company entered into a contract with Priority Power Management, LLC ("Priority Power") whereby Priority Power will develop an electric high-voltage ("EHV") substation, medium voltage distribution systems and a 13-megawatt direct current solar photovoltaic facility located on approximately 80 acres of land owned by the Company north of Big Spring, Texas in Howard County to provide for the Company's electrical power needs in its Flat Top operating area including powering drilling rigs and day-to-day operations. The EHV substation was interconnected with the ERCOT transmission grid in May 2022 via the local electric utility, has an initial capacity of up to 50 megavolt amperes and was designed for future expansion capability. The solar generation facility will be interconnected with the medium voltage distribution system that will be energized from the new EHV substation. Priority Power will develop, finance, engineer, construct, operate and maintain the project facilities.

Also in June 2021, the Company entered into a contract with Oncor Electric Delivery Company, LLC ("Oncor") to construct certain facilities to deliver electricity to the aforementioned substation. In conjunction with this contract, the Company issued a \$1.9 million letter of credit to Oncor until such time as the Company's load meets or exceeds 12 megawatts as measured during any fifteen (15) minute interval on or before May 20, 2023. This requirement was met subsequent to September 30, 2022 and the letter of credit is expected to be released during the fourth quarter of 2022 accordingly.

Finally, in June 2022, the Company entered into a contract with TXU Energy Retail Company LLC ("TXU") to provide a block of electric power via the aforementioned transmission system at an attractive variable rate, which fluctuates based on the usage by the Company through May 31, 2032. In conjunction with this contract, the Company issued a \$1.7 million letter of Credit in lieu of a deposit to TXU that is cancellable at the end of the contract term.

Sand commitments. The Company is party to an agreement whereby it has agreed to purchase at least 600,000 tons of sand over a two-year period beginning at the commencement date of the sand mine being operational, which was late in the second quarter of 2022. There are stipulations in the agreement that reduce this commitment should we experience a downturn in crude oil prices. However, generally if the Company never takes delivery of any additional sand under the agreement, the monetary commitment that remains as of September 30, 2022 is approximately \$6.4 million.

NOTE 11. Related Party Transactions

Water Treatment. In September 2021, the Company entered into a contract with Pilot Exploration, Inc., (“Pilot”), whose President and CEO is an outside director of the Company, to deploy Pilot’s proprietary water treatment technology in the Company’s Flat Top area to treat up to 25,000 barrels of produced water per day such that it can be reused in the Company’s completion operations or sold to third parties for their completion operations. This contract was set to expire on March 1, 2022, however it was extended to July 1, 2022 based on the early results of the project. During the nine months ended September 30, 2022, the Company paid \$2.0 million to Pilot for such services.

In May 2022, the Company entered into an agreement with Pilot to utilize Pilot’s proprietary water treatment technology in the Company’s Flat Top area to treat produced water such that it can be reused in the Company’s completion operations or sold to third parties for their completion operations. During the one-year term of the agreement, beginning on approximately November 1, 2022, the Company has agreed to a minimum volume commitment of 29.2 million barrels of produced water while maintaining the ability to bank excess produced water processed each month toward the minimum volume commitment. The monetary commitment, if the Company never delivers any produced water to be treated under the agreement, is approximately \$6.0 million.

NOTE 12. Major Customers

Lion Oil Trading and Transportation, LLC (“Lion”) accounted for approximately 88% and 94% of the Company’s revenues during the nine months ended September 30, 2022 and 2021, respectively. Based on the current demand for crude oil and natural gas and the availability of other purchasers, management believes the loss of this major purchaser would not have a material adverse effect on our financial condition and results of operations because crude oil and natural gas are fungible products with well-established markets and numerous purchasers.

NOTE 13. Income Taxes

Enactment of the Inflation Reduction Act of 2022. On August 16, 2022, President Biden signed into law the Inflation Reduction Act of 2022 (“IRA 2022”). The IRA 2022, among other tax provisions, imposes a 15 percent corporate alternative minimum tax based on financial statement income, effective for tax years beginning after December 31, 2022. The IRA 2022 also establishes a one percent excise tax on stock repurchases made by publicly traded U.S. corporations, effective for stock repurchases after December 31, 2022. The IRA 2022 did not impact the Company’s current year tax provision or the Company’s consolidated financial statements. The Company is evaluating the accounting and disclosure implications of the IRA 2022 on its future filings.

The Company’s income tax expense attributable to income from operations consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Current income tax expense:				
Federal	\$ —	\$ —	\$ —	\$ —
State	—	—	—	—
Total current income tax expense	—	—	—	—
Deferred income tax expense:				
Federal	30,599	2,145	53,726	4,680
State	998	—	1,631	—
Deferred income tax expense	31,597	2,145	55,357	4,680
Total income tax expense	\$ 31,597	\$ 2,145	\$ 55,357	\$ 4,680

The reconciliation between the income tax expense computed by multiplying pre-tax income by the U.S. federal statutory rate and the reported amounts of income tax expense is as follows (in thousands, except rate):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Income tax expense at U.S. federal statutory rate	\$ 29,295	\$ 2,140	\$ 47,106	\$ 4,875
Limited tax benefit due to stock-based compensation	592	20	6,128	(61)
State deferred income taxes	999	—	1,723	—
Other, net	711	(15)	400	(134)
Income tax expense	\$ 31,597	\$ 2,145	\$ 55,357	\$ 4,680
Effective income tax rate	22.7%	21.0%	24.7%	20.2%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities were as follows as of September 30, 2022 and December 31, 2021 (in thousands):

	September 30,	December 31,
	2022	2021
Deferred tax assets:		
Interest expense limitations	\$ 6,120	\$ —
Net operating loss carryforwards	4,602	2,870
Stock-based compensation	3,612	4,373
Unrecognized derivative losses	—	3,248
Other	266	31

Deferred tax assets	14,600	10,522
Deferred tax liabilities:		
Crude oil and natural gas properties, principally due to differences in basis and depreciation and the deduction of intangible drilling costs for tax purposes	(124,423)	(66,324)
Unrecognized derivative gains	(1,336)	—
Deferred tax liabilities	<u>(125,759)</u>	<u>(66,324)</u>
Net deferred tax liabilities	<u>\$ (111,159)</u>	<u>\$ (55,802)</u>

The effective income tax rate differs from the U.S. statutory rate of 21 percent primarily due to reversing a portion of its deferred tax asset related to stock-based compensation, deferred state income taxes and other permanent differences between GAAP income and taxable income.

As required by ASC Topic 740, "Income Taxes," ("ASC 740") the Company uses reasonable judgments and makes estimates and assumptions related to evaluating the probability of uncertain tax positions. The Company bases its estimates and assumptions on the potential liability related to an assessment of whether the income tax position will "more likely than not" be sustained in an income tax audit. Based on that analysis, the Company believes the Company has not taken any material uncertain tax positions, and therefore has not recorded an income tax liability related to uncertain tax positions. However, if actual results materially differ, the Company's effective income tax rate and cash flows could be affected in the period of discovery or resolution. The Company also reviews the estimates and assumptions used in evaluating the probability of realizing the future benefits of the Company's deferred tax assets and records a valuation allowance when the Company believes that a portion or all the deferred tax assets may not be realized. If the Company is unable to realize the expected future benefits of its deferred tax assets, the Company is required to provide a valuation allowance. The Company uses its history and experience, overall profitability, future management plans, tax planning strategies, and current economic information to evaluate the amount of valuation allowance to record. As of September 30, 2022 and December 31, 2021, the Company had not recorded a valuation allowance for deferred tax assets arising from its operations because the Company believed they met the "more likely than not" criteria as defined by the recognition and measurement provisions of ASC 740. The Company reversed a portion of its deferred tax asset related to stock-based compensation based on the assumption that the tax deduction will be subject to IRC Section 162(m) limits when the stock options are exercised and the restricted stock vests. IRC Section 162(m) limits compensation deductions to \$1.0 million per year for certain Company executives. This resulted in a \$3.4 million reduction in the deferred tax asset and reduced the amount of income tax benefit realized during the nine months ended September 30, 2022.

The Company is also subject to Texas Margin Tax. The Company realized no current Texas Margin Tax in the accompanying consolidated financial statements as we do not anticipate owing any Texas Margin Tax for 2022 or 2021. However, the Company has recognized a deferred Texas Margin Tax liability of \$3.4 million and \$1.8 million as of September 30, 2022 and December 31, 2021, respectively, in the accompanying consolidated financial statements.

NOTE 14. Earnings Per Share

The Company uses the two-class method of calculating earnings per share because certain of the Company's stock-based awards qualify as participating securities.

The Company's basic earnings per share attributable to common stockholders is computed as (i) net income as reported, (ii) less participating basic earnings (iii) divided by weighted average basic common shares outstanding. The Company's diluted earnings per share attributable to common stockholders is computed as (i) basic earnings attributable to common stockholders, (ii) plus reallocation of participating earnings (iii) divided by weighted average diluted common shares outstanding.

The following table reconciles the Company's earnings from operations and earnings attributable to common stockholders to the basic and diluted earnings used to determine the Company's earnings per share amounts for the three and nine months ended September 30, 2022 and 2021 under the two-class method (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net income as reported	\$ 107,904	\$ 8,047	\$ 168,955	\$ 18,534
Participating basic earnings (a)	(10,282)	(1,193)	(16,718)	(1,669)
Basic earnings attributable to common stockholders	97,622	6,854	152,237	16,865
Reallocation of participating earnings	176	392	300	1
Diluted net income attributable to common stockholders	<u>\$ 97,798</u>	<u>\$ 7,246</u>	<u>\$ 152,537</u>	<u>\$ 16,866</u>
Basic weighted average shares outstanding	108,681	92,676	102,614	92,648
Dilutive warrants and unvested stock options	4,315	2	4,408	67
Dilutive unvested restricted stock	2,122	—	2,122	—
Diluted weighted average shares outstanding	<u>115,118</u>	<u>92,678</u>	<u>109,144</u>	<u>92,715</u>

- (a) Certain unvested restricted stock awarded to outside directors represent participating securities because they participate in nonforfeitable dividends with the common equity holders of the Company. Vested stock options represent participating securities because they participate in dividend equivalents with the common equity holders of the Company. Participating earnings represent the distributed and undistributed earnings of the Company attributable to the participating securities. Certain unvested restricted stock awarded to outside directors, employee members of the board of directors and certain employees do not represent participating securities because, while they participate in dividends with the common equity holders of the Company, the dividends associated with such unvested restricted stock are forfeitable in connection with the forfeitability of the underlying restricted stock. Unvested stock options do not represent participating securities because, while they participate in dividend equivalents with the common equity holders of the Company, the dividend equivalents associated with unvested stock options are forfeitable in connection with the forfeitability of the underlying stock options.

The calculation for weighted average shares reflects shares outstanding over the reporting period based on the actual number of days the shares were outstanding.

NOTE 15. Stockholders' Equity

Issuance of Common Stock. On March 25, 2022, June 21, 2022 and June 27, 2022, respectively, the Company issued 6,960,000, 371,517 and 3,522,117 shares of HighPeak Energy common stock related to the aforementioned crude oil and natural gas property acquisitions. On June 1, 2022, the Company issued 21,184 and 600,000 shares of restricted stock to outside directors and certain employees, respectively. On September 2, 2022, the Company closed an aggregate \$85.0 million private placement of 3,933,376 newly issued shares of HighPeak Energy common stock at a price per share of \$21.61 as determined by the 5-day volume weighted average closing price per share for the five days immediately prior to (and excluding) August 22, 2022. The initial closings occurred on August 22, 2022, with the final closings on September 2, 2022. The remaining 980,448 shares of HighPeak Energy common stock issued during the nine months ended September 30, 2022 were the result of warrants (968,448 shares) and stock options (12,000 shares) being exercised.

Dividends and dividend equivalents. In July 2022, the board of directors of the Company declared a quarterly dividend of \$0.025 per share of common stock outstanding which resulted in a total of \$2.7 million in dividends being paid on August 25, 2022. In addition, under the terms of the LTIP, the Company paid a dividend equivalent per share to all vested stock option holders of \$263,000 in August 2022 and will accrue a dividend equivalent per share to all unvested stock option holders which is payable upon vesting of up to an additional \$7,000, assuming no forfeitures. In addition, the Company will accrue an additional combined \$53,000 in dividends on the restricted stock issued to directors, management directors and certain employees that will be payable upon vesting.

In April 2022, the board of directors of the Company declared a quarterly dividend of \$0.025 per share of common stock outstanding which resulted in a total of \$2.6 million in dividends being paid on May 25, 2022. In addition, under the terms of the LTIP, the Company paid a dividend equivalent per share to all vested stock option holders of \$214,000 in May 2022 and will accrue a dividend equivalent per share to all unvested stock option holders which is payable upon vesting of up to an additional \$36,000, assuming no forfeitures. In addition, the Company will accrue an additional combined \$53,000 in dividends on the restricted stock issued to management directors and certain employees that will be payable upon vesting.

In January 2022, the board of directors of the Company approved a quarterly dividend of \$0.025 per share of common stock outstanding which resulted in a total of \$2.4 million in dividends being paid on February 25, 2022. In addition, under the terms of the LTIP, the Company paid a dividend equivalent per share to all vested stock option holders and accrued a dividend equivalent per share to all unvested stock option holders payable upon vesting, which equates to a total payment of \$214,000 in February 2022 and up to an additional \$36,000, assuming no forfeitures. In addition, the Company accrued an additional combined \$53,000 in dividends on the restricted stock issued to management directors and certain employees that will be payable upon vesting.

Outstanding Securities. At September 30, 2022 and December 31, 2021, the Company had 113,162,827 and 96,774,185 shares of common stock outstanding, respectively, and 8,287,472 and 9,500,166 warrants outstanding, respectively, with an exercise price of \$11.50 per share that expire on August 21, 2025.

NOTE 16. Subsequent Events

Dividends and dividend equivalents. In October 2022, the board of directors of the Company declared a quarterly dividend of \$0.025 per share of common stock outstanding which will result in a total of \$2.8 million in dividends being paid on November 23, 2022. The Company received a waiver from the bank group in the Revolving Credit Facility at no cost to pay this dividend. In addition, under the terms of the LTIP, the Company will pay a dividend equivalent per share to all vested stock option holders of \$280,000 in November 2022 and will accrue a dividend equivalent per share to all unvested stock option holders which is payable upon vesting of up to an additional \$7,000, assuming no forfeitures. In addition, the Company will accrue an additional combined \$53,000 in dividends on the restricted stock issued to directors, management directors and certain employees that will be payable upon vesting.

Revolving Credit Facility. In October 2022, the Company entered into the Fifth Amendment to the Revolving Credit Facility to, among other things, (i) increase the elected commitments to \$525 million and the borrowing base to \$550 million, (ii) require an additional borrowing base redetermination on or about December 1, 2022, (iii) modify the permitted dividends and distributions conditions such that minimum availability under the credit facility must be 25% percent (as opposed to 30% before giving effect to the Fifth Amendment) and (iv) appoint Wells Fargo Bank, National Association ("Wells Fargo") as the new administrative agent to replace Fifth Third. In addition, in connection with the Fifth Amendment, to the extent the Company incurs any additional specified unsecured senior, senior subordinated or subordinated future indebtedness before June 30, 2023, the Company's obligation to reduce the borrowing base by an amount equal to 25% of the principal amount of such additional future indebtedness shall be waived. In connection with the Fifth Amendment, the lenders waived two technical events of default existing with the Credit Agreement, as it existed prior to giving effect to the Fifth Amendment, related to entering into and maintaining certain minimum hedges as of the fiscal quarters ending June 30, 2022 and September 30, 2022 and complying with the required current ratio as of the fiscal quarter ending September 30, 2022.

In October 2022, the Company entered into the Sixth Amendment to the Revolving Credit Facility to, among other things, (i) change the period to one hundred and twenty (120) days following the Maturity Date for which there can be no scheduled principal payments, mandatory redemption or maturity date for the 2024 Senior Notes (as defined in the Credit Agreement) and the Specified Senior Notes (as defined in the Credit Agreement), (ii) to clarify that the Specified Senior Notes are subject to the restriction on the voluntary redemption by the Company of certain specified additional debt, including the 2024 Senior Notes, (iii) to add a permitted lien basket in connection with the escrow account to be opened in connection with the Specified Senior Notes and (iv) provide for an exception for the restriction on mandatory redemptions of the Specified Senior Notes in connection with the special mandatory redemption provided for with respect to the Specified Senior Notes.

Issuance of Senior Unsecured Notes. In November 2022, the Company completed a private placement of \$225.0 million principal amount of 10.625% Senior Unsecured Notes due 2024 (the "10.625% Senior Notes"). Net proceeds after discounts and customary fees were approximately \$200.0 million, that will be used to reduce the outstanding balance of the Revolving Credit Facility and for general corporate purposes. The 10.625% Senior Notes have not been registered under the Securities Act, or any state securities laws, and unless so registered, the securities may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The 10.625% Senior Notes are expected to be eligible for trading by qualified institutional buyers and accredited investors under Rule 144A under the Securities Act and persons outside the United States pursuant to Regulation S under the Securities Act.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis is intended to assist you in understanding our business and results of operations together with our present financial condition. This section should be read in conjunction with our historical consolidated financial statements and related notes. This discussion contains certain "forward-looking statements" reflecting our current expectations, estimates and assumptions concerning events and financial trends that may affect our future operating results or financial position. These forward-looking statements involve risks and uncertainties and actual results and the timing of events may differ materially from those contained in these forward-looking statements due to a number of factors. Factors that could cause or contribute to such differences include, but are not limited to, market prices for crude oil, NGL and natural gas, capital expenditures, economic and competitive conditions, regulatory changes and other uncertainties. Please read "Cautionary Statement Regarding Forward-Looking Statements." We assume no obligation to update any of these forward-looking statements, except as required by applicable law.

Overview

HighPeak Energy, Inc., a Delaware corporation, was formed in October 2019. The Company's assets are located primarily in Howard and Borden Counties, Texas, which lie within the northeastern part of the crude oil-rich Midland Basin. As of September 30, 2022, the assets consisted of two highly contiguous leasehold positions of approximately 124,011 gross (105,458 net) acres, approximately 53% of which were held by production, with an average working interest of 85%. Our acreage is composed of two core areas, Flat Top to the north and Signal Peak to the south. We operate approximately 98% of the net acreage across the Company's assets and more than 90% of the net operated acreage provides for horizontal wells with lateral lengths of 10,000 feet or greater. For the nine months ended September 30, 2022, approximately 94% and 6% of sales volumes from the assets were attributable to liquids (both crude oil and NGL) and natural gas, respectively. As of September 30, 2022, HighPeak Energy was drilling with six (6) drilling rigs and was running three (3) frac fleets.

Acquisitions

During the nine months ended September 30, 2022, the Company incurred a total of \$523.4 million in acquisition costs to acquire various crude oil and natural gas properties contiguous to its Signal Peak and Flat Top operating areas primarily in Howard and Borden counties, consisting of approximately 42,855 net acres and associated producing properties, water system infrastructure and in-field fluid gathering pipelines. Included in the acquisition costs is the issuance of 10,853,634 shares of HighPeak Energy common stock valued at \$265.0 million on the respective closing dates. The acquisitions were accounted for as asset acquisitions and included approximately 31 gross (26.3 net) producing horizontal wells, 109 gross (87.8 net) producing vertical wells and six vertical salt-water disposal wells and related water system infrastructure as well as over 200 gross horizontal drilling locations targeting the Wolfcamp A, Wolfcamp D and Lower Spraberry formations.

Financial and Operating Performance

The Company's financial and operating performance for the three months ended September 30, 2022 included the following highlights:

- Net income was \$107.9 million (\$0.85 per diluted share) for the three months ended September 30, 2022 compared with net income of \$8.0 million for three months ended September 30, 2021. The primary components of the \$99.9 million increase in net income include:
 - a \$156.6 million increase in crude oil, NGL and natural gas revenues due to a 221% increase in daily sales volumes resulting from the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions in addition to a 34% increase in average realized commodity prices per Boe, excluding the effects of derivatives; and
 - a \$46.6 million increase in the Company's net derivative gain as a result of its crude oil and natural gas commodity contracts entered into and the decrease of crude oil and natural gas prices thereafter; partially offset by:
 - a \$29.5 million increase in the Company's income tax expense due to the net income realized during the three months ended September 30, 2022 compared with the three months ended September 30, 2021;
 - a \$28.7 million increase in DD&A expense due to a 221% increase in daily sales volumes, partially offset by a 5% decrease in the DD&A rate from \$18.52 to \$17.65 per Boe, both as a result of increased proved reserves due to the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions;
 - A \$13.7 million increase in interest expense due to the issuance of two year 10.000% senior unsecured notes in February 2022 ("10.000% Senior Notes"), increased borrowings on the revolving credit facility and increased amortization of debt issuance costs and discounts;
 - A \$13.0 million increase in lease operating expenses related primarily to the increased well count and production from the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions;
 - a \$9.8 million increase in the Company's stock-based compensation expense primarily attributable to equity-based awards issued in August 2022; and
 - A \$8.7 million increase in production and ad valorem taxes, primarily attributable to the 221% increase in daily sales volumes as a result of the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions combined with 33% higher production taxes on a dollar per Boe basis due to higher overall realized prices of 34%, excluding the effects of derivatives.

- During the three months ended September 30, 2022, average daily sales volumes totaled 26,247 Boe/d, compared with 8,168 Boe/d during the same period in 2021, an increase of 221% over the same period in 2021, due to the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions.
- Weighted average realized crude oil prices per Bbl, excluding the effects of derivatives, increased during the three months ended September 30, 2022 to \$94.21, compared with \$69.84 for the same period in 2021. Weighted average NGL prices per Bbl increased during the three months ended September 30, 2022 to \$36.59, compared with \$35.83 for the same period in 2021. Weighted average natural gas prices per Mcf increased to \$7.73 during the three months ended September 30, 2022, compared with \$3.69 during the same period in 2021.
- Cash provided by operating activities totaled \$158.3 million for the three months ended September 30, 2022, compared with \$40.5 million for the three months ended September 30, 2021.

Recent Events

Acquisitions. During the nine months ended September 30, 2022, the Company incurred a total of \$523.4 million in acquisition costs to acquire various crude oil and natural gas properties contiguous to its Signal Peak and Flat Top operating areas primarily in Howard and Borden counties, consisting of approximately 42,855 net acres, including associated producing properties, water system infrastructure and in-field fluid gathering pipelines. Included in the acquisition costs is the issuance of 10,853,634 shares of HighPeak Energy common stock valued at \$265.0 million on the respective closing dates of the Alamo Acquisitions and the Hannathon Acquisition. The acquisitions were accounted for as asset acquisitions and included approximately 31 gross (26.3 net) producing horizontal wells, 109 gross (87.8 net) producing vertical wells and six vertical salt-water disposal wells and related water system infrastructure as well as over 200 gross horizontal drilling locations targeting the Wolfcamp A, Wolfcamp D and Lower Spraberry formations.

10.000% Senior Unsecured Notes. In February 2022, the Company issued \$225.0 million of two-year 10.000% Senior Notes, netting proceeds of \$210.2 million net of an originator discount. The proceeds were used to pay off the Revolving Credit Facility and to fund a portion of the Company's 2022 capital program.

Revolving Credit Facility Amendment and Borrowing Base Increase. Simultaneous with the issuance of the 10.000% Senior Notes in February 2022, the Company entered into the Third Amendment to the Revolving Credit Facility to, among other things, (i) reduce the borrowing base from \$195.0 million to \$138.8 million and (ii) modify the terms of the Credit Agreement to reduce the aggregate elected commitments from \$195.0 million to \$138.8 million. In June 2022, simultaneous with the closing of the Hannathon Acquisition, the Company entered into the Fourth Amendment to the Revolving Credit Facility to, among other things, (i) increase (a) the aggregate elected commitments to \$400.0 million, (b) the borrowing base to \$400.0 million and (c) the maximum credit amount to \$1.5 billion, (ii) increase the excess cash threshold to \$75.0 million, (iii) modify the affirmative hedging requirement and (iv) increase the number of banks included in the syndicate at differing levels of commitments with Fifth Third remaining the administrative agent. In October 2022, the Company entered into the Fifth Amendment to the Revolving Credit Facility to, among other things, (i) increase the elected commitments to \$525 million and the borrowing base to \$550 million, (ii) require an additional borrowing base redetermination on or about December 1, 2022, (iii) modify the permitted dividends and distributions conditions such that minimum availability under the credit facility must be 25% percent (as opposed to 30% before giving effect to the Fifth Amendment) and (iv) appoint Wells Fargo Bank, National Association ("Wells Fargo") as the new administrative agent to replace Fifth Third. In addition, in connection with the Fifth Amendment, to the extent the Company incurs any additional specified unsecured senior, senior subordinated or subordinated future indebtedness before June 30, 2023, the Company's obligation to reduce the borrowing base by an amount equal to 25% of the principal amount of such additional future indebtedness shall be waived. In connection with the Fifth Amendment, the lenders waived two technical events of default existing with the Credit Agreement, as it existed prior to giving effect to the Fifth Amendment, related to entering into and maintaining certain minimum hedges as of the fiscal quarters ending June 30, 2022 and September 30, 2022 and complying with the required current ratio as of the fiscal quarter ending September 30, 2022. In October 2022, the Company entered into the Sixth Amendment to the Revolving Credit Facility to, among other things, (i) change the period to one hundred and twenty (120) days following the Maturity Date for which there can be no scheduled principal payments, mandatory redemption or maturity date for the 2024 Senior Notes (as defined in the Credit Agreement) and the Specified Senior Notes (as defined in the Credit Agreement), (ii) to clarify that the Specified Senior Notes are subject to the restriction on the voluntary redemption by the Company of certain specified additional debt, including the 2024 Senior Notes, (iii) to add a permitted lien basket in connection with the escrow account to be opened in connection with the Specified Senior Notes and (iv) provide for an exception for the restriction on mandatory redemptions of the Specified Senior Notes in connection with the special mandatory redemption provided for with respect to the Specified Senior Notes.

10.625% Senior Unsecured Notes. In November 2022, the Company issued \$225.0 million of two-year 10.625% senior unsecured notes ("10.625% Senior Notes"), netting proceeds of approximately \$200.0 million net of an originator discount and customary fees. The proceeds were used to reduce the outstanding balance of the Revolving Credit Facility and for general corporate purposes.

Dividends and dividend equivalents. In January 2022, April 2022 and July 2022, the board of directors of the Company approved a quarterly dividend of \$0.025 per share of common stock outstanding which resulted in a total of \$2.4 million, \$2.6 million and \$2.7 million in dividends being paid on February 25, 2022, May 25, 2022 and August 25, 2022, respectively. In addition, under the terms of the LTIP, the Company paid a dividend equivalent per share to all vested stock option holders and accrued a dividend equivalent per share to all unvested stock option holders payable upon vesting, which equates to a total payment of \$214,000 in February and May 2022 and \$480,000 in August 2022 and up to an additional \$7,000 in each of November 2022 and 2023 and \$1,000 in each of May 2022 and 2023, assuming no forfeitures. In addition, the Company accrued an additional combined \$158,000 in dividends on the restricted stock issued to management directors and certain employees of the Company that will be payable upon vesting in November 2024.

Issuance of Common Stock. During the nine months ended September 30, 2022, the Company issued 10,853,634 shares of HighPeak Energy common stock related to the aforementioned crude oil and natural gas property acquisitions. On June 1, 2022, the Company issued 21,184 and 600,000 shares of restricted stock to outside directors and employees, respectively. On September 2, 2022, the Company closed an aggregate \$85.0 million private placement of 3,933,376 newly issued shares of HighPeak Energy common stock at a price per share of \$21.61 as determined by the 5-day volume weighted average closing price per share for the five days immediately prior to (and excluding) August 22, 2022. The initial closings occurred on August 22, 2022, with the final closings on September 2, 2022. The remaining 980,448 shares of HighPeak Energy common stock issued during the nine months ended September 30, 2022 were the result of warrants (968,448 shares) and stock options (12,000 shares) being exercised.

Crude Oil and Natural Gas Industry Considerations

The COVID-19 pandemic resulted in a severe worldwide economic downturn, significantly disrupting the demand for crude oil throughout the world, and created significant volatility, uncertainty and turmoil in the crude oil and natural gas industry. The decrease in demand for crude oil, combined with excess supply of crude oil and related products, resulted in crude oil prices declining significantly beginning in late February 2020. Since mid-2020, crude oil prices have improved, with demand steadily increasing despite the uncertainties surrounding the COVID-19 variants that have continued to inhibit a full global demand recovery. In addition, worldwide crude oil inventories are, from a historical perspective, very low and concerns exist with the ability of OPEC and other crude oil producing nations to meet forecasted crude oil demand growth in 2023, with many OPEC countries not able to produce at their OPEC agreed upon quota levels due to their lack of capital investments over the past few years in developing incremental crude oil supplies. Furthermore, sanctions and import bans on Russia have been implemented by various countries in response to the war in Ukraine, further impacting global crude oil supply. As a result of crude oil and natural gas supply constraints, there have been significant increases in European energy costs, which have resulted in inflationary pressures throughout Europe, increasing prospects of recession in many countries throughout the continent. During October 2022, OPEC announced a 2 million Bopd production cut starting in November 2022 related to these concerns and the uncertainty surrounding the global economy and future crude oil demand. However, as a result of current global supply and demand imbalances, crude oil and natural gas prices remain strong with average NYMEX crude oil and NYMEX natural gas prices for the three months ended September 30, 2022 being \$91.56 per Bbl and \$8.20 per Mcf, respectively, as compared to \$70.56 per Bbl and \$4.02 per Mcf, respectively, for the same period in 2021. In addition, the ongoing pandemic, combined with the Russia/Ukraine conflict, has resulted in global supply chain disruptions, which has led to significant cost inflation. Specifically, the Company's 2022 capital program is being impacted by higher-than-expected inflation in steel, diesel and chemical prices, among other items.

Global crude oil price levels and inflationary pressures will ultimately depend on various factors that are beyond the Company's control, such as (i) the effectiveness of responses to combat the COVID-19 virus and their impact on domestic and worldwide demand, (ii) the ability of OPEC and other crude oil producing nations to manage the global crude oil supply, (iii) the impact of sanctions and import bans on production from Russia, (iv) the timing and supply impact of any Iranian or Venezuelan sanction relief on their ability to export crude oil, (v) additional actions by businesses and governments in response to the pandemic, (vi) the global supply chain constraints associated with manufacturing and distribution delays, (vii) oilfield service demand and cost inflation, (viii) political stability of crude oil consuming countries and (ix) increasing expectations that the world may be heading into a global recession. The Company continues to assess and monitor the impact of these factors and consequences on the Company and its operations.

Derivative Financial Instruments

Derivative financial instrument exposure. As of September 30, 2022, the Company was a party to the following open derivative financial instruments.

	Remainder of 2022	2023			Total
		First Quarter	Second Quarter	Third Quarter	
Crude Oil Price Swaps - WTI:					
Volume (MBbls)	1,072.8	900.0	546.0	276.0	1,722.0
Price per Bbl	\$ 85.85	\$ 73.67	\$ 67.81	\$ 72.30	\$ 71.57
Natural Gas Price Swaps - HH:					
Volume (MMBtu)	460.0	450.0	—	—	450.0
Price per MMBtu	\$ 9.00	\$ 9.00	\$ —	\$ —	\$ 9.00

The estimated fair value of the outstanding open derivative financial instruments as of September 30, 2022 was a net asset of \$6.2 million which is included in current assets and liabilities on the Company's balance sheet as of September 30, 2022. During the nine months ended September 30, 2022, the Company recognized a net derivative loss of \$42.5 million, including a \$21.6 million mark-to-market gain plus \$64.1 million related to monthly settlements.

Operations and Drilling Highlights

Average daily crude oil, NGL and natural gas sales volumes are as follows:

	Nine Months Ended September 30, 2022
Crude Oil (Bbls)	16,964
NGL (Bbls)	1,894
Natural Gas (Mcf)	7,755
Total (Boe)	20,150

The Company's liquids production was 94 percent of total production on a Boe basis for the nine months ended September 30, 2022.

Costs incurred are as follows (in thousands):

	Nine Months Ended September 30, 2022
Unproved property acquisition costs	\$ 170,712
Proved acquisition costs	352,654
Total acquisitions	523,366
Development costs	385,569
Exploration costs	339,532
Total finding and development costs	1,248,467
Asset retirement obligations	3,754
Total costs incurred	\$ 1,252,221

The following table sets forth the total number of horizontal producing wells drilled and completed during the nine months ended September 30, 2022:

	Drilled		Completed	
	Gross	Net	Gross	Net
Flat Top area	71	58.7	59	51.9
Signal Peak area	17	16.9	13	12.9
Total	88	75.6	72	64.8

The Company was running six (6) drilling rigs as of September 30, 2022 and three (3) frac fleets. We plan to run six (6) drilling rigs and average approximately three (3) frac fleets for the remainder of the year. However, the scope, duration and magnitude of the direct and indirect effects of the COVID-19 pandemic and the war between Russia and Ukraine are continuing to evolve and in ways that are difficult or impossible to anticipate. Given the dynamic nature of this situation, the Company is maintaining flexibility in its capital plan and will continue to evaluate drilling and completion activity on an economic basis, with future activity levels assessed monthly.

During the nine months ended September 30, 2022, the Company successfully completed and placed on production fifty-eight (58) gross horizontal wells in the Flat Top area and nine (9) gross horizontal wells in the Signal Peak area. The Company had forty-five (45) wells that had been drilled and were in various stages of completion as of September 30, 2022, thirty-five (35) of which are in the Flat Top area, including one (1) salt-water disposal well, and ten (10) of which are in the Signal Peak area. As of September 30, 2022, the Company was in the process of drilling eight (8) horizontal wells in the Flat Top area and three (3) horizontal wells and one (1) salt-water disposal well in the Signal Peak area.

Results of Operations

Three and Nine Months Ended September 30, 2022

Crude Oil, NGL and natural gas revenues.

Average daily sales volumes are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Crude oil (Bbls)	21,857	6,970	214%	16,964	6,560	159%
NGL (Bbls)	2,530	673	276%	1,894	491	286%
Natural gas (Mcf)	11,162	3,147	255%	7,755	2,235	247%
Total (Boe)	26,247	8,168	221%	20,150	7,424	171%

The increase in average daily Boe sales volumes for the three and nine months ended September 30, 2022, compared with the same periods in 2021 was due to the Company's successful horizontal drilling program and to a lesser extent, bolt-on acquisitions.

The crude oil, NGL and natural gas prices that the Company reports are based on the market prices received for each commodity. The weighted average realized prices, excluding the effects of derivatives, are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Crude oil per Bbl	\$ 94.21	\$ 69.84	35%	\$ 100.91	\$ 65.13	55%
NGL per Bbl	\$ 36.59	\$ 35.83	2%	\$ 41.23	\$ 31.16	32%
Natural gas per Mcf	\$ 7.73	\$ 3.69	109%	\$ 6.47	\$ 3.09	109%
Total per Boe	\$ 84.53	\$ 63.18	34%	\$ 90.49	\$ 59.93	51%

Crude Oil and natural gas production costs.

Crude oil and natural gas production costs in total and per Boe are as follows (in thousands, except percentages and per Boe amounts):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Crude oil and natural gas production costs	\$ 19,708	\$ 6,710	194%	\$ 45,749	\$ 13,629	236%
Crude oil and natural gas production costs per Boe	\$ 8.16	\$ 8.93	(9)%	\$ 8.32	\$ 6.72	24%

The increase in crude oil and natural gas production costs can primarily be attributed to the Company's successful horizontal drilling program bringing on a significant number of newly completed producing wells, additional rentals and fuel for power generation and bolt-on acquisitions. The increase in crude oil and natural gas production costs per Boe can be attributed to temporarily shutting in a considerable amount of production periodically for offset completion operations. However, operating expenses were not affected as significantly by the shut-ins as were the production volumes. We anticipate this increase in operating costs per Boe to reverse beginning in the fourth quarter of 2022. Significant drivers to this decrease are associated with connecting wells and central tank batteries to the electrical grid and removing rental power generators as well as increasing our daily production volumes.

Production and ad valorem taxes.

Production and ad valorem taxes are as follows (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Production and ad valorem taxes	\$ 10,526	\$ 1,783	490%	\$ 25,833	\$ 5,990	331%

In general, production taxes and ad valorem taxes are directly related to commodity sales volumes and price changes; however, Texas ad valorem taxes are based upon an asset valuation assessed by the state as of January 1 of that particular year based on prior year commodity prices, whereas production taxes are based upon current year sales revenues at current commodity prices.

Production and ad valorem taxes per Boe are as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Production taxes per Boe	\$ 4.08	\$ 3.06	33%	\$ 4.35	\$ 2.85	53%
Ad valorem taxes per Boe	\$ 0.28	\$ (0.66)	n/m	\$ 0.35	\$ 0.11	218%

The increase in production taxes per Boe for the three and nine months ended September 30, 2022, compared with the same periods in 2021, was primarily due to the 34% and 51% increase in realized prices, respectively. The increase in ad valorem taxes per Boe for the nine months ended September 30, 2022, compared with the same period in 2021, was primarily related to the increased prices in 2021 compared to 2020 which is what the valuation is based on for 2022 ad valorem taxes in addition to new wells that came online during 2021. Ad valorem taxes in Texas are based on valuations as of January 1 of a given year based on pricing data for the previous year. Therefore, a well does not incur any ad valorem taxes until the year following when it came on production. Negative ad valorem taxes during the three months ended September 30, 2021 were attributed to an over accrual for the first six months of 2021 that was realized during the third quarter of 2021.

Exploration and abandonments expense.

Exploration and abandonment expense details are as follows (in thousands, except percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Geologic and geophysical personnel costs	\$ 188	\$ 159	18%	\$ 549	\$ 444	24%
Geologic and geophysical data costs	102	143	(29)%	137	463	(70)%
Plugging and abandonment expense	—	—	0%	(2)	—	(100)%
Abandoned leasehold costs	—	186	(100)%	(1)	235	(100)%
Exploration and abandonments expense	\$ 290	\$ 488	(41)%	\$ 683	\$ 1,142	(40)%

DD&A expense.

DD&A expense and DD&A expense per Boe are as follows (in thousands, except percentages and per Boe amounts):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
DD&A expense	\$ 42,624	\$ 13,917	206%	\$ 94,531	\$ 43,737	116%
DD&A expense per Boe	\$ 17.65	\$ 18.52	(5)%	\$ 17.18	\$ 21.58	(20)%

The increase in DD&A is primarily due to the increased production associated with our successful horizontal drilling program and to a lesser extent, bolt-on acquisitions and the decrease in rate can be attributed to the same.

General and administrative expense.

General and administrative expense and general and administrative expense per Boe as well as stock-based compensation expense are as follows (in thousands, except percentages and per Boe amounts):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
General and administrative expense	\$ 1,877	\$ 1,666	13%	\$ 5,833	\$ 5,042	16%
General and administrative expense per Boe	\$ 0.78	\$ 2.22	(65)%	\$ 1.06	\$ 2.49	(57)%
Stock-based compensation expense	\$ 10,655	\$ 905	1,077%	\$ 29,210	\$ 2,894	909%

The increase in general and administrative expense for the three and nine months ended September 30, 2022 is primarily as a result of adding new employees and increased salaries and benefits related to the growth of the Company. The decrease in the rate per Boe is the result of economies of scale and efficiencies gained as we bring additional wells on production due to our successful horizontal drilling program and to a lesser extent, bolt-on acquisitions.

The increase in noncash stock-based compensation expense is primarily due to equity-based awards granted in May and August 2022 and late 2021.

Interest expense.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Interest expense on Senior Notes	\$ 5,625	\$ —	100%	\$ 14,000	\$ —	100%
Interest expense on Revolving Credit Facility	5,635	765	637%	7,272	894	713%
Amortization of discount	1,868	182	926%	4,609	259	1,680%
Amortization of debt issuance costs	1,480	—	100%	3,261	—	100%
	<u>\$ 14,608</u>	<u>\$ 947</u>	1,443%	<u>\$ 29,142</u>	<u>\$ 1,153</u>	2,427%

The increase in interest expense can be attributed to the fact that we have continued to increase our borrowings under our Revolving Credit Facility, and we issued \$225.0 million of 10.000% Senior Notes in February 2022 in support of our current six-rig drilling program.

Derivative gain (loss), net.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Noncash derivative gain (loss), net	\$ 38,098	\$ (6,844)	n/m	\$ 21,656	\$ (19,402)	n/m
Cash payments on settled derivative instruments, net	(2,300)	(3,976)	42%	(64,143)	(5,014)	(1,179)%
Derivative gain (loss), net	<u>\$ 35,798</u>	<u>\$ (10,820)</u>	n/m	<u>\$ (42,487)</u>	<u>\$ (24,416)</u>	(74)%

The Company primarily utilizes commodity swap contracts, collar contracts, collar contracts with short puts and basis swap contracts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) adhere to hedging obligations related to the senior unsecured notes and the Revolving Credit Facility, (iii) support the Company's annual capital budget and expenditure plans and (iv) reduce commodity price risk associated with certain capital projects. The Company may also, from time to time, utilize interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness. The above mark-to-market loss and cash settlements relate to crude oil and natural gas derivative swap contracts.

Income tax expense.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	% Change	2022	2021	% Change
Income tax expense (benefit)	\$ 31,597	\$ 2,145	1,373%	\$ 55,357	\$ 4,680	1,083%
Effective income tax rate	22.7%	21.0%	8%	24.7%	20.2%	22%

The change in income tax expense during the three and nine months ended September 30, 2022, compared with the same periods in 2021, was due to the Company realizing increased net income during the three and nine months ended September 30, 2022 compared with the same periods in 2021. The effective income tax rate differs from the statutory rate primarily due to a revision in the deferred tax asset related to certain stock-based compensation and permanent differences between GAAP income and taxable income. See Note 13 of Notes to Consolidated Financial Statements included in "Item 1. Condensed Consolidated Financial Statements (Unaudited)" for additional information.

Liquidity and Capital Resources

Liquidity. The Company's primary sources of short-term liquidity are (i) cash and cash equivalents, (ii) net cash provided by operating activities, (iii) unused borrowing capacity under its Revolving Credit Facility, (iv) on an opportunistic basis, issuances of debt or equity securities and (v) other sources, such as sales of nonstrategic assets. In February 2022, the Company entered into the Third Amendment to the Revolving Credit facility simultaneous with the issuance of \$225.0 million of two year 10.000% Senior Notes whereby it, among other things, (i) reduced the borrowing base from \$195.0 million to \$138.8 million, (ii) modified the terms of the Credit Agreement to reduce the aggregate elected commitments from \$195.0 million to \$138.8 million, (iii) update the maturity date to a springing maturity date, which will cause the Credit Agreement to mature on October 1, 2023 if the 10.000% Senior Notes are not retired by that date, (iv) allow the Company to redeem the 10.000% Senior Notes with proceeds of a refinancing, with proceeds of an equity offering or with cash, in each case, subject to certain customary conditions and (v) replace the USD LIBOR rates with Term SOFR rates. In June 2022, simultaneous with the closing of one of the aforementioned acquisitions, the Company entered into the Fourth Amendment to the Revolving Credit Facility to, among other things, (i) increase (a) the aggregate elected commitments to \$400.0 million, (b) the borrowing base to \$400.0 million and (c) the maximum credit amount to \$1.5 billion, (ii) increase the amount of excess cash that may be held to \$75.0 million, (iii) modify the affirmative hedging requirement and (iv) increase the number of banks included in the syndicate at differing levels of commitments with Fifth Third remaining the administrative agent. In October 2022, the Company entered into the Fifth Amendment to the Revolving Credit Facility to, among other things, (i) increase the elected commitments to \$525 million and the borrowing base to \$550 million, (ii) require an additional borrowing base redetermination on or about December 1, 2022, (iii) modify the permitted dividends and distributions conditions such that minimum availability under the credit facility must be 25% percent (as opposed to 30% before giving effect to the Fifth Amendment) and (iv) appoint Wells Fargo Bank, National Association ("Wells Fargo") as the new administrative agent to replace Fifth Third. In addition, in connection with the Fifth Amendment, to the extent the Company incurs any additional specified unsecured senior, senior subordinated or subordinated future indebtedness before June 30, 2023, the Company's obligation to reduce the borrowing base by an amount equal to 25% of the principal amount of such additional future indebtedness shall be waived. In connection with the Fifth Amendment, the lenders waived two technical events of default existing with the Credit Agreement, as it existed prior to giving effect to the Fifth Amendment, related to entering into and maintaining certain minimum hedges as of the fiscal quarters ending June 30, 2022 and September 30, 2022 and complying with the required current ratio as of the fiscal quarter ending September 30, 2022. In October 2022, the Company entered into the Sixth Amendment to the Revolving Credit Facility to, among other things, (i) change the period to one hundred and twenty (120) days following the Maturity Date for which there can be no scheduled principal payments, mandatory redemption or maturity date for the 2024 Senior Notes (as defined in the Credit Agreement) and the Specified Senior Notes (as defined in the Credit Agreement), (ii) to clarify that the Specified Senior Notes are

subject to the restriction on the voluntary redemption by the Company of certain specified additional debt, including the 2024 Senior Notes, (iii) to add a permitted lien basket in connection with the escrow account to be opened in connection with the Specified Senior Notes and (iv) provide for an exception for the restriction on mandatory redemptions of the Specified Senior Notes in connection with the special mandatory redemption provided for with respect to the Specified Senior Notes. As of September 30, 2022, the Company had \$355.0 million in borrowings and approximately \$41.1 million available to borrow under its Revolving Credit Facility. The Company also had unrestricted cash on hand of \$34.3 million as of September 30, 2022.

The Company's primary needs for cash are for (i) capital expenditures, (ii) acquisitions of crude oil and natural gas properties, (iii) payments of contractual obligations, (iv) working capital obligations, and (v) general corporate purposes. Funding for these cash needs may be provided by any combination of the Company's sources of liquidity. Although the Company expects that its sources of funding will be adequate to fund its 2022 planned capital expenditures and provide adequate liquidity to fund other needs, no assurance can be given that such funding sources will be adequate to meet the Company's future needs.

Fourth Quarter 2022 capital budget. The Company's capital budget for the fourth quarter of 2022 is expected to be in the range of approximately \$285 to \$295 million for drilling, completion, facilities and equipping crude oil wells and field infrastructure buildout and other costs. The increase in budgeted expenditures for 2022 overall can be attributed primarily to inflationary impacts related to steel, diesel, chemical prices and other items. The revised fourth quarter 2022 capital budget excludes acquisitions, asset retirement obligations, geological and geophysical general and administrative expenses and corporate facilities. HighPeak Energy expects to fund its forecasted capital expenditures with cash on its balance sheet, cash generated by operations, through borrowings under the Credit Agreement, proceeds from the issuance and sale of the 10.000% Senior Notes and 10.625% Senior Notes and depending on market circumstances, potential future debt or equity offerings. The Company's capital expenditures for the nine months ended September 30, 2022 were \$725.1 million, excluding acquisitions.

The budget above assumes that the Company will operate six (6) drilling rigs and average approximately three (3) frac fleets for the remainder of 2022. However, there are many factors and consequences beyond the Company's control, such as policies of the Biden Administration, economic downturn or potential recession, geo-political risks and additional actions by businesses, OPEC and other cooperating countries, and governments in response to the COVID-19 pandemic, which may have an impact on the Company's future results and drilling plans. Given the dynamic nature of this situation, the Company is maintaining flexibility in its capital plan and will continue to evaluate drilling and completion activity on an economic basis, with future activity levels assessed monthly.

Capital resources. Cash flows from operating, investing and financing activities are summarized below (in thousands).

	Nine Months Ended September 30,			
	2022	2021	Change	% Change
Net cash provided by operating activities	\$ 302,806	\$ 87,737	\$ 215,069	245%
Net cash used in investing activities	\$ (843,351)	\$ (189,099)	\$ (654,252)	(346)%
Net cash provided by financing activities	\$ 540,024	\$ 93,776	\$ 446,248	476%

Operating activities. The increase in net cash flow provided by operating activities for the nine months ended September 30, 2022, compared with 2021, was primarily related to higher revenues associated with increased production volumes as a result of our successful horizontal drilling program and to a lesser extent, bolt-on acquisitions and increased realized prices.

Investing activities. The increase in net cash used in investing activities for the nine months ended September 30, 2022, compared with 2021, was primarily due to increases in additions to crude oil and natural gas properties compared with the nine months ended September 30, 2021, when the Company had one rig running compared with an average of five rigs running during the nine months ended September 30, 2022, and increases in cash crude oil and natural gas acquisition costs.

Financing activities. The Company's significant financing activities are as follows:

- 2022: The Company received \$210.2 million in net proceeds from the issuance of the 10.000% Senior Notes, borrowed net \$205.0 million on its Revolving Credit Facility, received \$85.0 million in proceeds from a private placement issuance of 3.9 million common shares and received \$7.8 million from the exercise of 676,188 of the Company's \$11.50 warrants and \$120,000 from the exercise of 12,000 of stock options by employees of the Company. These cash inflows were partially offset by the Company incurring \$9.2 million of debt issuance costs primarily related to the 10.000% Senior Notes and the Fourth Amendment to the Revolving Credit Facility, \$8.5 million in dividends and dividend equivalent payments and \$290,000 in stock issuance costs.
- 2021: The Company borrowed \$95.0 million on its Revolving Credit Facility, received \$9.1 million from the exercise of 788,009 of the Company's \$11.50 warrants and \$1.6 million from the exercise of 154,268 of stock options by employees of the Company. Partially offsetting these cash inflows was the Company incurring \$10.1 million in dividends and dividend equivalent payments and \$1.8 million of debt issuance costs related to its Revolving Credit Facility.

Contractual obligations. The Company's contractual obligations include leases (primarily related to contracted drilling rigs, equipment and office facilities), capital funding obligations, volume commitments, aid-in-construction obligations and other liabilities. Other joint owners in the properties operated by the Company could incur portions of the costs represented by these commitments.

Non-GAAP Financial Measures

EBITDAX represents net income (loss) before interest expense, interest and other income, income taxes, depletion, depreciation, and amortization, accretion of discount on asset retirement obligations, exploration and abandonment expense, non-cash stock-based compensation expense, derivative gains and losses net of settlements, gains and losses on divestitures and certain other items. EBITDAX excludes certain items that we believe affect the comparability of operating results and can exclude items that are generally non-recurring in nature or whose timing and/or amount cannot be reasonably estimated. EBITDAX is a non-GAAP measure that we believe provides useful additional information to investors and analysts, as a performance measure, for analysis of our ability to internally generate funds for exploration, development, acquisitions, and to service debt. We are also subject to financial covenants under our Credit Agreement based on EBITDAX ratios as further described in Note 7 of Notes to Consolidated Financial Statements included in "Item 1. Condensed Consolidated Financial Statements (Unaudited)." In addition, EBITDAX is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the crude oil and natural gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. EBITDAX should not be considered in isolation or as a substitute for net income (loss), income (loss) from operations, net cash provided by operating activities, or other profitability or liquidity measures prepared under GAAP. Because EBITDAX excludes some, but not all items that affect net income (loss) and may vary among companies, the EBITDAX amounts presented may not be comparable to similar metrics of other companies. Our Revolving Credit Facility provides a material source of liquidity for us. Under the terms of our Credit Agreement, if we failed to comply with the covenants that establish a maximum permitted ratio of total debt, as defined in the Credit Agreement, to EBITDAX, we would be in default, an event that would prevent us from borrowing under our Revolving Credit Facility and would therefore materially limit a significant source of our liquidity. In addition, if we are in default under our Revolving Credit Facility and are unable to obtain a waiver of that default from our lenders, lenders under that facility would be entitled to exercise all of their remedies for default.

The following table provides a reconciliation of our net income (GAAP) to EBITDAX (non-GAAP) for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net income	\$ 107,904	\$ 8,047	\$ 168,955	\$ 18,534
Interest expense	14,608	947	29,142	1,153
Interest and other income	(1)	—	(253)	(1)
Income tax expense	31,597	2,145	55,357	4,680
Depletion, depreciation and amortization	42,624	13,917	94,531	43,737
Accretion of discount	125	44	245	116
Exploration and abandonment expense	290	488	683	1,142
Stock based compensation	10,655	905	29,210	2,894
Derivative-related noncash activity	(38,098)	6,844	(21,656)	19,402
Other expense	—	—	—	127
EBITDAX	\$ 169,704	\$ 33,337	\$ 356,214	\$ 91,784

New Accounting Pronouncements

Our historical condensed consolidated financial statements and related notes to condensed consolidated financial statements contain information that is pertinent to our management's discussion and analysis of financial condition and results of operations. Preparation of financial statements in conformity with accounting principles generally accepted in the United States requires that our management make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. However, the accounting principles used by us generally do not change our reported cash flows or liquidity. Interpretation of the existing rules must be done, and judgments made on how the specifics of a given rule apply to us.

In management's opinion, the more significant reporting areas impacted by management's judgments and estimates are the choice of accounting method for crude oil and natural gas activities, crude oil and natural gas reserve estimation, asset retirement obligations, impairment of long-lived assets, valuation of stock-based compensation, valuation of business combinations, accounting and valuation of nonmonetary transactions, litigation and environmental contingencies, valuation of financial derivative instruments, uncertain tax positions and income taxes.

Management's judgments and estimates in all the areas listed above are based on information available from both internal and external sources, including engineers, geologists and historical experience in similar matters. Actual results could differ from the estimates as additional information becomes known.

There have been no material changes in our critical accounting policies and procedures during the nine months ended September 30, 2022. See our disclosure of critical accounting policies in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 7, 2022.

New accounting pronouncements issued but not yet adopted. The effects of new accounting pronouncements are discussed in Note 2 of Notes to Condensed Consolidated Financial Statements included in "Item 1. Condensed Consolidated Financial Statements (Unaudited)."

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's major market risk exposure is the pricing it receives for its sales of crude oil, NGL and natural gas. Pricing for crude oil, NGL and natural gas has been volatile and unpredictable for several years, and HighPeak Energy expects this volatility to continue in the future.

During the period from January 1, 2018 through September 30, 2022, the calendar month average NYMEX WTI crude oil price per Bbl ranged from a low of \$16.70 to a high of \$114.34, and the last trading day NYMEX natural gas price per MMBtu ranged from a low of \$1.50 to a high of \$9.35. Excluding the effect of our derivative contracts, a \$1.00 per barrel increase (decrease) in the weighted average crude oil price for the nine months ended September 30, 2022 would have increased (decreased) the Company's revenues by approximately \$6.5 million on an annualized basis and a \$0.10 per Mcf increase (decrease) in the weighted average natural gas price for the nine months ended September 30, 2022 would have increased (decreased) the Company's revenues by approximately \$282,000 on an annualized basis.

Due to this volatility and obligations under the senior unsecured notes and the Revolving Credit Facility, the Company began to use, commodity derivative instruments, such as swaps, collars and puts, to hedge price risk associated with a portion of anticipated production. These hedging instruments allow the Company to reduce, but not eliminate, the potential effects of the variability in cash flow from operations due to fluctuations in crude oil and natural gas prices and provide increased certainty of cash flows for its drilling program. These instruments provide only partial price protection against declines in crude oil and natural gas prices and may partially limit the Company's potential gains from future increases in prices. The Company has entered into hedging arrangements to protect its capital expenditure budget and to protect its Revolving Credit Facility borrowing base. The Company does not enter into any commodity derivative instruments, including derivatives, for speculative or trading purposes.

The average forward prices based on September 30, 2022 market quotes were as follows:

	Remainder of 2022	Year Ending December 31, 2023
Average forward NYMEX crude oil price per Bbl	\$ 77.86	\$ 72.14
Average forward NYMEX natural gas price per MMBtu	\$ 6.92	\$ 5.44

The average forward prices based on November 10, 2022 market quotes were as follows:

	Remainder of 2022	Year Ending December 31, 2023
Average forward NYMEX crude oil price per Bbl	\$ 85.28	\$ 79.91
Average forward NYMEX natural gas price per MMBtu	\$ 6.24	\$ 5.35

Counterparty and Customer Credit Risk. The Company's derivative contracts expose it to credit risk in the event of nonperformance by counterparties. The Company's collateral for the outstanding borrowings under the Revolving Credit Facility is also collateral for the Company's commodity derivatives. The Company evaluates the credit standing of its counterparties as it deems appropriate. Counterparties to HighPeak Energy's derivative contracts have investment grade ratings.

The Company's primary concentration of credit risks is associated with (i) the collection of receivables resulting from the sale of crude oil and natural gas production due to the concentration of its crude oil and natural gas receivables with a few significant customers and (ii) the risk of a counterparty's failure to meet its obligations under derivative contracts with the Company. The inability or failure of the Company's significant customers and/or counterparties to meet their obligations to the Company or their insolvency or liquidation may adversely affect the Company's financial results.

The Company monitors exposure to customers and/or counterparties primarily by reviewing credit ratings, financial criteria and payment history. Where appropriate, the Company obtains assurances of payment, such as a guarantee by the parent company of the customer and/or counterparty or other credit support. The Company's crude oil and natural gas is sold to various purchasers who must be prequalified under the Company's credit risk policies and procedures. Historically, the Company's credit losses on crude oil, NGL and natural gas receivables have not been material. Although the Company does not obtain collateral or otherwise secure the fair value of its derivative instruments, associated credit risk is mitigated by the Company's credit risk policies and procedures.

The Company entered into International Swap Dealers Association Master Agreements ("ISDA Agreements") with its derivative counterparties. The terms of the ISDA Agreements provide the Company and the counterparties with right of set off upon the occurrence of defined acts of default by either the Company or a counterparty to a derivative contract, whereby the party not in default may set off all derivative liabilities owed to the defaulting party against all derivative asset receivables from the defaulting party.

Interest Rate Risk. The Company is subject to interest rate risk on its variable rate debt from our Revolving Credit Facility. The Company also has fixed rate debt but does not currently utilize derivative instruments to manage the economic effect of changes in interest rates. The impact of a 1% increase in interest rates on our outstanding debt as of September 30, 2022 would have resulted in an annual increase in interest expense of approximately \$5.8 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, HighPeak Energy has evaluated, under the supervision and with the participation of the Company's management, including HighPeak Energy's principal executive officer and principal financial officer, the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal period covered by this Quarterly Report. Based on that evaluation, HighPeak Energy's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective, as of the end of the period covered by this Quarterly Report, in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including that such information is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the three months ended September 30, 2022 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Company may be a party to various proceedings and claims incidental to its business. While many of these matters involve inherent uncertainty, the Company believes that the amount of the liability, if any, ultimately incurred with respect to these proceedings and claims will not have a material adverse effect on the Company's consolidated financial position as a whole or on its liquidity, capital resources or future results of operations.

ITEM 1A. RISK FACTORS

In addition to the information set forth in this Quarterly Report, the risks that are discussed in the Company's Annual Report under the headings "Risk Factors," "Business and Properties," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Quantitative and Qualitative Disclosures About Market Risk," as supplemented by our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2022 and June 30, 2022, should be carefully considered, as such risks could materially affect the Company's business, financial condition or future results. Except as set forth below, there has been no material change in the Company's risk factors that were described in the Company's Annual Report.

Risks Related to Our Business

Political instability or armed conflict in crude oil or natural gas producing regions, such as the ongoing war between Russia and Ukraine, and OPEC+ policy decisions could have a material adverse impact on our business, financial condition or future results.

Our business, financial condition and future results are subject to political and economic risks and uncertainties, including instability resulting from civil unrest, political demonstrations, mass strikes or armed conflict or other crises in crude oil or natural gas producing areas such as the ongoing war between Russia and Ukraine.

In late February 2022, Russian military forces commenced a military operation and invasion against Ukraine. The United States and other countries and certain international organizations have imposed broad-ranging economic sanctions on Russia and certain Russian individuals, banking entities and corporations as a response, and additional sanctions may be imposed in the future. The length, impact, and outcome of the ongoing war between Russia and Ukraine is highly unpredictable, which has created uncertainty for financial and commodity markets. While the Company does not have operations overseas, the conflict elevates the likelihood of supply chain disruptions, heightened volatility in crude oil and natural gas prices and negative effects on our ability to raise additional capital when required and could have a material adverse impact on our business, financial condition or future results.

In addition, due to the above and other factors, crude oil and natural gas prices increased significantly during 2022, reaching a high of almost \$128.00 per Bbl at one point, primarily due to global supply and demand imbalances. Currently, global crude oil inventories are low relative to historical levels and supply from OPEC+ and other crude oil producing nations are not expected to be sufficient to meet forecasted crude oil demand growth for the next few years. It is believed that many OPEC+ countries will be unable to increase their production levels or even produce at expected levels due to their lack of capital investments in developing incremental crude oil supplies over the past few years. In October 2022, OPEC+ determined to reduce production beginning in November 2022 through December 2023 by 2 million Bopd, due to the uncertainty surrounding the global economic and crude oil market outlooks. Furthermore, sanctions and import bans on Russian crude oil have been implemented by various countries in response to the war in Ukraine, further impacting global crude oil supply. Still, crude oil and natural gas prices have recently declined from the highs experienced in second quarter of 2022 and could decrease or increase with any changes in demand due to, among other things, uncertainty and volatility from global supply chain disruptions attributable to the pandemic, the ongoing conflict in Ukraine, international sanctions, speculation as to future actions by OPEC+, developing COVID-19 variants and the potential for a widespread COVID-19 outbreak, higher natural gas prices, increasing inflation and government efforts to reduce inflation, and possible changes in the overall health of the global economy, including a prolonged recession. Further, the volatility in crude oil and natural gas prices could accelerate a transition away from fossil fuels, resulting in reduced demand over the longer term. To what extent these and other external factors (such as government action with respect to climate change regulation) ultimately impact our future business, liquidity, financial condition, and results of operations is highly uncertain and dependent on numerous factors, including future developments, which are not within our control and cannot be accurately predicted.

Our existing and future indebtedness may adversely affect our cash flows and ability to operate our business, remain in compliance and repay our debt.

As of September 30, 2022, after assuming the effect of the November 2022 issuance of the 10.625% Senior Notes and the Credit Agreement Amendments, we would have \$605 million of total indebtedness, including \$450 million of indebtedness maturing in 2024. If (i) the terms of the 10.000% Senior Notes are not amended to extend the scheduled repayment thereof to no earlier than October 1, 2024 or (ii) the 10.000% Senior Notes are not retired or refinanced prior to October 1, 2023, then pursuant to the terms of the Credit Agreement, in each case, all our outstanding borrowings under the Credit Agreement will mature and become due on October 1, 2023.

An event of default will occur under the Credit Agreement if HighPeak Energy should fail to make any payment (whether of principal or interest and regardless of amount) in respect of any material debt (including under the 10.000% Senior Notes and 10.625% Senior Notes), when and as the same shall become due and payable and such failure to pay continues beyond any applicable grace period, or any event or condition occurs that results in any material debt becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any material debt or any trustee or agent on its or their behalf to cause any material debt to become due, or to require the redemption thereof or any offer to Redeem to be made in respect thereof, prior to its scheduled maturity or require HighPeak to make an offer in respect thereof and such event or condition continues beyond any applicable grace period. In the event of a default under these circumstances, lenders could terminate their commitments to lend or accelerate the loans and declare all amounts borrowed due and payable.

We may be unable to repay amounts due when they become due, and our ability to refinance our indebtedness on reasonable terms may be limited. Our indentures permit us to incur significant additional debt, some of which may be secured. Our current level of indebtedness could have important consequences, such as:

- making it difficult for us to satisfy our obligations under our indebtedness and contractual and commercial commitments;
- increasing our vulnerability to adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limiting our flexibility to plan for, or react to, changes in our business and the industry in which we operate;
- restricting us from making strategic acquisitions or exploiting business opportunities;
- placing us at a competitive disadvantage compared to our competitors that have less debt;
- limiting our ability to borrow additional funds;
- preventing us from raising the funds necessary to repurchase notes tendered to us if there is a change of control, which would constitute a default under the indentures and the Credit Agreement; and
- decreasing our ability to compete effectively or operate successfully under adverse economic and industry conditions.

We may not be able to generate sufficient cash to service all our indebtedness and may be forced to take other actions to satisfy our obligations under our debt agreements, which may not be successful.

We expect our results of operations and cash flows to vary significantly from year to year due to the cyclical nature of the crude oil and natural gas industry. As a result, the amount of debt that we can manage in some periods may not be appropriate for us in other periods. In addition, our future cash flows may be insufficient to meet our debt obligations and commitments, including the 10.000% Senior Notes and 10.625% Senior Notes. Any insufficiency could negatively impact our business. A range of economic, competitive, business and industry factors will affect our future financial performance, and as a result, our ability to generate cash flows from operations and to pay our debt, including the 10.000% Senior Notes and 10.625% Senior Notes. Many of these factors, such as crude oil, NGL and natural gas prices, regulatory factors, economic and financial conditions in our industry and the global economy or competitive initiatives of our competitors, are beyond our control. If we do not generate sufficient cash flows from operations to satisfy our debt obligations, we may have to undertake alternative financing plans, such as:

- refinancing or restructuring our debt;
- selling assets;
- reducing or delaying capital investments; or
- seeking to raise additional capital.

However, any alternative financing plans that we undertake, if necessary, may not allow us to meet our debt obligations. We cannot assure you that any refinancing or debt restructuring would be possible, that any assets could be sold or that, if sold, the timing of the sales and the amount of proceeds realized from those sales would be favorable to us or that additional financing could be obtained on acceptable terms. Our inability to generate sufficient cash flows to satisfy our debt obligations, including our obligations under the 10.000% Senior Notes and 10.625% Senior Notes, or to obtain alternative financing, could materially and adversely affect our business, financial condition, results of operations and prospects.

Our ability to restructure or refinance our indebtedness will depend on the condition of the capital markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates and could require us to comply with more onerous covenants, which could further restrict our business operations. The terms of existing or future debt instruments, including the indentures that govern the 10.000% Senior Notes and 10.625% Senior Notes, may restrict us from adopting some of these alternatives. In addition, any failure to make payments of interest or principal on our outstanding indebtedness on a timely basis would likely result in a reduction of our credit rating, which could harm our ability to incur additional indebtedness. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to refinance our indebtedness, sell assets or issue equity, or borrow more funds on terms acceptable to us, if at all.

In addition, if we fail to comply with the covenants or other terms of any agreements governing our debt, our lenders will have the right to accelerate the maturity of that debt and foreclose upon the collateral, if any, securing that debt. Realization of any of these factors could adversely affect our financial condition.

The Inflation Reduction Act of 2022 could accelerate the transition to a low carbon economy and could impose new costs on our operations.

In August 2022, President Biden signed the Inflation Reduction Act of 2022 (“IRA 2022”) into law. The IRA 2022 contains hundreds of billions in incentives for the development of renewable energy, clean hydrogen, clean fuels, electric vehicles and supporting infrastructure and carbon capture and sequestration, amongst other provisions. In addition, the IRA 2022 imposes the first ever federal fee on the emission of greenhouse gases through a methane emissions charge. The IRA 2022 amends the federal Clean Air Act to impose a fee on the emission of methane from sources required to report their GHG emissions to the EPA, including those sources in the onshore petroleum and natural gas production categories. The methane emissions charge would start in calendar year 2024 at \$900 per ton of methane, increase to \$1,200 in 2025, and be set at \$1,500 for 2026 and each year after. Calculation of the fee is based on certain thresholds established in the IRA 2022. In addition, the multiple incentives offered for various clean energy industries referenced above could further accelerate the transition of the economy away from the use of fossil fuels towards lower- or zero-carbon emissions alternatives. This could decrease demand for crude oil and natural gas, increase our compliance and operating costs and consequently adversely affect our business.

Continuing or worsening inflationary issues and associated changes in monetary policy have resulted in and may result in additional increases to the cost of our goods, services and personnel, which in turn could cause our capital expenditures and operating costs to rise.

The U.S. inflation rate has been steadily increasing since 2021 and into 2022. These inflationary pressures have resulted in and may result in additional increases to the costs of our oilfield goods, services and personnel, which would in turn cause our capital expenditures and operating costs to rise. Sustained levels of high inflation have likewise caused the U.S. Federal Reserve and other central banks to increase interest rates multiple times in 2022 and the U.S. Federal Reserve has indicated its intention to continue to raise benchmark interest rates throughout the remainder of 2022 and into 2023 in an effort to curb inflationary pressure on the costs of goods and services across the U.S., which could have the effects of raising the cost of capital and depressing economic growth, either of which—or the combination thereof—could hurt the financial and operating results of our business. To the extent elevated inflation remains, we may experience further cost increases for our operations, including oilfield services, labor costs and equipment if our drilling activity increases.

Higher crude oil and natural gas prices may cause the costs of materials and services to continue to rise. We cannot predict any future trends in the rate of inflation, and a significant increase in inflation, to the extent we are unable to recover higher costs through higher crude oil and natural gas prices and revenues, would negatively impact our business, financial condition and results of operations.

These risks are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial also may have a material adverse effect on the Company's business, financial condition or future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On June 27, 2022, in connection with the Hannathon Acquisition, the Company issued 3,522,117 shares of common stock (in addition to other cash consideration) under the terms of that certain Purchase and Sale Agreement, dated April 26, 2022, by and among the HighPeak Parties, Hannathon Petroleum, LLC and the other third party private sellers set forth therein, to acquire various crude oil and natural gas properties contiguous to its Signal Peak operating area in Howard County, Texas. The issued shares were not registered under the Securities Act in reliance of the exemption provided in Section 4(a)(2) thereof.

In addition, in multiple closings on or before September 2, 2022, the Company issued an aggregate 3,933,376 shares of common stock at a price per share of \$21.61 (as determined by the 5-day volume weighted average trading price per share for the five trading days immediately prior to (and excluding) August 22, 2022, the earliest signing date for such transactions), for aggregate gross proceeds of \$85.0 million. The Company intends to use the proceeds of the Private Placement for general corporate purposes. The issued shares were not registered under the Securities Act in reliance of the exemption provided in Section 4(a)(2) thereof.

HIGHPEAK ENERGY, INC.

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1#	Purchase and Sale Agreement, dated as of April 26, 2022, by and among HighPeak Energy, Inc., HighPeak Energy Assets, LLC, Hannathon Petroleum, LLC and other sellers party thereto (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on June 30, 2022).
3.1	Amended and Restated Certificate of Incorporation of HighPeak Energy, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on August 27, 2020).
3.2	Amended and Restated Bylaws of HighPeak Energy, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on November 9, 2020).
4.1	Registration Rights Agreement, dated as of August 21, 2020, by and among HighPeak Energy, Inc., HighPeak Pure Acquisition, LLC, HighPeak Energy, LP, HighPeak Energy II, LP, HighPeak Energy III, LP and certain other security holders named therein (incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on August 27, 2020).
4.2	Stockholders' Agreement, dated as of August 21, 2020, by and among HighPeak Energy, Inc., HighPeak Pure Acquisition, LLC, HighPeak Energy, LP, HighPeak Energy II, LP, HighPeak Energy III, LP, Jack Hightower and certain directors of Pure Acquisition Corp. (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on August 27, 2020).
4.3	Amendment and Assignment to Warrant Agreement, dated as of August 21, 2020, by and among Pure Acquisition Corp., Continental Stock Transfer & Trust Company and HighPeak Energy, Inc. (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-4 and Form S-1 (File No. 333-235313) filed with the SEC on August 5, 2020).
4.4	Indenture, dated February 16, 2022 ("February Indenture"), by and among HighPeak Energy, Inc., the guarantors party thereto and UMB Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on February 22, 2022).
4.5	Supplement No. 1 to February Indenture, dated November 9, 2022, by and among HighPeak Energy, Inc., as issuer, the guarantors party thereto and UMB Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on November 10, 2022).
4.6	Indenture, dated as of November 8, 2022, by and among HighPeak Energy, Inc., the guarantors party thereto and UMB Bank, National Association, as trustee (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on November 10, 2022).
4.7#	Registration Rights Agreement, dated as of June 27, 2022, by and among HighPeak Energy, Inc., Hannathon Petroleum, LLC, the parties listed as signatories hetero in their capacities as holders of Registrable Securities, and any Transferees thereof which hold Registrable Securities (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on June 30, 2022).
10.1	Fifth Amendment to Credit Agreement, dated as of October 14, 2022, among HighPeak Energy, Inc., as Borrower, Fifth Third Bank, National Association, as the existing administrative agent, Wells Fargo Bank, National Association, as the new administrative agent, guarantors party thereto and the Lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on October 18, 2022).
10.2	Sixth Amendment to Credit Agreement, dated as of October 31, 2022, among HighPeak Energy, Inc., as Borrower, Wells Fargo Bank, National Association, as the administrative agent, the Guarantors party thereto and the Lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on November 4, 2022).
10.2	Form of Subscription Agreement, by and among HighPeak Energy, Inc. and the purchaser party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-39464) filed with the SEC on August 24, 2022).

- 31.1* [Certification of the Company's Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 \(18 U.S.C. Section 7241\).](#)
- 31.2* [Certification of the Company's Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act of 2002 \(18 U.S.C. Section 7241\).](#)
- 32.1** [Certification of the Company's Chief Executive Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002 \(18 U.S.C. Section 1350\).](#)
- 32.2** [Certification of the Company's Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act of 2002 \(18 U.S.C. Section 1350\).](#)

- 101.INS** Inline XBRL Instance Document
- 101.SCH** Inline XBRL Taxonomy Extension Schema Document
- 101.CAL** Inline XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF** Inline XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB** Inline XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE** Inline XBRL Taxonomy Extension Presentation Linkbase Document

- 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

+ Certain schedules, annexes or exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K but will be furnished supplementally to the SEC upon request.

Pursuant to Regulation S-K, Item 601(b)(2), the Exhibits and Schedules referenced in Exhibit 2.1 and Exhibit 4.7 above, have not been filed. The registrant agrees to furnish supplementally a copy of any omitted Exhibit or Schedule to the SEC upon request; provided, however, that the registrant may request confidential treatment of omitted items.

Further, certain portions of these exhibits have been omitted and include a prominent statement on the first page that certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) is the type that the registrant treats as private or confidential as required by Item 601(b)(2)(ii) of Regulation S-K. Information that was omitted has been noted in the exhibit with a placeholder identified by the mark “[***]” to indicate where omissions have been made.

HIGHPEAK ENERGY, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned hereto duly authorized.

HIGHPEAK ENERGY, INC.

November 14, 2022

By: /s/ Steven Tholen
Steven Tholen
Chief Financial Officer

November 14, 2022

By: /s/ Keith Forbes
Keith Forbes
Vice President and Chief Accounting Officer

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Jack Hightower, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HighPeak Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jack Hightower

Jack Hightower
Chief Executive Officer

Date: November 14, 2022

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Steven Tholen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of HighPeak Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Steven Tholen

Steven Tholen
Chief Financial Officer

Date: November 14, 2022

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER
OF HIGHPEAK ENERGY, INC.
PURSUANT TO 18 U.S.C. § 1350

I, Jack D. Hightower, President and Chief Executive Officer of HighPeak Energy, Inc. (the "Company"), hereby certify, in the capacity and on the date indicated below, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the accompanying Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022:

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. Fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jack Hightower

Jack Hightower

Chief Executive Officer

Date: November 14, 2022

CERTIFICATION OF
CHIEF FINANCIAL OFFICER
OF HIGHPEAK ENERGY, INC.
PURSUANT TO 18 U.S.C. § 1350

I, Steven Tholen, Executive Vice President and Chief Financial Officer of HighPeak Energy, Inc. (the "Company"), hereby certify, in the capacity and on the date indicated below, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge, the accompanying Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022:

1. Fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. Fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Steven Tholen

Steven Tholen

Chief Financial Officer

Date: November 14, 2022