Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three Months Ended March 31, 2023

Dated: May 15, 2023

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	March 31, 2023	December 31, 2022
ASSETS			
Cash		**6,452**	6,565
Restricted cash	18	**4,137**	4,137
Accounts receivable	18	**8,867**	9,541
Derivative instruments – current	18	**88**	—
Inventory		**857**	857
Prepaid expenses and other assets		**3,842**	4,493
Total current assets		**24,243**	25,593
Exploration and evaluation	4	**3,804**	3,832
Property and equipment	5	**187,846**	192,306
Right-of-use assets	6	**464**	780
Other assets		**619**	619
Total assets		**216,976**	223,130
LIABILITIES			
Accounts payable and accrued liabilities	18	**34,599**	36,661
Current portion of long-term debt	7	**52,234**	126,350
Lease liabilities – current portion	9	**88**	494
Derivative instruments – current	18	**—**	1,882
Current portion of decommissioning liability	10	**5,500**	5,500
Warrant liability	8	**2,057**	4,115
Total current liabilities		**94,478**	175,002
Lease liabilities – non-current portion	9	**150**	154
Derivative instruments	18	**—**	140
Long-term Debt	7	**66,785**	—
Decommissioning liabilities	10	**108,862**	108,719
Other liabilities		**8,446**	8,228
Total liabilities		**278,721**	292,243
SHAREHOLDERS' EQUITY			
Share capital	11	**101,549**	101,549
Contributed surplus		**39,156**	39,084
Accumulated deficit		**(201,776)**	(209,629)
Accumulated other comprehensive income ("AOCI")		**(674)**	(117)
Total equity		**(61,745)**	(69,113)
Total liabilities and shareholders' equity		**216,976**	223,130

Going concern (note 2b)
See accompanying notes to the condensed interim consolidated financial statements.

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

For the three months ended *($000s)*	Note	March 31, 2023	March 31, 2022
REVENUE			
Oil and natural gas revenue	14	20,105	29,372
Royalties		(3,432)	(3,577)
Oil and natural gas revenue, net of royalties		16,673	25,795
Unrealized gain (loss) on derivative instruments	18	2,110	(10,118)
Realized loss on derivative instruments	18	(594)	(5,552)
		18,189	10,125
Other income		139	189
EXPENSES			
Operating	15	12,147	10,075
General and administrative	16	2,855	1,979
Depletion and depreciation	5	4,508	5,479
Exploration and evaluation	4	28	178
Depreciation on right-of-use assets	6	316	455
Gain on property dispositions		—	(20)
(Gain) loss on warrant liability	8	(2,058)	4,801
Impairment reversal	5	—	(15,000)
Gain on foreign exchange		(62)	(1,090)
Change in other liabilities		144	43
Finance costs	17	6,083	4,052
Transaction and restructuring costs		—	1,259
Gain on extinguishment of financial liabilities	7	(10,369)	—
Gain on revaluation of financial liabilities	7	(3,117)	—
Total expenses – net		10,475	12,211
Net profit (loss)		7,853	(1,897)
Other comprehensive profit (loss)			
Items that may be reclassified to net profit (loss):			
Foreign currency translation adjustment		(557)	102
Comprehensive profit (loss)		7,296	(1,795)
Net profit (loss) per share			
Basic	11	0.06	(0.01)
Diluted	11	0.05	(0.01)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (UNAUDITED)

($000s)	Note	Share Capital Amount	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2022		101,549	39,084	(209,629)	(117)	(69,113)
Share-based compensation	12	—	**72**	—	—	**72**
Exchange differences on translation of foreign operations		—	—	—	**(557)**	**(557)**
Net profit		—	—	**7,853**	—	**7,853**
Balance at March 31, 2023		**101,549**	**39,156**	**(201,776)**	**(674)**	**(61,745)**

($000s)	Share Capital Amount	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2021	101,421	38,772	(207,227)	474	(66,560)
Share-based compensation	—	18	—	—	18
Settlement of share-based compensation, net of withholding tax	3	(7)	—	—	(4)
Exchange differences on translation of foreign operations	—	—	—	102	102
Net loss	—	—	(1,897)	—	(1,897)
Balance at March 31, 2022	101,424	38,783	(209,124)	576	(68,341)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended *($000s)*	Note	March 31, 2023	March 31, 2022
OPERATING ACTIVITIES			
Net profit (loss)		7,853	(1,897)
Adjustments for non-cash items:			
Impairment reversal	5	—	(15,000)
Unrealized (gain) loss on derivative instruments	18	(2,110)	10,118
Depletion and depreciation	5	4,508	5,479
Depreciation on right-of-use asset	6	316	455
Exploration and evaluation expense	4	28	178
Accretion and non-cash finance costs	17	1,691	2,255
Unrealized foreign exchange gain		(77)	(1,093)
Change in other liabilities		131	43
Gain on sale of properties		—	(20)
(Gain) loss on warrant liability	8	(2,058)	4,801
Gain on extinguishment of financial liabilities	7	(10,341)	—
Gain on revaluation of financial liability	7	(3,117)	—
Share-based compensation	12	72	15
Non-cash other income		(140)	(189)
Settlements of decommissioning liabilities	10	(530)	(2,124)
Deferred interest on Senior Notes	7,17	1,586	535
Other, net		(193)	35
Change in non-cash working capital	13	(1,977)	(1,122)
Net cash from (used in) operating activities		(4,358)	2,469
FINANCING ACTIVITIES			
Settlement of share-based compensation, including withholding taxes and net of proceeds	11,12	—	(3)
Repayments of principal related to lease obligations	9	(407)	(643)
Change in borrowings	7,13	4,759	2,420
Change in non-cash working capital	13	313	300
Net cash from financing activities		4,665	2,074
INVESTING ACTIVITIES			
Property and equipment expenditures	5	(226)	(7,328)
Proceeds from dispositions (net of acquisitions)		178	20
Change in non-cash working capital	13	(372)	2,948
Net cash used in investing activities		(420)	(4,488)
Change in cash and restricted cash		(113)	55
Cash and restricted cash beginning of period		10,702	6,183
Cash and restricted cash end of period		10,589	6,238

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2023 and 2022

1. REPORTING ENTITY

Prairie Provident Resources Inc. ("PPR" or the "Company") was incorporated under the laws of the province of Alberta on July 29, 2016. Its principal office is located at 640 – 5th Avenue S.W., Calgary, Alberta. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PPR".

PPR is an independent oil and natural gas exploration, development and production company. PPR's reserves, producing properties and exploration prospects are located primarily in the province of Alberta. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these condensed consolidated interim financial statements (the "Interim Financial Statements") reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These Interim Financial Statements have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*.

The Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of PPR as at and for the years ended December 31, 2022 and 2021 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

The Interim Financial Statements were approved and authorized for issue by the Audit Committee of the Board of Directors of PPR on May 15, 2023.

(b) Going concern

These interim financial statements have been prepared in accordance with generally accepted accounting policies applicable to a going concern, which assumes that PPR will be able to realize its assets and discharge its liabilities in the normal course of business.

On March 29, 2023, the Company entered into agreements as part of a recapitalization plan (the "Recapitalization") with its lenders as further described in Note 8 of the annual financial statements. The amended debt agreements provide for extensions of certain of the Company's debt facilities and conversion of its Senior Subordinated notes to equity, and require that the Company close an equity financing for minimum gross proceeds of $4 million. Approval from the Toronto Stock Exchange is required for the issuance of shares in both the equity financing and the debt conversion that are part of the Recapitalization. Failure to complete these steps as part of the Recapitalization in advance of May 31, 2023 would constitute an event of default under the revolving credit facility. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both the revolving facility and the unsecured notes. Should an event of default occur, the Company does not have sufficient cash available to repay debt amounts. Further, the Company does not expect that it will have sufficient cash flows for ongoing operations without a successful equity raise.

As a result of the matters described above, along with recent operational results and a worsening commodity price outlook, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These annual financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that may be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying annual financial statements. Such adjustments could be material.

(c) Basis of measurement

The Interim Financial Statements have been prepared on the historical cost basis except for except for those amounts presented at fair value as detailed in the accounting policies disclosed in Note 3 "Significant Accounting Policies and Changes in Accounting Policies" of the Annual Financial Statements.

(d) Functional and Presentation Currency

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

(e) Use of Estimates and Judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are outlined in the Annual Financial Statements note 2(e).

3. MATERIAL ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The Company's material accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements.

Adoption of new standards January 1, 2023

IAS 1 – Disclosure of Accounting Policies

Effective January 1, 2023, the amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies, while providing guidance on how entities can identify material accounting policy information and examples of when accounting policy information is likely to be material. This did not have a material impact on the consolidated financial statements.

IAS 8 – Definition of Accounting Estimates

Effective January 1, 2023, the amendments distinguish how an entity should present and disclose different types of accounting changes in its financial statements and provides updated definitions to changes in accounting estimates to assist issuers in assessing between a change in accounting policy and a change in accounting estimate. This did not have a material impact on the consolidated financial statements.

IAS 12 – Income Taxes

Effective January 1, 2023, the amendments clarify that the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24 does not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of equal deferred tax assets and liabilities. This did not have a material impact on the consolidated financial statements.

4. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance - December 31, 2022	61,571
Exploration and evaluation expense	**(28)**
Cost Balance - March 31, 2023	**61,543**
Provision for impairment – March 31, 2023 and December 31, 2022	**(57,739)**
Net book value – December 31, 2022	3,832
Net book value – March 31, 2023	**3,804**

During the three months ended March 31, 2023, PPR recognized a nominal amount (2022 - $0.2 million) of exploration and evaluation ("E&E") expense related to surrendered or expired leases in various areas. PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets (2022 - $nil).

The Company assessed its E&E assets for indicators of impairment and did not note any indicators of impairment that resulted in the need to perform impairment tests as at March 31, 2023.

5. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance - December 31, 2022	666,721	4,942	671,663
Additions	**187**	**39**	**226**
Dispositions	**(178)**	**—**	**(178)**
Balance - March 31, 2023	**666,680**	**4,981**	**671,661**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2022	(474,842)	(4,515)	(479,357)
Depletion and depreciation	**(4,488)**	**(20)**	**(4,508)**
Balance - March 31, 2023	**(479,280)**	**(4,535)**	**(483,815)**
Net book value - December 31, 2022	191,879	427	192,306
Net book value – March 31, 2023	**187,400**	**446**	**187,846**

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

During the three months ended March 31, 2023, a nominal amount (2022 – $0.3 million) of directly attributable general and administrative expenses, including a nominal amount (2022 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Reversal

As at March 31, 2022, the significant increase in forecast benchmark commodity prices since the last impairment test at June 30, 2021 was identified as an indicator of impairment reversal related to the Evi CGU. PPR conducted a test for impairment reversal and determined that the recoverable amount exceeded the carrying amount for the Evi CGU, resulting in the recognition of $15.0 million of impairment reversal in the period. The recoverable amount of the Evi CGU was determined based on the fair value less costs of disposal ("FVLCD") and is a non-recurring fair value measurements which is classified as level 3 in the fair value hierarchy (see Note 3(g) of the Annual Financial Statements for information on fair value hierarchy) as certain key assumptions are not based on observable market data but rather the Company's best estimate. In estimating the FVLCD, PPR considered the net present value of after-tax cash flows from reserves based on an independent reserves evaluation report prepared as at December 31, 2021 (updated to account for operations between December 31, 2021 and March 31, 2022 and for changes in forecast commodity prices, as published by our independent reserve evaluators, Sproule Associates Limited), and applying a discount rate of 17%. Calculation of recoverable amounts are subject to the use of estimates and judgements (see note 2(d) - Use of Estimates and Judgments in the Annual Financial Statements).

At March 31, 2023, the Company assessed its production and development assets for indicators of impairment or impairment reversal and none were noted.

6. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance – December 31, 2022 and March 31, 2023	**2,004**	**6,687**	**491**	**9,182**
Accumulated depreciation:				
Balance - December 31, 2022	(1,624)	(6,420)	(358)	(8,402)
Depreciation	**(37)**	**(267)**	**(12)**	**(316)**
Balance – March 31, 2023	**(1,661)**	**(6,687)**	**(370)**	**(8,718)**
Net book value - December 31, 2022	380	267	133	780
Net book value – March 31, 2023	**343**	**—**	**121**	**464**

7. LONG-TERM DEBT

($000s)	March 31, 2023	December 31, 2022
Revolving Facility		
USD Advances (US$19.0 million (December 31, 2022 - US$ 19.0 million))[1]	**25,714**	25,735
CAD Advances (US$30.0 million (December 31, 2022 - US$30.0 million))[1]	**40,530**	40,530
CAD Deferred Interest (US$0.4 million (December 31, 2022 - US$0.4 million))[2]	**541**	541
Total principal and deferred - Revolving Facility	**66,785**	66,806
Senior Notes Issued October 31, 2017 (Principal - US$16.0 million (December 31, 2022 - US$16.0) Deferred Interest - US$5.8 million (December 31, 2022 - US$5.3))	**19,863**	28,911
Senior Notes Issued November 21, 2018 (Principal - US$12.5 million (December 31, 2022 - US$12.5) Deferred Interest - US$3.6 (December 31, 2022 - US$3.3))	**14,837**	21,429
Senior Notes Issued December 21, 2020 (Principal - US$11.4 million (December 31, 2022 - US$11.4) Deferred Interest - US$3.5 (December 31, 2022 - US$3.1))	**12,775**	19,604
Unamortized amounts - Senior Notes	**—**	(10,401)
Total Senior Notes	**47,475**	59,543
Second Lien Notes	**4,759**	—
Total debt	**119,019**	126,349
Current portion	**52,234**	126,349
Long-term portion	**66,785**	—

[1] Converted using the month end exchange rate of $1.00 USD to $1.35 CAD as at March 31, 2023 and $1.00 USD to $1.35 CAD as at December 31, 2022

[2] Converted using the exchange rate at the time of borrowing of $1.00 USD to $1.35 CAD.

(a) Revolving Facility

On March 29, 2023, PPR and the Revolving Facility lenders agreed to amend the maturity date to July 1, 2024 (December 31, 2022 - December 31, 2023). There is a requirement for the Company to complete an equity offering for minimum gross proceeds of $4.0 million prior to May 31, 2023; failure to do so would qualify as an event of default under the credit facility. The next scheduled borrowing base re-determination is scheduled for Spring 2024 based on the December 31, 2023 reserves evaluation, without limiting the lenders' right to require a redetermination at any time. No additional draws on the facility are permitted without consent of the lenders, in their sole discretion.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of PPR's oil and natural gas properties in accordance with the lenders' customary practices for oil and gas loans. If a borrowing base deficiency exists because of a re-determination, the lender is required to notify the Company of such shortfall. The Company may repay the shortfall amount by either making one installment within 90 days or six equal consecutive monthly installments beginning within 30 days after the Company's receipt of the borrowing base deficiency notice. Amounts borrowed under the Revolving Facility bear interest based on reference bank lending rates in effect from time to time, plus an applicable margin. Applicable margins per annum are 950 basis points and standby fees on any undrawn borrowing capacity are 87.5 basis points per annum.

Borrowings under the Revolving Facility are repayable at the Company's election at par plus accrued interest and any applicable breakage costs. Repayments generally will not affect the aggregate commitment or borrowing base under the Revolving Facility, except in certain extraordinary circumstances where a repayment will reduce the borrowing base. The Revolving Facility is denominated in USD, but accommodates CAD advances up to $41.1 million. All notes were issued at par by PPR Canada and are guaranteed by Prairie Provident Resources Inc. and certain of its other subsidiaries and secured by a US$200 million debenture.

As at March 31, 2023 and December 31, 2022, PPR had outstanding letters of credit of $4.1 million. The letters of credit are issued by a financial institution at which PPR posted a cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

(b) Subordinated Senior Notes

On March 29, 2023, the Company announced a comprehensive recapitalization plan (the "Recapitalization" - see Note 8 (d) of the December 31, 2022 financial statements). Under the Recapitalization, Senior Note amounts outstanding and associated warrants must be converted to equity upon the completion of an equity offering for a minimum of $4.0 million by May 31, 2023. The Recapitalization has been accounted for as an extinguishment and as such, the previously recorded liabilities were derecognized and the modified liability was recorded at the fair value as at March 29th, 2023. As a result of the the extinguishment the Company recognized a gain of $10.3 million. The gain is net of $1.4 million of financing costs. The fair value of the Senior Notes was determined based on a probability weighted approach, factoring in the estimated likelihood of the debt being converted and the price at which it would converted, in several different scenarios. These included completion of the Recapitalization as announced and alternative scenarios with different conversion parameters or a default by the Company on its obligation to complete an equity raise for at least $4.0 million by May 31, 2023. The Company has elected to treat the entire Senior Notes instruments at fair value through profit and loss and was classified as level 3 in the fair value hierarchy (see Note 3(g) of the Annual Financial Statements for information on the fair value level hierarchy). At March 31, 2023 the Company revalued the Senior Notes and a gain of $3.1 million was recognized.

Interest on the Senior Notes originally issued October 31, 2017 and November 21, 2018 was nil from Jan 2022 to March 2022, when it rose to 4% and then to 8% in August 2022. Interest on the Senior Notes originally issued December 21, 2020 is 12% per annum. Interest on the notes is payable quarterly, the Senior Note agreements provide that so long as any indebtedness remains outstanding under the Revolving Facility, however PPR may elect to defer all interest due on the Senior Notes. The terms of the Revolving Facility require that the Company make this election. PPR will thereafter be permitted to elect to defer up to 4.00% per annum of interest on the Senior Notes.

(c) Second Lien Notes

On March 30, 2023, the Company completed the Second Lien Financing of the Recapitalization and purchased US$3.6 million of Second Lien Notes. The Second Lien Notes have a maturity of December 31, 2024 and bear interest at the Secured Overnight Financing Rate ("SOFR") plus 1150 basis points. Interest on the Second Lien Notes must be paid in kind while the Revolving Facility is outstanding. The Note purchase agreement provides for a payment of a deferred compensation fee on the later of maturity or prepayment and the date on which the Revolver Facility is fully repaid in an amount of US$2.9 million less actual interest and breakage costs incurred from the issue date, capped at an internal rate of return of 45% per annum.

The Second Lien Notes were initially recognized at a fair value which was lower than the face value of the notes. The fair value was calculated using the present value of expected future cash flows, discounted at 18.3%. The fair value measurement was non-recurring and was classified as level 3 in the fair value hierarchy (see Note 3(g) of the Annual Financial Statements for information on the fair value level hierarchy) and the difference will be amortized over the term of the Notes.

(d) Covenants

The note purchase agreements for the Revolving Facility, the Senior Notes the Second Lien Notes and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, capital expenditures, hedging activities, investments, dividends and mergers and acquisitions. In addition, capital expenditures and acquisitions are generally limited to consistency with the Company's annual development plan, as created and updated by the Company from time to time and approved by the lenders.

The agreements for the Revolving Facility, the Senior Notes and the Second Lien Notes include the same financial covenants.

No financial covenants applied for the quarter ended March 31, 2023. The applicable financial covenants thresholds apply from June 30, 2023 onward and compliance is dependent on a number of factors including the completion of a minimum $4.0 million equity raise by May 31, 2023, the results of future operations, commodity pricing and costs incurred. Future thresholds for financial covenants vary by quarter and are as follows:

Financial Covenant	
Senior Leverage	Cannot exceed between 3.00 and 3.75 to 1.00
Asset Coverage	Cannot be less than between 0.65 and 0.9 to 1.00
Current Ratio	Cannot be less than 0.75 and 0.90 to 1.00

[1] Under the debt agreements, the Senior Leverage ratio is the ratio of Senior Adjusted Indebtedness (defined herein) to EBITDAX (as defined below in "Other Advisories") for the four quarters most recently ended. Senior adjusted indebtedness is defined as Adjusted Indebtedness (defined herein) less subordinated borrowings. Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral.

[2] Under the debt agreements, the Asset Coverage ratio is the ratio of the net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) adjusted for hedging transactions to Adjusted Indebtedness.

[3] Under the debt agreements, the current ratio is the ratio of consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities at the end of any fiscal quarter. Under the agreements, current assets exclude derivative assets while current liabilities exclude the current portion of long-term debt, lease liabilities, decommissioning obligations, derivative liabilities and non-cash liabilities

8. WARRANT LIABILITY

	Warrant Expiring December 21, 2028	
	Number of Warrants	**Amount**
PPR Warrant Liability, December 31, 2022	34,292	4,115
Fair value adjustment	—	(2,058)
PPR Warrant Liability, March 31, 2023	**34,292**	**(2,507)**

The warrants issued were classified as financial liabilities due to a cashless exercise provision and are measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the consolidated statement of profit and (loss) and comprehensive profit and (loss). The fair value of these warrants is determined using the Black-Scholes option valuation model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position.

The fair value of the warrants as at March 31, 2023 of $0.06 per warrant was estimated using the following assumptions:

	Warrants Expiring December 21, 2028
Risk-free interest rate	3.02%
Exercise price	$0.0192
Expected life of options (years)	0.2
Expected volatility	154%
Stock price at March 31, 2023	$0.08
Dividends per share	—

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2022	649
Finance expense	11
Lease payments	(421)
Ending balance – March 31, 2023	239
Less: current portion	88
Ending balance – Non-current portion	151

The following table details the undiscounted cash flows of PPR's lease obligations, as at March 31, 2023:

($000s)	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	88	165	12	49	314	224

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2022	114,219
Government grants	(139)
Settlements	(530)
Accretion of decommissioning liabilities	812
Total Balance – March 31, 2023	114,362
Current portion	5,500
Long-term portion	108,862

The Company estimated the undiscounted and inflated total future liabilities to be approximately $253.9 million (December 31, 2022 – $254.6 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 34 years, of which $27.5 million is estimated to be incurred over the next five years.

Decommissioning liabilities at March 31, 2023 were determined using risk-free rates of 2.77% - 2.93% (December 31, 2022 – 2.77% - 2.93%) and an inflation rate of 1.8% (December 31, 2022 – 1.8%).

11. SHARE CAPITAL

(a) Authorized

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

(b) Shares Outstanding

	Number of Shares *(000s)*	Amount *($000s)*
Common shares:		
PPR Shares, December 31, 2022	130,097	101,549
Issued for Options and restricted share unit ("RSU") settlements	20	—
Withholding taxes on RSU settlement	—	—
PPR Shares, March 31, 2023	**130,117**	**101,549**

(c) Profit (loss) per Share

Three months ended *(000s)*	March 31, 2023	March 31, 2022
Net profit (loss) for the period	7,853	(1,897)
Weighted average number of common shares		
Basic	130,109	128,855
Diluted	159,341	128,855
Basic net profit (loss) per share	0.06	(0.01)
Diluted net profit (loss) per share	0.05	(0.01)

In calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2023, 2.2 million options were excluded from the diluted weighted average shares calculation (March 31, 2022 - all anti-dilutive instruments excluded) as they were anti-dilutive and 0.9 million deferred restricted share units ("DSUs") were excluded as they cannot be settled through the issuance of common shares from equity (March 31, 2022 – all anti-dilutive instruments excluded).

12. SHARE-BASED COMPENSATION

(a) Stock Options

The following table summarizes the stock options outstanding and exercisable under the plan:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2022	2,766,788	0.32
Exercised	—	0.12
Forfeited or expired	(328,769)	0.24
Balance, March 31, 2023	**2,438,019**	0.33
Exercisable at March 31, 2023	**806,829**	0.12

	Options Outstanding			Options Exercisable	
Year of Grant	**Number Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted Average Exercise Price**
2019	**210,274**	**$0.21**	**0.9**	**270,774**	**$0.21**
2020	**257,745**	**$0.05**	**1.9**	**202,721**	**$0.05**
2021	**400,000**	**$0.08**	**3.4**	**333,334**	**$0.08**
2022	**1,570,000**	**$0.29**	**3.2**	**—**	**$—**
Total	**2,438,019**	**$0.21**	**2.9**	**806,829**	**$0.12**

No new options were granted during the three months ended March 31, 2023.

(b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2022 and March 31, 2023	**965,134**

No new DSUs were granted during the three months ended March 31, 2023.

(c) Restricted Share Units

	RSUs
Balance – December 31, 2022	1,798,889
Settled	**(38,901)**
Forfeited or expired	**(858,988)**
Balance – March 31, 2023	**901,000**

No new RSUs were granted during the three months ended March 31, 2023.

(d) Share-based compensation expense

Three months ended *($000s)*	**March 31, 2023**	March 31, 2022
Shared based compensation expense:		
Included in G&A	**72**	18
Share-based compensation expense before capitalization	**72**	18
Capitalized during the period	**—**	(3)
Share-based compensation expense after capitalization	**72**	15

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

Changes in non-cash working capital and interest paid are summarized:

Three months ended ($000s)	March 31, 2023	March 31, 2022
Source (use) of cash:		
Accounts receivable	674	(3,088)
Prepaid expenses and other current assets	651	302
Accounts payable and accrued liabilities	(2,062)	4,911
Foreign exchange on translation	(1,299)	1
	(2,036)	2,126
Related to operating activities	(1,977)	(1,122)
Related to financing activities	313	300
Related to investing activities	(372)	2,948
	(2,036)	2,126
Other:		
Interest paid during the period	1,890	945

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Second Lien	Revolving Facility	Senior Notes
Balance as of December 31, 2022		66,603	59,747
Changes in cash flows	4,759	—	—
Deferred interest		—	1,586
Non-cash changes			
Unrealized foreign exchange gain		(21)	(55)
Amortization of debt issuance costs		34	9
Gain on extinguishment		—	(10,341)
Gain on change in fair value		—	(3,117)
Amortization of debt modification adjustments		169	(354)
Balance as of March 31, 2023	4,759	66,785	47,475

14. REVENUE

Three months ended ($000s)	March 31, 2023	March 31, 2022
Crude oil	11,572	19,005
Heavy oil	5,719	5,719
Natural gas	2,252	3,809
Natural gas liquids	562	839
Oil and natural gas revenue	20,105	29,372

Included in accounts receivable at March 31, 2023 was $6.9 million (December 31, 2022 – $7.8 million related to December 2022 production) of accrued oil and natural gas sales related to March 2023 production.

15. OPERATING EXPENSE

Three months ended ($000s)	March 31, 2023	March 31, 2022
Lease operating expense	**8,283**	7,000
Transportation and processing	**1,516**	1,590
Production and property taxes	**2,348**	1,485
Operating expense	**12,147**	10,075

16. GENERAL AND ADMINISTRATIVE COSTS

Three months ended ($000s)	March 31, 2023	March 31, 2022
Salaries and benefits	**1,103**	1,365
Share-based compensation	**71**	18
Office rents and leases	**92**	12
Professional fees	**1,191**	575
Other – office	**405**	291
	2,862	2,261
Amounts capitalized to PP&E, E&E assets and other	**(19)**	(282)
General and administrative expense	**2,843**	1,979

17. FINANCE COSTS

Three months ended ($000s)	March 31, 2023	March 31, 2022
Interest expense	**2,806**	1,261
Deferred interest expense[1]	**1,586**	535
Non-cash interest on debt modification and warrant liabilities	**833**	1,536
Amortization of financing costs	**34**	49
Non-cash interest on lease liabilities (Note 9)	**11**	64
Accretion – decommissioning liabilities (Note 10)	**812**	604
Accretion – other liabilities	**1**	3
Finance cost	**6,083**	4,052

[1] Deferred interest expense is interest expense which has been added to the principal balance of borrowings outstanding and will be repaid under the terms of principal repayments in accordance to the underlying borrowing agreements.

18. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Values of financial instruments

During the periods ended March 31, 2023 and 2022, there were no transfers among Levels 1, 2 and 3 of fair value hierarchy.

(b) Risk Management

(i) Credit Risk

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

Cash and Restricted Cash

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of March 31, 2023, restricted cash included $4.1 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2022 – $4.1 million).

Accounts Receivable

Credit risk is typically considered to be low for the Company's accounts receivables pertaining to oil and natural gas marketing sales and derivative receivables due to PPR's processes for selecting credit-worthy counterparties and continuously monitoring its credit exposure. The remaining credit exposures relate primarily to receivables from joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring expenses on behalf of joint venture partners. PPR has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

($000s)	**March 31, 2023**	December 31, 2022
Oil and natural gas marketing companies	**7,526**	7,733
Joint venture partners	**1,231**	1,367
Other	**1,607**	441
Total accounts receivable	**10,364**	9,541

The Company's accounts receivable are aged as follows:

($000s)	**March 31, 2023**	December 31, 2022
Current (less than 90 days)	**9,878**	9,147
Past due (more than 90 days)	**486**	394
Total	**10,364**	9,541

PPR's allowance for doubtful accounts was $0.02 million as at March 31, 2023 (December 31, 2022 – $0.02 million). When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount.

Derivatives

PPR executes its derivative contracts with credit-worthy counterparties with low credit risks. As of March 31, 2023, all of the derivative counterparties have entered inter-creditor agreements with the Company's lender to eliminate the need to post any collateral.

The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at March 31, 2023 and December 31, 2022. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2023 *($000s)*	**Gross Assets (Liabilities)**	**Amount Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments asset	**811**	**(723)**	**88**

December 31, 2022 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments liabilities	(3,340)	1,458	(1,882)
Long-term:			
Derivative instruments liabilities – long-term	(407)	267	(140)

(ii) Liquidity Risk & Capital Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity and equity issuance along with its planned capital expenditure program. As outlined in Note 7, at March 31, 2023, the Company had nil borrowing capacity under the Revolving Facility..

On March 29, 2023, the Company negotiated a comprehensive debt restructuring with its lenders as further described in Note 8 to the annual financial statements. The amended debt agreements provide for extensions of certain of the Company's debt facilities and conversion of its Senior Notes to equity should the Company complete a minimum $4.0 million equity raise by May 31, 2023 (subject to approval of the Toronto Stock Exchange). Failure to complete these steps in advance of May 31, 2023 would constitute an event of default under the revolving credit facility. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both the revolving facility and the unsecured notes. Should an event of default occur, the Company does not have sufficient cash available to repay debt amounts.

As result of the matters described above, along with recent operational results and a worsening commodity price outlook, there is a material uncertainty that the Company will be able to meet its obligations including interest payments, capital spending and abandonment and remediation expenses with its internally generated cash flows. Please refer to Note 2(b) for further discussion.

PPR’s objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its business plans. The Company considers its capital structure to include shareholders’ equity, borrowing under its credit facilities and working capital.

(iii) Commodity Price Risk

PPR enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company’s cash flows. The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

March 31, 2023	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	(723)	811	88
Total assets	(723)	811	88

December 31, 2022	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current liabilities	(7,815)	(803)	(8,618)
Derivative instruments – long-term liabilities	(364)	(322)	(686)
Total liabilities	(8,179)	(1,125)	(9,304)

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2023 and 2022:

Three Months Ended March 31, 2023	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(469)	(125)	(594)
Unrealized gain on derivative instruments	575	1,535	2,110
Total gain	106	1,410	1,516

Three Months Ended March 31, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(5,209)	(343)	(5,552)
Unrealized loss on derivative instruments	(7,001)	(3,117)	(10,118)
Total loss	(12,210)	(3,460)	(15,670)

The following table summarizes commodity derivative transactions as at March 31, 2023:

Remaining Term	**Reference**	**Total Daily Volume (bbl)**	**Premium/ bbl**	**Weighted Average Price/ bbl**
Crude Oil Put Spread Options (No Ceiling)				
April 01, 2023 - June 30, 2023	US$ WTI	1,050	3.75[1]	$40.00/50.00
July 01, 2023 - December 31, 2023	US$ WTI	600	4.20[1]	$55.00/65.00
Crude Oil Three-way Collars				
July 01, 2023 - December 31, 2023	US$ WTI	500		$55.00/65.00/105.00

[1] Deferred premiums, payable upon settlement of the derivative contracts.

Remaining Term	**Reference**	**Total Daily Volume (MMBtu)**	**Weighted Average Price/ MMBtu**
Natural Gas Three-way Collars			
July 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.65
July 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.90
Natural Gas Collars			
April 01, 2023 - June 30, 2023	US$ NYMEX	3,000	$2.00/3.80