PRAIRIE PROVIDENT RESOURCES

Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

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

Dated: August 25, 2023

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	June 30, 2023	December 31, 2022
ASSETS			
Cash		**2,559**	6,565
Restricted cash	18	**4,237**	4,137
Accounts receivable	18	**5,148**	9,541
Derivative instruments – current	18	**9**	-
Inventory		**857**	857
Prepaid expenses and other assets		**3,741**	4,493
Total current assets		**16,551**	25,593
Exploration and evaluation	4	**4,610**	3,832
Property and equipment	5	**164,279**	192,306
Right-of-use assets	6	**416**	780
Other assets		**619**	619
Total assets		**186,475**	223,130
LIABILITIES			
Accounts payable and accrued liabilities		**23,038**	36,661
Current portion of long-term debt	7	**71,097**	126,350
Lease liabilities – current portion	9	**63**	494
Derivative instruments – current	18	**-**	1,882
Current portion of decommissioning liability	10	**10,100**	5,500
Warrant liability	8	**-**	4,115
Total current liabilities		**104,298**	175,002
Lease liabilities – non-current portion	9	**143**	154
Derivative instruments	18	**-**	140
Decommissioning liabilities	10	**97,099**	108,719
Other liabilities		**8,663**	8,228
Total liabilities		**210,203**	292,243
SHAREHOLDERS' EQUITY			
Share capital	11	**147,167**	101,549
Warrant		**729**	-
Contributed surplus		**39,695**	39,084
Accumulated deficit		**(210,574)**	(209,629)
Accumulated other comprehensive income (loss) ("AOCI")		**(745)**	(117)
Total equity		**(23,728)**	(69,113)
Total liabilities and shareholders' equity		**186,475**	223,130

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

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

		Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	Note	2023	2022	2023	2022
REVENUE					
Oil and natural gas revenue	14	19,615	38,145	39,719	67,517
Royalties		(1,764)	(6,187)	(5,196)	(9,764)
Oil and natural gas revenue, net of royalties		17,851	31,958	34,523	57,753
Unrealized gain (loss) on derivative instruments	18	(80)	4,061	2,031	(6,057)
Realized gain (loss) on derivative instruments	18	285	(9,296)	(309)	(14,848)
		18,056	26,723	36,245	36,848
Other income		-	239	139	428
EXPENSES					
Operating	15	10,220	11,191	22,367	21,266
General and administrative	16	2,761	2,028	5,760	4,050
Depletion and depreciation	5	2,791	6,061	7,299	11,540
Exploration and evaluation	4	-	638	28	816
Depreciation on right-of-use assets	6	48	497	364	952
Gain on property dispositions		-	-	-	(20)
(Gain) loss on warrant liability	8	-	(1,372)	(2,058)	3,429
Impairment (reversal)	5	13,079	(2,671)	13,079	(17,671)
(Gain) loss on foreign exchange		(490)	2,453	(552)	1,363
Finance costs	17	4,718	4,251	10,800	8,303
Transaction and restructuring costs		653	(2)	653	1,257
Gain on extinguishment of financial liabilities	7	-	-	(10,369)	-
Gain on revaluation of financial liabilities	7	(6,925)	-	(10,042)	-
Total expenses – net		26,855	23,074	37,329	35,285
Net income (loss)		(8,799)	3,888	(945)	1,991
Other comprehensive (loss) income					
Items that may be reclassified to net income (loss):					
Foreign currency translation adjustment		(71)	(221)	(628)	(119)
Items that will not be reclassified to net income (loss):					
Actuarial gain on employee post-retirement benefit plan		-	69	-	69
Total other comprehensive (loss) income		(71)	(152)	(628)	(50)
Comprehensive (loss) income		(8,870)	3,736	(1,573)	1,941
Net income (loss) per share					
Basic	11	(0.02)	0.03	(0.00)	0.02
Diluted	11	(0.02)	0.02	(0.00)	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	Warrant	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity (Deficit)
Balance at December 31, 2022		101,549	-	39,084	(209,629)	(117)	(69,113)
Share issuance costs	11	**(902)**	**-**	**-**	**-**	**-**	**(902)**
Issued as repayment of subordinated notes	11	**41,152**	**-**	**-**	**-**	**-**	**41,152**
Issued as cashless exercise of all PCEP warrants	11	**2,058**		**-**	**-**	**-**	**2,058**
Issued as equity offering	11	**3,556**	**729**	**-**	**-**	**-**	**4,285**
Share cancellation	11	**(269)**	**-**	**269**	**-**	**-**	**-**
Share-based compensation	12	**-**	**-**	**379**	**-**	**-**	**379**
Settlement of share-based compensation, options and RSU, net of withholding tax	11	**23**	**-**	**(37)**	**-**	**-**	**(14)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**(628)**	**(628)**
Net loss		**-**	**-**	**-**	**(945)**	**-**	**(945)**
Balance at June 30, 2023		**147,167**	**729**	**39,695**	**(210,574)**	**(745)**	**(23,728)**

($000s)	Note	Share Capital Amount	Warrant	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity (Deficit)
Balance at December 31, 2021		101,421	-	38,772	(207,227)	474	(66,560)
Share issuance costs		(1)	-	-	-	-	(1)
Share-based compensation		-	-	112		-	112
Settlement of share-based compensation, net of withholding tax		(122)	-	(70)	-	-	52
Actuarial gain on post-retirement benefit plan		-	-	-	-	69	69
Exchange differences on translation of foreign operations		-	-	-	-	(119)	(119)
Net income		-	-	-	1,991	-	1,991
Balance at June 30, 2022		101,542	-	38,814	(205,236)	424	(64,456)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

($000s)	Note	Three Months Ended June 30, 2023	2022	Six Months Ended June, 30 2023	2022
OPERATING ACTIVITIES					
Net income (loss)		(8,799)	3,888	(945)	1,991
Adjustments for non-cash items:					
Impairment (reversal)	5	13,079	(2,671)	13,079	(17,671)
Unrealized (gain) loss on derivative instruments	18	80	(4,061)	(2,031)	6,057
Depletion and depreciation	5	2,791	6,061	7,299	11,540
Depreciation on right-of-use asset	6	48	497	364	952
Exploration and evaluation expense	4	-	638	28	816
Accretion and non-cash finance costs	17	1,348	1,907	3,040	4,162
Unrealized foreign exchange (gain) loss		(416)	2,403	(493)	1,310
Interest on other liabilities		160	83	291	126
Gain on sale of properties		-	-	-	(20)
(Gain) loss on warrant liability	8	-	1,372	(2,058)	3,429
Gain on extinguishment of financial liabilities	7	-	-	(11,769)	-
Gain on revaluation of financial liability	7	(7,327)	-	(10,444)	-
Share-based compensation	12	307	94	378	109
Non-cash other income		-	(239)	(139)	(428)
Settlements of decommissioning liabilities	10	(1,561)	(302)	(2,091)	(2,426)
Deferred interest on Senior Notes and Second Lien Note	7,17	748	963	2,334	1,498
Other, net		(16)	(106)	87	(71)
Change in non-cash working capital	13	(7,160)	(850)	(9,336)	(1,972)
Net cash from (used in) operating activities		(6,718)	6,933	(12,406)	9,402
FINANCING ACTIVITIES					
Issuance costs	11	(618)	(12)	(618)	(12)
Issuance of common shares	11	4,032	-	4,032	-
Settlement of share-based compensation, including withholding taxes and net of proceeds	11,12	-	55	-	52
Repayments of principal related to lease obligations	9	(52)	(584)	(459)	(1,227)
Change in borrowings	7, 13	-	2,008	4,927	4,428
Change in non-cash working capital	13	(402)	200	998	500
Net cash from financing activities		2,960	1,667	8,880	3,741
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	4	-	(27)	-	(155)
Property and equipment expenditures	5	-	(2,824)	(6)	(10,152)
Proceeds from dispositions (net of acquisitions)	5	74	-	252	20
Change in non-cash working capital	13	(109)	(5,118)	(626)	(2,170)
Net cash used in investing activities		(35)	(7,969)	(380)	(12,457)
Change in cash and restricted cash		(3,793)	631	(3,906)	686
Cash and restricted cash beginning of period		10,589	6,238	10,702	6,183
Cash and restricted cash end of period		6,796	6,869	6,796	6,869

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 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.

On May 15, 2023 former Noteholder, PCEP Canadian Holdco, LLC, a Delaware limited liability company that is indirectly managed by PGIM Private Capital, a unit of PGIM, Inc., acquired 514,408,902 Common Shares pursuant to the Subordinated Notes Settlement, and a further 26,516,207 Common Shares pursuant to the Warrant Exercise, for an aggregate holding of 540,925,109 Common Shares. This amount represents approximately 75.6% of the total Common Shares now outstanding on a non-diluted basis. The Former Noteholder does not hold any securities of the Company other than the Acquired Shares. As a result of this transaction a related party relationship now exists between the Company and PCEP Canadian Holdco, LLC., a member company of Prudential Capital Group. The nature of the relationship and the extent of the transactions between the Company and PCEP Canadian Holdco, LLC necessitates disclosure in accordance with IFRS 24 "Related Party Disclosures." Pursuant to this standard, the Company will provide detailed information about the transactions, outstanding balances, and nature of the relationships with PCEP Canadian Holdco, LLC in the notes to the financial statements. This disclosure ensures transparency and assists users of the financial statements in understanding the potential impact of related party transactions on the Company's financial position and performance.

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.

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

The Interim Financial Statements were approved and authorized for issue by the Board of Directors of PPR on August 25, 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.

The oil and natural gas commodity price environment have been volatile and depressed over the last few years. The Company, has to the best of its ability, managed through this uncertainty by maintaining an active risk management program and by managing a capital program with cash flow, debt, and equity capital. Despite this effort, past challenges with weakened commodity prices have limited the Company’s ability to pay down debt and effectively manage its working capital.

At June 30, 2023, the Company had $6.8 million in cash and restricted cash, negative working capital of $16.7 million, $4.8 million of second lien notes, and the amount outstanding on the Revolving Facility aggregated to USD$49 million (Note 7) with no remaining availability. The Revolving Facility’s next scheduled borrowing base re-determination is scheduled for Spring 2024 based on the December 31, 2023 reserves evaluation. The lenders have sole discretion on the determination of the borrowing base, which is based predominantly on the amount of the Company's proved developed producing oil and nature gas reserves.

At June 30, 2023, the Company was in breach of its Current Ratio and Leverage Ratio covenants with respect to its Revolving Facility and Second Lien Notes (See Note 7(d)), however the lenders provided waivers for Q2 2023 post June 30, 2023.

With both the Revolving Facility and Second Lien set to mature on July 1, 2024 the Company recognizes the significance of these upcoming maturities and is actively assessing strategies to effectively manage its debt obligations. Given the current commodity price environment and economic conditions there is no certainty the Company will be able to meet its cash flow requirements as they fall due. Also, there is no assurance that the lenders will maintain the borrowing base at current levels, which may result in a borrowing base shortfall. If the Company cannot repay a borrowing base shortfall, it would represent and event of default under both the Revolving Facility and Second Lien Notes. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both facilities.

Due to these factors, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might 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 consolidated 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)**
Adjustments due to change in estimates in decommissioning liabilities	**806**
Cost Balance – June 30, 2023	**62,349**
Provision for impairment – June 30, 2023 and December 31, 2022	**(57,739)**
Net book value – December 31, 2022	3,832
Net book value – June 30, 2023	**4,610**

During the three and six months ended June 30, 2023, PPR recognized a nominal amount (June 30, 2022 - $0.6 million and $0.8 million, respectively) of exploration and evaluation ("E&E") expense related to surrendered or expired leases in various areas. The Company did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets during the three and six months ended June 30, 2023 (June 30, 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 June 30, 2023. During the three and six months ended June 30, 2023, the Company recognized non-cash E&E impairment recovery of $nil (June 30, 2022 - $0.2 million) related to changes in estimates of decommissioning liabilities on exploration projects that had a nil carrying value.

5. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance - December 31, 2022	666,721	4,942	671,663
Additions	**-**	**6**	**6**
Adjustments due to change in estimates in decommissioning liabilities	**(7,098)**	**-**	**(7,098)**
Dispositions	**(557)**	**-**	**(557)**
Balance – June 30, 2023	**659,066**	**4,948**	**664,014**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2022	(474,842)	(4,515)	(479,357)
Depletion and depreciation	**(7,238)**	**(61)**	**(7,299)**
Impairment	**(13,079)**	**-**	**(13,079)**
Balance – June 30, 2023	**(495,159)**	**(4,576)**	**(499,735)**
Net book value - December 31, 2022	191,879	427	192,306
Net book value – June 30, 2023	**163,907**	**372**	**164,279**

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

During the three and six months ended June 30, 2023, a nominal amount (June 30, 2022 – $0.3 million and $0.6 million, respectively) of directly attributable general and administrative expenses, including a nominal amount (June 30, 2022 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment

At June 30, 2023, the Company assessed its production and development assets and found indicators of impairment on its Evi GCU. An impairment test was performed, and the GCU was written down by $14.5 million. The evaluation of the recoverable amount pertaining to the Evi CGU centered on the fair value less costs of disposal (FVLCD). This assessment constitutes a non-recurring instance of fair value measurement, categorized as level 3 within the fair value hierarchy. This classification arises from the fact that specific vital assumptions stem from the Company's best estimation rather than being grounded in observable market data. For additional details on the fair value hierarchy, please refer to Note 3(g) within the Annual Financial Statements.

During the three and six months ended June 30, 2023, the Company recognized non-cash impairment recovery of $1.4 million (June 30, 2022 - $2.5 million) related to changes in decommissioning liabilities of certain properties that had a zero carrying value.

6. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance – December 31, 2022 and June 30, 2023	**2,004**	**6,687**	**491**	**9,182**
Accumulated depreciation:				
Balance – December 31, 2022	(1,624)	(6,420)	(358)	(8,402)
Depreciation	**(74)**	**(267)**	**(23)**	**(364)**
Balance – June 30, 2023	**(1,698)**	**(6,687)**	**(381)**	**(8,766)**
Net book value – December 31, 2022	380	267	133	780
Net book value – June 30, 2023	**306**	**-**	**110**	**416**

7. LONG-TERM DEBT

($000s)	June 30, 2023	December 31, 2022
Revolving Facility		
USD Advances (US$19.0 million (December 31, 2022 – US$ 19.0 million))[1]	**25,156**	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]	**543**	541
Total principal and deferred – Revolving Facility	**66,229**	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))	-	28,912
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))	-	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))	-	19,604
Unamortized amounts – Senior Notes	-	(10,401)
Total Senior Notes	-	59,544
Second Lien Notes	**4,868**	-
Total debt	**71,097**	126,350
Current portion	-	126,350
Long-term portion	-	-

[1] Converted using the month end exchange rate of $1.00 USD to $1.32 CAD as at June 30, 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 was 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 Company completed this equity offering on May 16, 2023. 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 June 30, 2023, PPR had outstanding letters of credit of $4.3 million (December 31, 2022 – $4.2 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 29, 2023. As a result of 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. A subsequent revaluation of the Senior Notes was performed on May 16, 2023, immediately prior to extinguishment and a gain of $6.9 million was recognized on the revaluation. The gain is net of $0.4 million of financing costs. Concurrent with the extinguishment on May 16, 2023, 514.4 million common shares of the Company were issued at an agreed repayment price equal to $0.14 per common share.

(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 Second Lien 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.

The Company was in breach of the Current Ratio and Leverage Ratio covenants on June 30, 2023 and subsequently received a waiver from the lenders under both the Revolving Facility and the Second Lien Notes to waive the application of these covenants for June 30, 2023. The covenant related to the Asset Coverage Ratio exceeded the threshold amount at the end of the quarter, calculated at 1.92 to 1.00 compared to the threshold of 0.75 to 1.00 and 0.65 to 1.00 for the Revolving Facility and the Second Lien Notes respectively and was therefore in good standing.

The covenant breach created a right for the lenders under each facility to accelerate the maturity of their indebtedness. None of the Company's lenders have delivered a notice of an event of default required to accelerate the maturity of their facilities, and the contractual maturity of all facilities has not changed as a result of these defaults. However, as a result of the lenders' right to accelerate the maturity, under IFRS requirements, the Revolving Notes and Second Lien Notes have been classified as current as at June 30, 2023. As of August 25, 2023, these defaults have been waived, and the lenders no longer have the right to accelerate the maturities of the facilities.

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 0.90 to 1.00
Current Ratio	Cannot be less than 0.75 and 1.00 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)
Settled	34,292	(2,057)
PPR Warrant Liability, June 30, 2023	-	-

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 (loss) income and comprehensive (loss) income. The fair value of these warrants is determined using the Black-Scholes option valuation model. These warrants are exercisable at any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position.

As part of the Recapitalization and concurrently with the Subordinated Notes Settlement in Note 7, all the outstanding warrants of the Company were exercised on a cashless basis by the Former Noteholder and 26.5 million Common Shares were issued. The warrants were revalued immediately prior to the settlement on May 16, 2023.

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2022	649
Finance expense	16
Lease payments	(459)
Ending balance – June 30, 2023	206
Less: current portion	63
Ending balance – Non-current portion	143

The following table details the undiscounted cash flows of PPR's lease obligations, as at June 30, 2023:

($000s)	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	63	153	12	48	276	206

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2022	114,219
Government grants	**(280)**
Settlements	**(2,091)**
Change in estimates	**(6,292)**
Accretion of decommissioning liabilities	**1,643**
Total Balance – June 30, 2023	**107,199**
Current portion	**10,100**
Long-term portion	**97,099**

The Company estimated the undiscounted and inflated total future liabilities to be approximately $255.2 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 $23.7 million is estimated to be incurred over the next five years.

Decommissioning liabilities at June 30, 2023 were determined using risk-free rates of 3.06% - 3.64% (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 and Warrants Outstanding

	Number of Shares *(000s)*	**Amount** *($000s)*
Common shares:		
PPR Shares, December 31, 2022	130,097	101,549
Share issuance costs	**-**	**(902)**
Issued for Options and restricted share unit ("RSU") settlements	**201**	**37**
Withholding taxes on RSU settlements	**-**	**(14)**
Issued as repayment of subordinated notes	**514,409**	**41,152**
Issued as cashless exercise of all PCEP warrants	**26,516**	**2,058**
Issued as equity offering	**44,444**	**3,556**
Cancellation of shares whose entitlement expired	**(403)**	**(269)**
PPR Shares, June 30, 2023	**715,264**	**147,167**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
Warrants, December 31, 2022	-	-
Issued as equity offering	44,444	444
Issued for services	3,556	285
PPR Warrants, June 30, 2023	48,000	729

As part of the $4M equity financing with respect to the Recapitalization transaction, 44.4 million warrants were issued to investors and deal brokers.

(c) Income (loss) per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s)	2023	2022	2023	2022
Net income (loss) for the period	(8,799)	3,888	(945)	1,991
Weighted average number of common shares				
Basic	419,597	129,015	275,653	129,940
Diluted	419,597	164,439	275,653	163,631
Basic net income (loss) per share	($0.02)	$0.03	($0.00)	$0.02
Diluted net income (loss) per share	($0.02)	$0.02	($0.00)	$0.01

In calculating the weighted-average number of diluted common shares outstanding for the three and six months ended June 30, 2023, all share-based instruments were excluded from the diluted weighted average shares calculation (June 30, 2022 – 1.2 million) 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 (June 30, 2022 – 1.1 million).

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	0.21
Granted	600,000	0.09
Exercised	(21,696)	0.05
Forfeited or expired	(335,436)	0.10
Balance, June 30, 2023	3,009,656	0.20
Exercisable at June 30, 2023	832,991	0.17

	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	**193,274**	**$0.21**	**0.6**	**193,274**	**$0.21**
2020	**214,973**	**$0.05**	**1.6**	**214,973**	**$0.05**
2021	**400,000**	**$0.09**	**3.2**	**133,334**	**$0.09**
2022	**1,560,000**	**$0.29**	**4.0**	**250,001**	**$0.28**
2023	**600,000**	**$0.09**	**4.8**	**-**	**$-**
Total	**2,968,247**	**$0.20**	**3.6**	**971,582**	**$0.14**

On April 18, 2023, 600,000 options were granted to Management and Directors of the Company.

(b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2022 and June 30, 2023	**965,134**

No new DSUs were granted during the six months ended June 30, 2023.

(c) Restricted Share Units

	RSUs
Balance – December 31, 2022	1,798,889
Granted	**600,000**
Settled	**(355,234)**
Forfeited or expired	**(869,988)**
Balance – June 30, 2023	**1,173,667**

On April 18, 2023, 600,000 RSUs were granted to Management and Directors of the Company.

(d) Share-based compensation expense

Three months ended	Three Months Ended, June 30,		Six Months Ended June 30,	
($000s)	**2023**	2022	**2023**	2022
Shared based compensation expense:				
Included in G&A	**307**	94	**378**	112
Share-based compensation expense before capitalization	**307**	94	**378**	112
Capitalized during the period	**-**	-	**-**	(3)
Share-based compensation expense after capitalization	**307**	94	**378**	109

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

($000s)	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
Source (use) of cash:				
Accounts receivable	3,719	(1,453)	4,394	(4,541)
Prepaid expenses and other current assets	101	(857)	752	(555)
Accounts payable and accrued liabilities	(11,562)	(3,452)	(13,624)	1,459
Foreign exchange on translation	71	(6)	(486)	(5)
	(7,671)	(5,768)	(8,964)	(3,642)
Related to operating activities	(7,160)	(850)	(9,336)	(1,972)
Related to financing activities	(402)	200	998	500
Related to investing activities	(109)	(5,118)	(626)	(2,170)
	(7,671)	(5,768)	(8,964)	(3,642)
Other:				
Interest paid during the period	2,446	1,241	4,336	2,186

(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	4,927	-	-
Deferred interest	208	-	2,126
Non-cash changes			
Unamortized value allocated to fair value adjustment	(168)	-	-
Unrealized foreign exchange gain	(111)	(577)	92
Amortization of debt issuance costs	-	34	-
Gain on extinguishment	-	-	(10,369)
Gain on change in fair value	-	-	(10,042)
Transaction and restructuring	-	-	(402)
Debt-to-equity conversion	-	-	(41,152)
Amortization of debt modification adjustments	12	169	-
Balance as of June 30, 2023	4,868	66,229	-

14. REVENUE

($000s)	Three Months Ended June 30, 2023	2022	Six Months Ended June 30, 2023	2022
Oil & condensate	17,602	30,709	34,890	55,433
Natural gas	1,527	6,417	3,778	10,226
Natural gas liquids	486	1,019	1,051	1,858
Oil and natural gas revenue	19,615	38,145	39,719	67,517

Included in accounts receivable at June 30, 2023 was $3.5 million (December 31, 2022 – $7.8 million related to December 2022 production) of accrued oil and natural gas sales related to June 2023 production.

15. OPERATING EXPENSE

($000s)	Three Months Ended June 30, 2023	2022	Six Months Ended June 30, 2023	2022
Lease operating expense	8,089	8,001	16,371	15,001
Transportation and processing	1,112	1,814	2,629	3,404
Production and property taxes	1,019	1,376	3,367	2,861
Operating expense	10,220	11,191	22,367	21,266

16. GENERAL AND ADMINISTRATIVE COSTS

($000s)	Three Months Ended June 30, 2023	2022	Six Months Ended June 30, 2023	2022
Salaries and benefits	568	1,232	1,668	2,597
Share-based compensation	307	94	378	112
Office rents and leases	71	34	163	46
Professional fees	1,710	554	2,874	1,129
Interest on other liabilities	147	83	291	126
Other – office	5	319	452	610
	2,808	2,316	5,826	4,620
Amounts capitalized to PP&E, E&E assets and other	(47)	(288)	(66)	(570)
General and administrative expense	2,761	2,028	5,760	4,050

17. FINANCE COSTS

($000s)	Three Months Ended June 30, 2023	2022	Six Months Ended June 30, 2023	2022
Interest expense	2,620	1,382	5,426	2,643
Deferred interest expense[1]	748	963	2,334	1,498
Non-cash interest on debt modification and warrant liabilities	512	1,202	1,345	2,738
Amortization of financing costs	-	50	34	99
Non-cash interest on lease liabilities (Note 9)	6	51	16	115
Accretion – decommissioning liabilities (Note 10)	832	601	1,643	1,205
Accretion – other liabilities	-	2	2	5
Finance cost	4,718	4,251	10,800	8,303

[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 June 30, 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 June 30, 2023, restricted cash included $4.2 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)	June 30, 2023	December 31, 2022
Oil and natural gas marketing companies	3,512	7,733
Joint venture partners	1,156	1,367
Other	480	441
Total accounts receivable	5,148	9,541

The Company's accounts receivable are aged as follows:

($000s)	June 30, 2023	December 31, 2022
Current (less than 90 days)	4,549	9,147
Past due (more than 90 days)	599	394
Total	5,148	9,541

PPR's allowance for doubtful accounts was $0.02 million as at June 30, 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 June 30, 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 June 30, 2023 and December 31, 2022. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

June 30, 2023 *($000s)*	Gross Assets	Amount Offset Gross Liabilities	Net Amount Presented
Current:			
Derivative instruments asset	415	(406)	9

December 31, 2022 *($000s)*	Gross (Liabilities)	Amount Offset Gross Assets	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

19. Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. As outlined in Note 7, at June 30, 2023, the Company had nil borrowing capacity under the Revolving Facility. This, and the information provided in 2(a) Going Concern, emphasizes the Company's need to actively address its liquidity risk. The Company took steps during the quarter to address its liquidity risk through the issuance of equity and the conversion of debt to equity and will continue to explore opportunities to further this risk.

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.

(i) 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:

June 30, 2023	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current asset/(liability)	**(406)**	**415**	**9**
Total assets	**(406)**	**415**	**9**

December 31, 2022	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current liabilities	(1,158)	(724)	(1,882)
Derivative instruments – long-term liabilities	(140)	—	(140)
Total liabilities	(1,298)	(724)	(2,022)

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three and six months ended June 30, 2023 and 2022:

Three Months Ended June 30, 2023	Crude Oil	Natural Gas	Total
($000s)			
Realized gain/(loss) on derivative instruments	(17)	302	285
Unrealized gain/(loss) on derivative instruments	317	(397)	(80)
Total gain/(loss)	300	(95)	205

Three Months Ended June 30, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(7,680)	(1,616)	(9,296)
Unrealized gain on derivative instruments	3,302	759	4,061
Total loss	(4,378)	(857)	(5,235)

Six Months Ended June 30, 2023	Crude Oil	Natural Gas	Total
($000s)			
Realized gain/(loss) on derivative instruments	(486)	177	(309)
Unrealized gain on derivative instruments	892	1,139	2,031
Total gain	406	1,316	1,722

Six Months Ended June 30, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(12,889)	(1,959)	(14,848)
Unrealized loss on derivative instruments	(3,699)	(2,358)	(6,057)
Total loss	(16,588)	(4,317)	(20,905)

The following table summarizes commodity derivative transactions as at June 30, 2023:

Remaining Term	**Reference**	**Total Daily Volume (bbl)**	**Premium/ bbl**	**Weighted Average Price/ bbl**
Crude Oil Put Spread Options (No Ceiling)				
July 01, 2023 - December 31, 2023	US$ WTI	620	4.20(1)	$55.00/65.00
January 01, 2024 - March 31, 2024	US$ WTI	1030	3.95(1)	$50.00/60.00
Crude Oil Three-way Collars				
July 01, 2023 - December 31, 2023	US$ 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 & GJ)**	**Weighted Average Price/ MMBtu & GJ**
Natural Gas Three-way Collars			
August 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.65/4.90
Natural Gas Collars			
July 01, 2023 – October 31, 2023	CAD$ AECO 5a	2,500	$3.65