Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three and Nine Months Ended September 30, 2023

Dated: November 8, 2023

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2023	December 31, 2022
ASSETS			
Cash		**2,594**	6,565
Restricted cash	18	**4,237**	4,137
Accounts receivable	18	**8,512**	9,541
Prepaid expenses and other assets		**3,266**	5,350
Total current assets		**18,609**	25,593
Exploration and evaluation	4	**4,582**	3,832
Property and equipment	5	**156,206**	192,306
Right-of-use assets	6	**368**	780
Other assets		**619**	619
Total assets		**180,384**	223,130
LIABILITIES			
Accounts payable and accrued liabilities		**25,727**	36,661
Current portion of long-term debt	7	**66,761**	126,350
Lease liabilities – current portion	9	**46**	494
Derivative instruments – current	18	**542**	1,882
Current portion of decommissioning liability	10	**6,942**	5,500
Warrant liability	8	**-**	4,115
Total current liabilities		**100,018**	175,002
Lease liabilities – non-current portion	9	**140**	154
Long-term debt	7	**5,205**	-
Derivative instruments	18	**-**	140
Decommissioning liabilities	10	**92,593**	108,719
Other liabilities		**8,971**	8,228
Total liabilities		**206,927**	292,243
SHAREHOLDERS' EQUITY			
Share capital	11	**147,355**	101,549
Warrant		**729**	-
Contributed surplus		**39,470**	39,084
Accumulated deficit		**(213,264)**	(209,629)
Accumulated other comprehensive income (loss) ("AOCI")		**(833)**	(117)
Total equity		**(26,543)**	(69,113)
Total liabilities and shareholders' equity		**180,384**	223,130

Going concern (note 2b)
Subsequent events (note 19)
See accompanying notes to the condensed interim consolidated financial statements.

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

($000s)	Note	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
REVENUE					
Oil and natural gas revenue	14	21,701	28,439	61,420	95,956
Royalties		(3,217)	(5,333)	(8,413)	(15,097)
Oil and natural gas revenue, net of royalties		18,484	23,106	53,007	80,859
Unrealized gain (loss) on derivative instruments	18	(551)	8,200	1,480	2,143
Realized loss on derivative instruments	18	(320)	(6,355)	(629)	(21,203)
		17,613	24,951	53,858	61,799
Other income		-	1,471	139	1,899
EXPENSES					
Operating	15	9,037	11,819	31,404	33,085
General and administrative	16	1,700	1,581	7,460	5,631
Depletion and depreciation	5	6,208	5,512	13,507	17,052
Exploration and evaluation	4	-	122	28	938
Depreciation on right-of-use assets	6	48	450	412	1,402
Gain on property dispositions		-	(3)	-	(23)
(Gain) loss on warrant liability	8	188	(1,371)	(1,870)	2,058
Impairment (reversal)	5	(1,232)	-	11,847	(17,671)
Loss on foreign exchange		735	5,135	183	6,498
Finance costs	17	3,568	4,678	14,368	12,981
Transaction and restructuring costs		51	-	704	1,257
Gain on extinguishment of financial liabilities	7	-	-	(10,369)	-
Gain on revaluation of financial liabilities	7	-	-	(10,042)	-
Total expenses – net		20,303	27,923	57,632	63,208
Profit (loss) before taxes		(2,690)	(1,501)	(3,635)	490
Current tax expense		-	2	-	2
Net income (loss)		(2,690)	(1,503)	(3,635)	488
Other comprehensive (loss) income					
Items that may be reclassified to net income (loss):					
Foreign currency translation adjustment		(88)	(469)	(716)	(588)
Items that will not be reclassified to net income (loss):					
Actuarial gain on employee post-retirement benefit plan		-	-	-	69
Total other comprehensive (loss) income		(88)	(469)	(716)	(519)
Comprehensive (loss) income		(2,778)	(1,972)	(4,351)	(31)
Net income (loss) per share					
Basic	11	-	(0.01)	(0.01)	-
Diluted	11	-	(0.01)	(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	**2,246**		**-**	**-**	**-**	**2,246**
Issued as equity offering	11	**3,556**	**729**	**-**	**-**	**-**	**4,285**
Share cancellation	11	**(269)**	**-**	**269**	**-**	**-**	**-**
Share-based compensation	12	**-**	**-**	**152**	**-**	**-**	**152**
Settlement of share-based compensation, options and RSU, net of withholding tax	11	**23**	**-**	**(35)**	**-**	**-**	**(12)**
Exchange differences on translation of foreign operations		**-**	**-**	**-**	**-**	**(716)**	**(716)**
Net loss		**-**	**-**	**-**	**(3,635)**	**-**	**(3,635)**
Balance at September 30, 2023		**147,355**	**729**	**39,470**	**(213,264)**	**(833)**	**(26,543)**

($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		(2)	-	-	-	-	(2)
Share-based compensation		-	-	204		-	204
Settlement of share-based compensation, net of withholding tax		152	-	(207)	-	-	(55)
Purchase of common shares for deferred share units (“DSUs”) settlement		(22)					(22)
Actuarial gain on post-retirement benefit plan		-	-	-	-	69	69
Exchange differences on translation of foreign operations		-	-	-	-	(588)	(588)
Net income		-	-	-	488	-	488
Balance at September 30, 2022		101,549	-	38,769	(206,739)	(45)	(66,466)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September, 30	
($000s)	Note	**2023**	2022	**2023**	2022
OPERATING ACTIVITIES					
Net income (loss)		**(2,690)**	(1,503)	**(3,635)**	488
Adjustments for non-cash items:					
Impairment (reversal)	5	**(1,232)**	-	**11,847**	(17,671)
Unrealized (gain) loss on derivative instruments	18	**551**	(8,200)	**(1,480)**	(2,143)
Depletion and depreciation	5	**6,208**	5,512	**13,507**	17,052
Depreciation on right-of-use asset	6	**48**	450	**412**	1,402
Exploration and evaluation expense	4	**-**	122	**28**	938
Accretion and non-cash finance costs	17	**856**	1,905	**3,896**	6,067
Unrealized foreign exchange loss		**643**	4,979	**150**	6,289
Interest on other liabilities		**152**	85	**443**	211
Gain on sale of properties		**-**	(3)	**-**	(23)
(Gain) loss on warrant liability	8	**188**	(1,371)	**(1,870)**	2,058
Gain on extinguishment of financial liabilities	7	**-**	-	**(11,769)**	-
Gain on revaluation of financial liability	7	**-**	-	**(10,444)**	-
Share-based compensation	12	**(226)**	92	**152**	201
Non-cash other income		**-**	(1,471)	**(139)**	(1,899)
Settlements of decommissioning liabilities	10	**(4,521)**	(2,023)	**(6,612)**	(4,449)
Deferred interest on Senior Notes and Second Lien Note	7, 17	**207**	1,213	**2,541**	2,711
Other, net		**(151)**	261	**(65)**	190
Change in non-cash working capital	13	**(288)**	7,258	**(10,428)**	5,286
Net cash from (used in) operating activities		**(255)**	7,306	**(13,466)**	16,708
FINANCING ACTIVITIES					
Issuance costs	11	**-**	(1)	**(618)**	(13)
Issuance of common shares	11	**-**	-	**4,032**	-
Settlement of share-based compensation, including withholding taxes and net of proceeds	11, 12	**-**	(128)	**-**	(76)
Repayments of principal related to lease obligations	9	**(21)**	(586)	**(480)**	(1,813)
Change in borrowings	7, 13	**-**	(1,904)	**4,927**	2,524
Change in non-cash working capital	13	**-**	-	**1,802**	500
Net cash from (used in) financing activities		**(21)**	(2,619)	**9,663**	1,122
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	4	**-**	(61)	**-**	(216)
Property and equipment expenditures	5	**-**	(7,648)	**(6)**	(17,800)
Proceeds from dispositions (net of acquisitions)	5	**312**	3	**564**	23
Change in non-cash working capital	13	**-**	2,798	**(626)**	628
Net cash from (used in) investing activities		**312**	(4,908)	**(68)**	(17,365)
Change in cash and restricted cash		**36**	(221)	**(3,871)**	465
Cash and restricted cash beginning of period		**6,795**	6,869	**10,702**	6,183
Cash and restricted cash end of period		**6,831**	6,648	**6,831**	6,648

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 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, 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. The nature of the relationship and the extent of the transactions between the Company and PCEP Canadian Holdco, LLC necessitates disclosure in accordance with IAS 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 November 8, 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 September 30, 2023, the Company had $5.2 million of second lien notes, and the amount outstanding on the Revolving Facility aggregated to USD$49.4 million (Note 7) outstanding on its balance sheet. The Revolving Facility is fully drawn down and the 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.

The Company remains in a challenging position with respect to its ability to meet its decommissioning liabilities, long-term debt obligations, and debt related financial covenants. With the Revolving Facility set to mature on July 1, 2024, and the Second Lien set to mature on December 31, 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 an 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
Adjustments due to change in estimates in decommissioning liabilities	**778**
Cost Balance – September 30, 2023	**62,349**
Provision for impairment – December 31, 2022	(57,739)
E&E expense	**(28)**
	(57,767)
Net book value – December 31, 2022	3,832
Net book value – September 30, 2023	**4,582**

During the three and nine months ended September 30, 2023, PPR recognized $nil and a nominal amount, respectively, (September 30, 2022 - $0.1 million and $0.9 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 nine months ended September 30, 2023 (September 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 September 30, 2023. During the three and nine months ended September 30, 2023, the Company recognized non-cash E&E impairment recovery of $nil (September 30, 2022 - $nil and $0.2 million respectively) 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	(11,045)	-	(11,045)
Dispositions	(564)	-	(564)
Balance – September 30, 2023	655,113	4,948	660,061
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2022	(474,842)	(4,515)	(479,357)
Depletion and depreciation	(12,570)	(80)	(12,650)
Impairment	(11,847)	-	(11,847)
Balance – September 30, 2023	(499,259)	(4,595)	(503,854)
Net book value - December 31, 2022	191,879	427	192,306
Net book value – September 30, 2023	155,853	353	156,206

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

During the three and nine months ended September 30, 2023, $0.1 million (September 30, 2022 – $0.3 million and $0.9 million, respectively) of directly attributable general and administrative expenses, including a nominal amount of share-based compensation expenses (September 30, 2022 – a nominal amount), were capitalized to property and equipment.

(b) Impairment

At September 30, 2023, there were no indicators of impairment (or impairment reversal) for any of the Company's CGUs.

During the three and nine months ended September 30, 2023, the Company recognized non-cash impairment recovery of $1.2 million and $2.6 million, respectively (September 30, 2022 - $nil and $2.5 million, respectively) related to changes in decommissioning liabilities of certain properties that had a zero carrying value.

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.

Subsequent to September 30, 2023, the Company announced the sale of its Evi assets as well as certain non-core Provost assets (Note 19).

6. RIGHT-OF-USE ASSETS

($000s)	Office Leases	Facility Lease	Other Leases	Total
Cost:				
Balance – December 31, 2022 and September 30, 2023	**2,004**	**6,687**	**491**	**9,182**
Accumulated depreciation:				
Balance – December 31, 2022	(1,624)	(6,420)	(358)	(8,402)
Depreciation	**(111)**	**(267)**	**(34)**	**(412)**
Balance – September 30, 2023	**(1,735)**	**(6,687)**	**(392)**	**(8,814)**
Net book value – December 31, 2022	380	267	133	780
Net book value – September 30, 2023	**269**	**-**	**99**	**368**

7. LONG-TERM DEBT

($000s)	**September 30, 2023**	December 31, 2022
Revolving Facility		
USD Advances (US$19.0 million (December 31, 2022 – US$ 19.0 million))[1]	**25,688**	25,735
CAD Advances (US$30.0 million (December 31, 2022 – US$30.0 million))[2]	**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	**66,761**	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	**5,205**	-
Total debt	**71,966**	126,350
Current portion	**66,761**	126,350
Long-term portion	**5,205**	-

[1] Converted using the month end exchange rate of $1.00 USD to $1.35 CAD as at September 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 September 30, 2023, PPR had outstanding letters of credit of $4.2 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 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's amended certain debt covenants during the third quarter of 2023 with the removal of the current ratio covenant and updating the senior leverage ratio covenant. The amended debt covenants for the revolving credit facility and the second lien notes, respectively, are below:

- Senior leverage ratio for the revolving credit facility and second lien notes, respectively, cannot exceed:
  - 5.00 to 1.00 and 5.25 to 1.00, respectively for the fiscal quarter ending September 30, 2023,
  - 3.50 to 1.00 and 3.75 to 1.00, respectively, for the fiscal quarter ending December 31, 2023,
  - 3.00 to 1.00 and 3.25 to 1.00, respectively, for the fiscal quarters thereafter.

The Company is in compliance with all financial covenants at September 30, 2023. The covenants are listed in the table below:

Financial Covenant	Revolving Facility Requirement	Second Lien Note Requirement	As at September 30, 2023
Senior Leverage	Cannot exceed 5.00 to 1.00	Cannot exceed 5.25 to 1.00	4.63 to 1.00
Asset Coverage	Cannot be less than 0.75 to 1.00	Cannot be less than 0.65 to 1.00	1.43 to 1.00

[1] Under the debt agreements, the Senior Leverage ratio is the ratio of Senior Adjusted Indebtedness to EBITDAX for the four quarters most recently ended. Senior adjusted indebtedness is defined as Adjusted Indebtedness less subordinated borrowings. Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral. Bank Adjusted EBITDAX corresponds to defined terms in the Company's debt agreements and means net earnings (loss) before financing charges, foreign exchange gain (loss), E&E expense, income taxes, depreciation, depletion, amortization, other non- cash items of expense and non-recurring items, adjusted for major acquisitions and material dispositions assuming that such transactions had occurred on the first day of the applicable calculation period.

[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.

8. WARRANT LIABILITY

	Warrant Expiring December 21, 2028	
	Number of Warrants *(000s)*	Amount *($000s)*
PPR Warrant Liability, December 31, 2022	34,292	4,115
Fair value adjustment	-	(1,870)
Settled	34,292	(2,245)
PPR Warrant Liability, September 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 Subordinated Notes Settlement which occurred in the second quarter of 2023, 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, resulting in a loss on warrant liability of $0.2 million. Refer to Note 7 for further details on the Recapitalization and Subordinated Notes Settlement.

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2022	648
Finance expense	**18**
Lease payments	**(480)**
Ending balance – September 30, 2023	**186**
Less: current portion	**46**
Ending balance – Non-current portion	**140**

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

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	**55**	**141**	**12**	**46**	**254**	**186**

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2022	114,219
Government grants	**(280)**
Settlements	**(6,612)**
Change in estimates	**(10,267)**
Accretion of decommissioning liabilities	**2,475**
Total Balance – September 30, 2023	**99,535**
Current portion	**6,942**
Long-term portion	**92,593**

The Company estimated the undiscounted and inflated total future liabilities to be approximately $248.3 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 $21.1 million is estimated to be incurred over the next five years.

Decommissioning liabilities at September 30, 2023 were determined using risk-free rates of 3.23% - 3.91% (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	2,246
Issued as equity offering	44,444	3,556
Cancellation of shares whose entitlement expired	(403)	(269)
PPR Shares, September 30, 2023	715,264	147,355

	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, September 30, 2023	48,000	729

As part of the $4.0 million 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 September 30,		Nine Months Ended September 30,	
(000s)	2023	2022	2023	2022
Net income (loss) for the period	(2,690)	(1,503)	(3,635)	488
Weighted average number of common shares				
Basic	715,264	129,994	423,800	129,925
Diluted	715,264	129,994	423,800	163,912
Basic net income (loss) per share	($0.00)	($0.01)	($0.01)	$0.00
Diluted net income (loss) per share	($0.00)	($0.01)	($0.01)	$0.00

In calculating the weighted-average number of diluted common shares outstanding for the three and nine months ended September 30, 2023, all share-based instruments were excluded from the diluted weighted average shares calculation (all share-based instruments were excluded in the three months ended September 30, 2022, and 2.6 million options and 1.0 million deferred share units ("DSUs") were excluded in the nine months ended September 30, 2022).

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	(430,179)	0.10
Balance, September 30, 2023	2,914,913	0.20
Exercisable at September 30, 2023	924,916	0.16

	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	0.3	193,274	$0.21
2020	214,973	$0.05	1.3	214,973	$0.05
2021	400,000	$0.09	2.9	400,000	$0.09
2022	1,566,666	$0.29	3.8	250,001	$0.28
2023	600,000	$0.09	4.6	-	$-
Total	2,914,913	$0.20	3.4	924,916	$0.16

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 September 30, 2023	965,134

No new DSUs were granted during the nine months ended September 30, 2023.

(c) Restricted Share Units

	RSUs
Balance – December 31, 2022	1,798,889
Granted	600,000
Settled	(355,234)
Forfeited or expired	(941,988)
Balance – September 30, 2023	1,101,667

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

(d) Share-based compensation expense

($000s)	Three Months Ended, September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
Shared based compensation expense:				
Included in G&A	(226)	92	152	204
Share-based compensation expense before capitalization	(226)	92	152	204
Capitalized during the period	-	-	-	(3)
Share-based compensation expense after capitalization	(226)	92	152	201

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

($000s)	Three Months Ended September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
Source (use) of cash:				
Accounts receivable	(3,365)	3,702	1,029	(839)
Prepaid expenses and other current assets	475	202	1,227	(353)
Accounts payable and accrued liabilities	2,690	6,162	(10,934)	7,621
Foreign exchange on translation	(88)	(10)	(574)	(15)
	(288)	10,056	(9,252)	6,414
Related to operating activities	(288)	7,258	(10,428)	5,286
Related to financing activities	-	-	1,802	500
Related to investing activities	-	2,798	(626)	628
	(288)	10,056	(9,252)	6,414
Other:				
Interest paid during the period	2,464	1,477	6,800	3,663

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	409	-	2,126
Non-cash changes			
Unamortized value allocated to fair value adjustment	(168)	-	-
Unrealized foreign exchange gain	-	(45)	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	37	169	-
Balance as of September 30, 2023	5,205	66,761	-

14. REVENUE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2023	2022	2023	2022
Oil & condensate	19,420	24,097	54,310	79,530
Natural gas	1,839	3,481	5,617	13,707
Natural gas liquids	442	861	1,493	2,719
Oil and natural gas revenue	21,701	28,439	61,420	95,956

Included in accounts receivable at September 30, 2023 was $7.3 million (December 31, 2022 – $7.8 million related to December 2022 production) of accrued oil and natural gas sales related to September 2023 production.

15. OPERATING EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2023	2022	2023	2022
Lease operating expense	6,530	8,679	24,172	23,680
Transportation and processing	1,318	1,888	3,947	5,292
Production and property taxes	1,189	1,252	3,285	4,113
Operating expense	9,037	11,819	31,404	33,085

16. GENERAL AND ADMINISTRATIVE COSTS

($000s)	Three Months Ended September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
Salaries and benefits	**772**	442	**2,440**	3,039
Share-based compensation	**(226)**	92	**152**	204
Office rents and leases	**115**	52	**278**	98
Professional fees	**594**	1,047	**3,468**	2,176
Interest on other liabilities	**152**	85	**443**	211
Other – office	**351**	159	**803**	769
	1,758	1,877	**7,584**	6,497
Amounts capitalized to PP&E, E&E assets and other	**(58)**	(296)	**(124)**	(866)
General and administrative expense	**1,700**	1,581	**7,460**	5,631

17. FINANCE COSTS

($000s)	Three Months Ended September 30, 2023	2022	Nine Months Ended September 30, 2023	2022
Interest expense	**2,505**	1,560	**7,931**	4,203
Deferred interest expense [1]	**207**	1,213	**2,541**	2,711
Non-cash interest on debt modification and warrant liabilities	**20**	1,098	**1,365**	3,836
Amortization of financing costs	**-**	50	**34**	149
Non-cash interest on lease liabilities (Note 9)	**2**	31	**18**	146
Accretion – decommissioning liabilities (Note 10)	**832**	724	**2,475**	1,929
Accretion – other liabilities	**2**	2	**4**	7
Finance cost	**3,568**	4,678	**14,368**	12,981

[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 three and nine month periods ended September 30, 2023 and 2022, there were no transfers of financial instruments between Levels 1, 2 and 3 of the 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 September 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 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)	September 30, 2023	December 31, 2022
Oil and natural gas marketing companies	7,290	7,733
Joint venture partners	1,326	1,367
Other [1]	(104)	441
Total accounts receivable	8,512	9,541

[1] Other includes allowance for doubtful accounts.

The Company's accounts receivable are aged as follows:

($000s)	September 30, 2023	December 31, 2022
Current (less than 90 days)	7,978	9,147
Past due (more than 90 days)	534	394
Total	8,512	9,541

PPR's allowance for doubtful accounts was $0.2 million at September 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 counterparties that have investment grade credit ratings. As of September 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 September 30, 2023 and December 31, 2022. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

September 30, 2023 *($000s)*	Gross Assets	Amount Offset Gross Liabilities	Net Amount Presented
Current:			
Derivative instruments asset (liability)	105	(647)	(542)

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

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. As described in Note 7, during the nine months ended September 30, 2023, the Company completed an offering of common shares and warrants, which allowed for the conversion of its outstanding Senior Notes (and related outstanding warrants) into common shares; this reduction in outstanding long-term debt has reduced the risk that the Company will not be able to meet its obligations as they come due. However, also as outlined in Note 7, at September 30, 2023, the Company had nil borrowing capacity under the Revolving Facility. In addition, the Revolving Facility and the Second Lien Notes are set to mature on July 1, 2024, and December 31, 2024, respectively. This, and the information provided in 2(b) Going Concern, results in material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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:

September 30, 2023	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset (liability)	(647)	105	(542)
Total assets/(liabilities)	(647)	105	(542)

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 nine months ended September 30, 2023 and 2022:

Three Months Ended September 30, 2023	Crude Oil	Natural Gas	Total
($000s)			
Realized gain/(loss) on derivative instruments	(677)	357	(320)
Unrealized loss on derivative instruments	(241)	(310)	(551)
Total gain/(loss)	(918)	47	(871)

Three Months Ended September 30, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(4,244)	(2,111)	(6,355)
Unrealized gain/(loss) on derivative instruments	8,921	(721)	8,200
Total gain/(loss)	4,677	(2,832)	(1,845)

Nine Months Ended September 30, 2023	Crude Oil	Natural Gas	Total
($000s)			
Realized gain/(loss) on derivative instruments	(1,163)	534	(629)
Unrealized gain on derivative instruments	651	829	1,480
Total gain/(loss)	(512)	1,363	851

Nine Months Ended September 30, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(17,133)	(4,070)	(21,203)
Unrealized gain/(loss) on derivative instruments	5,222	(3,079)	2,143
Total loss	(11,911)	(7,149)	(19,060)

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

Remaining Term	**Reference**	**Total Daily Volume (bbl)**	**Premium/ bbl**	**Weighted Average Price/ bbl**
Crude Oil Put Spread Options (No Ceiling)				
October 01, 2023 - December 31, 2023	US$ WTI	600	4.20[1]	$55.00/65.00
January 01, 2024 - March 31, 2024	US$ WTI	1000	3.95[1]	$50.00/60.00
Crude Oil Three-way Collars				
October 01, 2023 - December 31, 2023	US$ 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			
October 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.65/4.90
Natural Gas Collars			
October 01, 2023 – October 31, 2023	CAD$ AECO 5a	2,500	$3.65

19. Subsequent Events

Sale of Evi Assets

On October 30, 2023, the Company entered into an agreement for the disposition of its Evi cash generating unit in Alberta for base cash proceeds of $27.0 million, subject to closing adjustments. The effective date of the sale is August 1, 2023. Upon completion of this sale, the purchaser will become responsible for all future abandonment and reclamation obligations relating to the Evi assets.

Sale of Provost Assets

On October 30, 2023, the Company entered into a definitive agreement to sell certain non-core Provost assets in Alberta for base cash proceeds of $1.8 million, subject to closing adjustments. The effective date of the sale is July 1, 2023. Upon completion of this sale, the purchaser will become responsible for all future abandonment and reclamation obligations relating to the certain Provost assets.