Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2024

Dated: November 14, 2024

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2024	December 31, 2023
ASSETS			
Current assets			
Cash		**8,634**	1,835
Restricted cash	17	**4,637**	4,237
Accounts receivable	17	**3,560**	6,593
Prepaid expenses and other assets		**3,355**	3,290
Assets held for sale	6	**—**	50,431
Total current assets		**20,186**	66,386
Exploration and evaluation	4	**3,539**	3,546
Property and equipment	5	**89,628**	95,280
Right-of-use assets	7	**1,248**	1,503
Other assets		**619**	619
Total assets		**115,220**	167,334
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities		**18,789**	23,964
Current portion of lease liabilities	9	**3,130**	2,715
Current portion of decommissioning liabilities	10	**4,629**	6,155
Subscription receipt liability	11	**400**	—
Derivative instruments	17	**—**	416
Current portion of debt	8	**—**	72,631
Liabilities associated with assets held for sale	6	**—**	27,810
Total current liabilities		**26,948**	133,691
Debt	8	**51,403**	—
Lease liabilities	9	**17**	2,420
Decommissioning liabilities	10	**66,557**	65,602
Other liabilities		**9,203**	8,511
Total liabilities		**154,128**	210,224
SHAREHOLDERS’ DEFICIT			
Share capital	11	**157,305**	147,273
Warrants	11	**729**	729
Contributed surplus		**39,683**	39,596
Accumulated deficit		**(235,708)**	(229,748)
Accumulated other comprehensive loss (“AOCL”)		**(917)**	(740)
Total shareholders' deficit		**(38,908)**	(42,890)
Total liabilities and shareholders’ deficit		**115,220**	167,334
Going concern	2b		
Subsequent events	19		

See accompanying notes to the condensed interim consolidated financial statements.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	2024	2023	2024	2023
REVENUE AND OTHER INCOME					
Petroleum and natural gas sales	14	9,651	21,701	32,135	61,420
Royalties		(1,623)	(3,217)	(5,011)	(8,413)
Petroleum and natural gas sales, net of royalties		8,028	18,484	27,124	53,007
Realized gain (loss) on derivative instruments	17	—	(320)	(485)	(629)
Unrealized gain (loss) on derivative instruments	17	—	(551)	416	1,480
Other income		49	—	60	139
Total revenue and other income		8,077	17,613	27,115	53,997
EXPENSES					
Operating		5,386	9,037	20,953	31,404
General and administrative	15	2,042	1,700	6,245	7,460
Depletion and depreciation of property and equipment	5	2,154	6,208	6,661	13,507
Exploration and evaluation	4	—	—	—	28
Depreciation on right-of-use assets	7	85	48	255	412
Gain on property dispositions	6	—	—	(2,302)	—
Loss (gain) on warrant liability		—	188	—	(1,870)
Impairment (impairment reversal)	4,5	362	(1,232)	601	11,847
Foreign exchange loss		12	735	341	183
Finance costs	16	3,752	3,568	10,934	14,368
Transaction, restructuring and other costs		(26)	51	241	704
Gain on extinguishment and settlement of financial liabilities	8	(10,854)	—	(10,854)	(10,369)
Gain on revaluation of financial liabilities	8	—	—	—	(10,042)
Total expenses		2,913	20,303	33,075	57,632
Income (loss) before taxes		5,164	(2,690)	(5,960)	(3,635)
Net income (loss)		5,164	(2,690)	(5,960)	(3,635)
Other comprehensive income (loss)					
Items that may be reclassified to net income (loss):					
Foreign currency translation adjustment		367	(88)	(177)	(716)
Total other comprehensive income (loss)		367	(88)	(177)	(716)
Comprehensive income (loss)		5,531	(2,778)	(6,137)	(4,351)
Net income (loss) per share					
Basic	11	0.01	—	(0.01)	(0.01)
Diluted	11	0.01	—	(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	Warrants	Contributed Surplus	Accumulated Deficit	AOCL	Total Equity (Deficit)
Balance, December 31, 2023		147,273	729	39,596	(229,748)	(740)	(42,890)
Issuance of Common Shares		10,000		—	—	—	10,000
Share issuance costs		(50)	—	—	—	—	(50)
Share-based compensation	12	—	—	170	—	—	170
Settlement of share-based compensation, net of withholding tax	11	82	—	(83)	—	—	(1)
Exchange differences on translation of foreign operations		—	—	—	—	(177)	(177)
Net loss		—	—	—	(5,960)	—	(5,960)
Balance, September 30, 2024		157,305	729	39,683	(235,708)	(917)	(38,908)

($000s)	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	AOCL	Total Equity (Deficit)
Balance, December 31, 2022	101,549	—	39,084	(209,629)	(117)	(69,113)
Share issuance costs	(902)	—	—	—	—	(902)
Issued as repayment of subordinated notes	41,152	—	—	—	—	41,152
ssued as cashless exercise of all PCEP warrants	2,246	—	—	—	—	2,246
Issued as equity offering	3,556	729	—	—	—	4,285
Share cancellation	(269)	—	269	—	—	—
Share-based compensation	—	—	152	—	—	152
Settlement of share-based compensation, net of withholding tax	23	—	(35)	—	—	(12)
Exchange differences on translation of foreign operations	—	—	—	—	(716)	(716)
Net loss	—	—	—	(3,635)	—	(3,635)
Balance, September 30, 2023	147,355	729	39,470	(213,264)	(833)	(26,543)

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	**2024**	2023	**2024**	2023
OPERATING ACTIVITIES					
Net income (loss)		**5,164**	(2,690)	**(5,960)**	(3,635)
Adjustments for non-cash items:					
Impairment (reversal)	4,5	**362**	(1,232)	**601**	11,847
Unrealized (gain) loss on derivative instruments	17	**—**	551	**(416)**	(1,480)
Depletion and depreciation	5	**2,154**	6,208	**6,661**	13,507
Depreciation on right-of-use asset	7	**85**	48	**255**	412
Exploration and evaluation expense	4	**—**	—	**—**	28
Accretion expense - Decommissioning liabilities	16	**615**	832	**2,005**	2,475
Unrealized foreign exchange (gain) loss		**(24)**	643	**304**	150
Change in other liabilities		**(78)**	152	**553**	443
Gain on property dispositions	6	**—**	—	**(2,302)**	—
(Loss) gain on warrant liability		**—**	188	**—**	(1,870)
Gain on extinguishment of financial liabilities	8	**(10,942)**	—	**(10,942)**	(11,769)
Gain on revaluation of financial liability		**—**	—	**—**	(10,444)
Share-based compensation	12	**62**	(226)	**170**	152
Non-cash other income	10	**—**	—	**—**	(139)
Allowance for doubtful accounts	17	**262**	(7)	**262**	(4)
Interest expense and finance costs - Debt	8,16	**3,162**	236	**8,559**	5,343
Settlements of decommissioning liabilities	10	**(539)**	(4,521)	**(1,936)**	(6,612)
Other, net		**7**	(152)	**—**	(65)
Change in non-cash working capital	13	**579**	(1,090)	**(598)**	(11,805)
Net cash from (used in) operating activities		**869**	(1,060)	**(2,784)**	(13,466)
FINANCING ACTIVITIES					
Issuance costs		**(50)**	—	**(50)**	(618)
Issuance of Common Shares and Warrants for cash	11	**6,869**	—	**6,869**	4,032
Subscription receipt proceeds	11	**400**	—	**400**	—
Settlement of share-based compensation, including withholding tax and net of proceeds	11,12	**(3)**	—	**(1)**	—
Repayments of principal related to lease obligations	9	**(693)**	(21)	**(1,989)**	(480)
Change in First Lien Loan debt	8,13	**—**	—	**(20,000)**	—
Change in Second Lien Notes debt	8,13	**—**	—	**3,131**	4,927
Change in non-cash working capital	13	**—**	804	**—**	1,802
Net cash from (used in) financing activities		**6,523**	783	**(11,640)**	9,663
INVESTING ACTIVITIES					
Property and equipment expenditures	5	**(656)**	—	**(1,674)**	(6)
Proceeds from dispositions (net of acquisition)		**630**	312	**24,353**	564
Change in non-cash working capital	13	**(614)**	—	**(1,056)**	(626)
Net cash from (used in) investing activities		**(640)**	312	**21,623**	(68)
Change in cash and restricted cash		**6,752**	35	**7,199**	(3,871)
Cash and restricted cash, beginning of period		**6,519**	6,796	**6,072**	10,702
Cash and restricted cash, end of period		**13,271**	6,831	**13,271**	6,831

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 2024 and 2023.

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 ("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 interim consolidated financial statements reflect only the Company’s share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

On May 15, 2023, former Noteholder, PCEP Canadian Holdco, LLC ("PCEP"), acquired 540,925,109 Common Shares following a recapitalization transaction, thereby obtaining control of PPR. PCEP is a subsidiary of Prudential Private Capital, a unit of PGIM, Inc. ("PGIM"), the ultimate parent of PPR.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These unaudited condensed interim consolidated financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board. They are condensed as they do not include all of the information required for full annual consolidated financial statements, and they should be read in conjunction with the audited annual consolidated financial statements of PPR as at and for the years ended December 31, 2023 and 2022 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, other than described in Note 3 below.

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 14, 2024.

(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.

As described in Note 8 (Debt), Note 11 (Share Capital) and Note 19 (Subsequent Events), on September 13, 2024, the Company announced a $13.2 million Rights Offering supported by participation commitments of $12 million, comprised of $11.6 million from its largest shareholder, PCEP, and $400,000 from directors and management, as well as complementary amendments to its outstanding debt. PCEP exercised its Rights with respect to the Basic Subscription Privilege and on September 27, 2024 acquired an additional 400,000,000 Common Shares for $10.0 million subscription price.

On October 30, 2024, the Company completed the Rights Offering issuing a further 80,000,000 Common Shares for additional gross proceeds of $2.0 million, including a further 15,434,906 Common Shares acquired by PCEP, pursuant to a Standby Commitment, and 16,600,046 Common Shares that were acquired by directors and management of the Company.

In addition, on September 13, 2024, the Company agreed to amendments to its First Lien Loan extending the maturity to March 31, 2026, providing deferral of certain cash interest obligations owed under the First Lien Loan, capitalization as additional principal of accrued interest through September 13, 2024, and adjustment of financial covenants to replace existing covenants with new measures and thresholds that align with the Company's current expectations for the remaining term to maturity. Amendments have also been agreed with respect to the Company's outstanding Second Lien Notes to extend the maturity date to September 30, 2026 and amend the covenants for alignment with the amended covenants under the First Lien Loan.

Following the debt amendments, at September 30, 2024, the Company's total principal debt was $60.4 million (December 31, 2023 - $71.0 million) with the First Lien Loan considered fully drawn as the lender indicated that no further borrowings are available thereunder (see Note 8).

Prior to these debt amendments, the Company required multiple waivers allowing for the deferral of previously due interest payments and removing the requirement to comply with certain financial and non-financial covenants.

Despite these efforts by the Company and with the Company committed to a two-well drilling program in the Basal Quartz formation that spud subsequent to September 30, 2024, PPR remains in a challenging position with respect to its ability to meet current financial obligations while managing its decommissioning liabilities, debt obligations, and debt-related financial covenants. In the event of default under both the First Lien Loan and the Second Lien Notes, the lenders have the right to demand immediate repayment of all amounts owed under both facilities.

The Company recognizes the significance of PPR's cash flows and continues to actively assess a variety of strategies and options to effectively manage its capital, however, there is no guarantee that the Company will be successful in these efforts.

The Company's lenders have not re-determined the borrowing base following the Company's reserves evaluation as at December 31, 2023. 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 natural gas reserves. 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. In the event of such a shortfall, the Company may not have the funds available to repay the amount due.

Due to the above factors, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These Interim Financial Statements do not include adjustments to the recoverability and classification of recorded assets 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 Interim Financial Statements. Such adjustments could be material.

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of the 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 Note 2 of the Annual Financial Statements.

3. MATERIAL ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The Company's material accounting policies under IFRS are presented in Note 3 of 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.

Newly adopted accounting policies

Classification of Liabilities as Current or Non-Current – Amendments to IAS 1

In October 2022, the IASB issued amendments to clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability, in addition to the amendment from January 2020 where the IASB issued amendments to IAS 1 Presentation of Financial Statements, to provide a more general approach to the presentation of liabilities as current or non-current based on contractual arrangements in place at the reporting date. These amendments specify that the rights and conditions existing at the end of the reporting period are relevant in determining whether the Company has a right to defer settlement of a liability by at least 12 months, provided that management's expectations are not a relevant consideration as to whether the Company will exercise its rights to defer settlement of a liability and clarify when a liability is considered settled. This amendment also clarified the information disclosure requirements for loan arrangements that contain covenants and the classification requirements when a covenant is breached.

The amendment was adopted by the Company effective for the fiscal year beginning January 1, 2024. It did not have a material impact on the Interim Financial Statements.

New accounting standards and amendments not yet adopted

On April 9, 2024, the IASB issued a new standard, International Financial Reporting Standard ("IFRS") 18 Presentation and Disclosure in Financial Statements, which introduced new requirements for improved comparability in the statement of profit or loss, enhanced transparency of management-defined performance measures and more useful grouping of information in the financial statements. The standard is effective for annual reporting periods beginning on or after January 1, 2027. The Company is currently evaluating its impact to the financial statements.

4. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost	
Balance, December 31, 2023	65,191
Change in estimates in decommissioning liabilities (Note 10)	**(55)**
Disposals	**(7)**
Balance, September 30, 2024	**65,129**
Impairment	
Balance, December 31, 2023	(61,645)
Impairment reversal	**55**
Balance, September 30, 2024	**(61,590)**
Carrying amounts	
December 31, 2023	3,546
September 30, 2024	**3,539**

Exploration and evaluation ("E&E") assets consist of the Company's undeveloped land and exploration and pilot projects which are pending the determination of proved or probable reserves.

During the three and nine months ended September 30, 2024, PPR recognized $nil (September 30, 2023 - $nil) of 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, 2024 September 30, 2023 - $nil).

The Company assessed its E&E assets for indicators of impairment and did not note any indicators of impairment or impairment reversal that resulted in the need to perform impairment tests as at September 30, 2024. During the three and nine months ended September 30, 2024, PPR recognized non-cash E&E impairment recovery of $0.1 million (September 30, 2023 - $nil) for changes in estimates of decommissioning liabilities related to E&E properties that had $nil carrying amount.

5. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Total
Cost			
Balance, December 31, 2023	251,104	4,979	256,083
Additions	1,555	119	1,674
Dispositions	(125)	—	(125)
Change in estimates in decommissioning liabilities (Note 10)	116	—	116
Balance, September 30, 2024	**252,650**	**5,098**	**257,748**
Depletion, depreciation and impairment			
Balance, December 31, 2023	(156,159)	(4,644)	(160,803)
Depletion and depreciation	(6,583)	(78)	(6,661)
Impairment	(656)	—	(656)
Balance, September 30, 2024	**(163,398)**	**(4,722)**	**(168,120)**
Carrying amounts			
December 31, 2023	94,945	335	95,280
September 30, 2024	**89,252**	**376**	**89,628**

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

Included in additions for the three and nine months ended September 30, 2024 are $nil and $0.1 million, respectively, of directly attributable general and administrative expenses (2023 - $nil and $0.1 million, respectively) capitalized to property and equipment. During the same periods, $nil share-based compensation expense was capitalized to property and equipment .

(b) Impairment Expense (Impairment Reversal)

As at September 30, 2024, the Company assessed its production and development assets for indicators of impairment or impairment recovery and did not note any indicators.

During the three and nine months ended September 30, 2024, PPR recognized a non-cash impairment of $0.3 million and $0.7 million, respectively, related to changes in decommissioning liabilities of certain properties that had $nil carrying amount.

6. GAIN ON PROPERTY DISPOSITIONS

As of December 31, 2023, the Company classified its Evi cash-generating unit ("CGU") and certain Provost assets as assets held for sale. During the three months ended March 31, 2024, the Company completed its dispositions resulting in net cash proceeds of $24.2 million, after closing adjustments. Of the proceeds received, $20.0 million (US$14.8 million) was used to reduce advances under the First Lien Loan (Note 8), with the remainder used to increase the Company's working capital. A gain of $2.3 million was recorded related to the dispositions for the nine months ended September 30, 2024.

7. RIGHT-OF-USE ASSETS

($000s)	Office Leases	Facility Lease	Other Leases	Total
Cost				
Balance, December 31, 2023 and September 30, 2024	**2,004**	**7,870**	**491**	**10,365**
Depreciation				
Balance, December 31, 2023	(1,771)	(6,688)	(403)	(8,862)
Depreciation	**(110)**	**(111)**	**(34)**	**(255)**
Balance, September 30, 2024	**(1,881)**	**(6,799)**	**(437)**	**(9,117)**
Carrying amounts				
December 31, 2023	233	1,182	88	1,503
September 30, 2024	**123**	**1,071**	**54**	**1,248**

8. DEBT

At September 30, 2024, the Company's debt of $51.4 million (December 31, 2023 - $72.6 million) comprises the following:

	Principal Debt[1]		**Carrying Amount of Debt**	
($000s)	**September 30, 2024**	December 31, 2023	**September 30, 2024**	December 31, 2023
Revolving Facility - First Lien Loan				
USD Advance - US$5.5 million principal (Dec 31, 2023 - US$19.0 million)[1]	**7,370**	25,129	**6,341**	25,129
CAD Advance - C$46.5 million principal (Dec 31, 2023 - C$41.1 million)	**46,454**	41,073	**39,490**	41,073
Amendment Fee Advanced - C$1.5 million principal (Dec 31, 2023 - C$nil)	**1,500**	—	**1,035**	—
Total First Lien Loan	**55,324**	66,202	**46,866**	66,202
Second Lien Notes[2]				
Tranche 1 (Mar-23) - US$3.6 million principal (Dec 31, 2023 - US$3.6 million)[1 2]	**4,914**	4,815	**4,437**	6,429
Tranche 2 (May-24) - US$nil principal	**—**	—	**—**	—
Additional Notes - US$0.1 million principal (Dec 31, 2023 - US$nil)[1]	**199**	—	**100**	—
Total Second Lien Notes	**5,113**	4,815	**4,537**	6,429
Carrying amounts				
Current portion of debt	**—**	71,017	**—**	72,631
Non-current portion of debt	**60,437**	—	**51,403**	—
Total debt	**60,437**	**71,017**	**51,403**	**72,631**

[1] At September 30, 2024, USD-denominated principal debt converted at an exchange rate of US$1.00 to C$1.3499 (December 31, 2023 - US$1.00 to C$1.3226).

[2] The Second Lien Notes tranches' principal is subject to deferred interest in kind (whilst the principal remains outstanding) and an overall deferred compensation fee as described below, which are not included in the principal as presented. PPR estimates that the principal will be subject to a target multiple of x1.8 on settlement at the maturity date, which is not reflected in the table above.

In addition to the debt as detailed above, the Company includes the following accrued interest payable in accounts payable and accrued liabilities:

($000s)	**September 30, 2024**	December 31, 2023
Accrued Interest - First Lien Loan		
USD Advance	**—**	336
CAD Advance	**—**	523
Amendment Fee Advanced	**9**	—
Total accrued interest included in accounts payable and accrued liabilities	**9**	859

Note 13 includes a reconciliation of the changes in liabilities arising from the financing activities of the Company's debt.

(a) Revolving Facility - First Lien Loan

At September 30, 2024 and December 31, 2023, the Company has a senior secured credit facility ("First Lien Loan") with the Company's ultimate parent comprising US$65 million of senior secured revolving notes.

Borrowings under the First Lien Loan 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 First Lien Loan, except in certain extraordinary circumstances where a repayment will reduce the borrowing base. The First Lien Loan is denominated in USD, but accommodates CAD advances.

All notes were issued at par by Prairie Provident Resources Canada Ltd., a wholly-owned subsidiary of PPR, and are guaranteed by PPR and certain of its other subsidiaries and secured by a US$200 million debenture.

The note purchase agreement governing the First Lien Facility also limits the amounts the Company can borrow to a borrowing base amount, determined by the secured noteholder in their sole discretion based on their internal criteria and the estimated value of PPR’s petroleum and natural gas properties in accordance with the lender's customary practices for oil and gas loans. Outstanding borrowings in excess of the borrowing base must be repaid with interest.

The Company's lenders have not re-determined the borrowing base following the Company's reserves evaluation as at December 31, 2023. The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration . 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. The USD advances bear interest at the Secured Overnight Financing Rate (“SOFR”) plus 950 basis points and the CAD advances bear interest at the Canadian Overnight Repo Rate Average ("CORRA") (Canadian Dollar Offered Rate prior to the debt amendment above) plus 950 basis points. Standby fees on any undrawn borrowing capacity are 87.5 basis points per annum.

On September 13, 2024, the maturity date was extended to March 31, 2026 in addition to the following amendments to the First Lien Loan:

- Deferral of a portion of cash interest obligations on amounts owed under the First Lien Loan, through (i) 100% capitalization as additional principal of all accrued interest amounts through December 31, 2024; and (ii) 25% capitalization of 2025 accrued interest through December 31, 2025 if PPR raises $14.5 million to $16.5 million of equity by March 31, 2025 (inclusive of equity raised through the Rights Offering noted in Note 11); or (iii) up to 50% of 2025 accrued interest through December 31, 2025 if PPR raises at least $16.5 million of equity by March 31, 2025 (inclusive of equity raised through the Rights Offering) as additional principal of all accrued interestamounts;

- In consideration of the debt amendments, a $1.5 million debt amendment fee (the "Amendment Fee") payable to the noteholder at the earliest of (i) the March 31, 2026 maturity date; (ii) the date on which the other obligations of the First Lien Loan are settled; or (iii) the date on which an event of default occurs. The Amendment Fee forms part of the First Lien Loan and bears the same interest as the CAD advances; and

- Adjustment of financial covenants, to replace existing covenants with new measures and thresholds that align with the Company’s current expectations for the remaining term to maturity. The amended covenants are outlined below.

As at September 30, 2024, the Company had $nil (December 31, 2023 - $nil) available borrowing capacity under the First Lien Loan. The First Lien Loan is considered fully drawn as the lender indicated that no further borrowings are available thereunder.

(b) Second Lien Notes

On March 30, 2023, the Company completed a second lien financing of the 2023 PPR recapitalization and issued US$3.6 million of notes (the "Second Lien Notes") with Prudential Capital Energy Partners, L.P., a subsidiary of PPR's ultimate parent.

The Second Lien Notes bear interest at the SOFR plus 1150 basis points. Interest on the Second Lien Notes must be paid in kind while the First Lien Loan remains outstanding. In addition to repayment of the principal balance on maturity, the Second Lien Note purchase agreement requires payment of a deferred compensation fee based on a target multiple of 1.8, capped by a 45% internal rate of return, on the later of maturity or prepayment and the date on which the Revolver is fully repaid.

On May 17, 2024, the Company issued an additional tranche of US$2.3 million of Second Lien Notes with consistent interest, maturity and conditions.

On September 13, 2024, the maturity date of the Second Lien Notes was extended to September 30, 2026 in addition to other amendments to the Second Lien Notes including an adjustment of financial covenants, to replace existing covenants and align with the First Lien Note covenants. The amended covenants are outlined below.

On September 27, 2024, the US$2.3 million second tranche was settled and repaid through a C$3.1 million offset against the proceeds received from the $10 million PCEP Common Share subscription (Note 11). The Company issued US$0.15 million of additional notes representing accrued indebtedness on the second tranche note (the "Additional Notes") repayable on the extended September 30, 2026 maturity date. The Additional Notes are non-interest bearing, not subject to a target return and not subject to a deferred compensation fee.

(c) Gain on extinguishment and revaluation of financial liabilities

(i) 2023 Recapitalization

On March 29, 2023, the Company announced a comprehensive recapitalization plan (the "Recapitalization") (see Note 9 of the Annual Financial Statements). Under the Recapitalization, Senior Note amounts outstanding and associated warrants were converted to equity. The Recapitalization was accounted for as an extinguishment and as such, the previously recorded liabilities were derecognized, and the modified liability was recorded at fair value as of March 29, 2023. As a result of the extinguishment, the Company recognized a gain of $10.4 million in the nine months ended September 30, 2023. The change in the fair value of the modified liability up to the date the Recapitalization closed resulted in a gain of $10.1 million during the nine months ended June 30, 2023.

(ii) 2024 Debt Amendments

As described above, the First Lien Loan and Second Lien Notes were amended on September 13, 2024. Under IFRS 9, *Financial Instruments,* the amendments were recognized as substantial modifications of financial liabilities and accounted for as an extinguishment. As such, the previously recorded debt liabilities were derecognized in full and the amended debt liabilities were recognized at fair value (see Fair Value of Financial Instruments in Note 17). Subsequent to the fair value recognition of the amended debt, the Company recognizes the debt at amortized cost using the effective interest rate method on expected cash flows.

For the First Lien Loan, for the three and nine month periods ended September 30, 2024, the Company recognized a $7.1 million gain on extinguishment of financial liabilities in net income (loss) in derecognizing the carrying amounts of the previous USD and CAD Advances, derecognizing the previous accrued interest payable on these advances now capitalized to the principal of the amended debt and in recognizing the amended USD Advance, CAD Advance and Amendment Fee Advanced at fair value.

For the Second Lien Notes, for the three and nine month periods ended September 30, 2024, the Company recognized a $4.3 million gain on extinguishment in net income (loss) in derecognizing the carrying amounts of the previous first two tranches of Second Lien Notes USD and CAD Advances, derecognizing the previous Second Lien Notes and recognizing the amended Second Lien Notes at fair value.

(iii) Settlement of Second Lien Note tranche 2

As described above, the second tranche of the Senior Loan Notes was settled on September 27, 2024 and Additional Notes were issued for the residual accrued interest payable on the second tranche notes. For the three and nine month periods ended September 30, 2024, the Company recognized a $0.4 million loss included in the gain on extinguishment of financial liabilities in net income (loss) in derecognizing the carrying amount of the previous second carrying amount and recognizing the Additional Notes for the residual indebtedness at fair value.

(d) Covenants

As described above, the amended September 13, 2024 debt agreements of the First Lien Loan and the Second Lien Notes and related parent and subsidiary guarantees now align the various financial and non-financial 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.

The revised financial covenant thresholds of the Company are as follows:

Financial Covenant	First Lien Loan Requirement	Second Lien Notes Requirement	As at September 30, 2024
Minimum EBITDAX[1]			
For the period of four fiscal quarters most recently ended:			Not applicable
Quarter ending Dec 31, 2024	Exceed $6.0 million	Exceed $5.4 million	
Quarter ending Mar 31, 2025	Exceed $12.0 million	Exceed $10.8 million	
Quarter ending Jun 30, 2025	Exceed $19.0 million	Exceed $17.1 million	
Quarter ending Sep 30, 2025	Exceed $28.0 million	Exceed $25.2 million	
Quarter ending Dec 31, 2025	Exceed $30.0 million	Exceed $27.0 million	
Quarter ending Mar 31, 2026	Exceed $30.0 million	Exceed $27.0 million	
Total Leverage Ratio[2]			
For the period of four fiscal quarters most recently ended:			Not applicable
Quarter ending Dec 31, 2024	Greater than 10.00	Greater than 10.50	
Quarter ending Mar 31, 2025	Greater than 6.00	Greater than 6.50	
Quarter ending Jun 30, 2025	Greater than 4.50	Greater than 5.00	
Quarter ending Sep 30, 2025	Greater than 3.25	Greater than 3.75	
Quarter ending Dec 31, 2025	Greater than 2.50	Greater than 3.00	
Quarter ending Mar 31, 2026	Greater than 2.50	Greater than 3.00	
Minimum Liquidity			
Monthly from Sep 2024 onwards	Minimum of C$0.5 million in the form of unrestricted cash and/or unrestricted cash equivalents	Not applicable	In compliance
Minimum Production[3]			
For the months ended:			Not applicable
Oct-2024	At least 2,000 boe/d	At least 1,800 boe/d	
Nov-2024	At least 2,250 boe/d	At least 2,025 boe/d	
Dec- 2024 through Feb- 2025	At least 3,000 boe/d	At least 2,700 boe/d	
Mar-2025 through Jul-2025	At least 2,500 boe/d	At least 2,250 boe/d	
Aug-2025 through Oct-2025	At least 3,000 boe/d	At least 2,700 boe/d	
Nov-2025 through Mar-2026	At least 2,500 boe/d	At least 2,250 boe/d	

[1] Under the debt agreements, EBITDAX for any period means consolidated net income (loss) for such period plus (b) to the extent deducted in determining consolidated net income, financing Charges, exploration expenses, income taxes, depreciation, depletion, amortization and other non-cash items of expense for such period (including any provision for the reduction in the carrying amount of assets recorded in accordance with Generally Accepted Accounting Practice and including non-cash charges resulting from share-based compensation and write downs on assets and non-cash losses resulting from outstanding risk management derivative contracts for such period, losses attributable to extraordinary and non-recurring losses for such period minus (c) all non-cash items of income which were included in determining such consolidated net Income (including non-cash gains resulting from the outstanding risk management derivative contracts and earnings attributable to extra-ordinary and non-recurring gains for such period; provided that such EBITDAX shall be subject to pro forma adjustments for material acquisitions and dispositions assuming that such transactions had occurred on the first day of the applicable calculation period.

[2] Under the debt agreements, the Total Leverage Ratio means the ratio as of the last day of any fiscal quarter of the Company, the ratio of (i) adjusted indebtedness at such time (including, for clarity, all First Lien Loans and Second Lien Notes), plus current liabilities at such time, less current assets at such time, to (ii) EBITDAX for the period of four fiscal quarters most recently ended.

[3] Production means an average daily hydrocarbon production volume, measured in barrels of oil equivalent per day (boe/d) (with 6,000 cubic feet of natural gas deemed to be one barrel of oil equivalent).

Prior to the debt amendments on September 13, 2024, the Company received waivers allowing for the deferral of previously due interest payments to September 20, 2024 and removing the requirement to comply with the past Senior Leverage ratio as of June 30, 2024. It also deferred the Company's requirement to comply with certain non-financial covenants until September 30, 2024.

9. LEASE LIABILITIES

The Company incurs lease payments related to to vehicles, office facilities and a gas processing facility. Leases are entered into and exited in coordination with specific business requirements which include the assessment of the appropriate durations for the related leased assets.

($000s)	
Balance, December 31, 2023	5,135
Interest expense	**531**
Lease payments	**(2,519)**
Balance, September 30, 2024	**3,147**
Consisting of:	
Current portion of lease liabilities	**3,130**
Non-current portion of lease liabilities	**17**

The following table details the undiscounted cash flows of PPR’s lease liabilities as at September 30, 2024:

($000s)	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	**3,440**	**12**	**12**	**40**	**3,504**	**3,147**

10. DECOMMISSIONING LIABILITIES

($000s)	
Balance, December 31, 2023	71,757
Liabilities disposed	**(701)**
Liabilities settled	**(1,936)**
Change in estimates	**61**
Accretion expense	**2,005**
Balance, September 30, 2024	**71,186**
Consisting of:	
Current portion of decommissioning liabilities	**4,629**
Non-current portion of decommissioning liabilities	**66,557**
Balance, December 31, 2023	71,757
Consisting of:	
Current portion of decommissioning liabilities	6,155
Non-current portion of decommissioning liabilities	65,602

At September 30, 2024, the Company estimated the undiscounted and inflated total future liabilities to be approximately $189.6 million (December 31, 2023 – $187.7 million, excluding the Evi CGU and certain non-core Provost assets reclassified as liabilities associated with assets held for sale). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 35 years, of which $26.4 million is estimated to be incurred over the next five years.

Decommissioning liabilities at September 30, 2024 were determined using risk-free rates of 3.36% - 3.64% (December 31, 2023 – 3.27% - 3.92%) and an inflation rate of 1.9% (December 31, 2023 – 1.8%).

11. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of Common Shares.

(b) Units Outstanding

	Number *(000s)*	Amount *($000s)*
Common Shares		
Balance, December 31, 2023	715,579	147,273
Issuance of common shares	400,000	10,000
Share issuance costs	—	(50)
Issued for DSU settlements	436	65
Issued for RSU settlements	69	16
Issued on exercise of stock options	72	6
Withholding taxes on settlements	—	(5)
Balance, September 30, 2024	1,116,156	157,305

	Number *(000s)*	Amount *($000s)*
Warrants		
Balance, September 30, 2024 and December 31, 2023	48,000	729

(c) Rights Offering, Committed Participation, Debt Amendments and Closing of initial $10 million subscription

On September 13, 2024, the Company announced a $13.2 million rights offering (the "Rights Offering") supported by participation commitments of $12 million, comprised of $11.6 million from its largest shareholder, PCEP, and $400,000 from directors and management, as well as complementary amendments to its outstanding debt (Note 8).

(i) Rights Offering

Pursuant to the Rights Offering, each holder of record of PPR Common Shares at the close of business on September 24, 2024 (the "Record Date") will receive one subscription right (a "Right") for each common share held. Each Right will entitle the holder to subscribe for 0.739474 of a Common Share, at a subscription price (the "Subscription Price") of $0.025 per whole Common Share (the "Basic Subscription Privilege"). Rights are exercisable for whole Common Shares only, and holders will therefore need to exercise 1.352313 Rights to purchase one additional Common Share under the Basic Subscription Privilege. Up to 529,579,000 Common Shares are issuable under the Rights Offering for an aggregate Subscription Price, if fully subscribed, of $13,239,475. The Rights Offering expired on October 28, 2024.

(ii) Committed Participation

The Company's largest shareholder, PCEP, agreed to subscribe for its pro rata share (approximately 75.5%) of the Rights Offering, amounting to 400,000,000 Common Shares for an aggregate Subscription Price of $10.0 million (partially payable by way of a $3.13 million setoff in respect of a US$2.3 million advance under the Company's second lien note facility received in May 2024), and directors and management have agreed to subscribe for an aggregate of 16,000,000 common shares under the Rights Offering for an aggregate of Subscription Price of $400,000 (the "D&O Commitments").

PCEP exercised its Rights with respect to the Basic Subscription Privilege and on September 27, 2024 acquired an additional 400,000,000 Common Shares for $10.0 million subscription price. The subscription price was partially paid by way of a $3.13 million setoff against the US$2.3 million advance received in May 2024 under the Company's Second Lien Note facility, fully extinguishing that indebtedness (Note 8), with the $6.87 million balance paid to PPR in cash.

Directors and management of the Company delivered and funded an additional $400,000 in subscriptions under the Rights Offering, for an aggregate of 16,000,000 Common Shares, which was closed on conclusion of the Rights Offering on October 30, 2024. At September 30, 2024, the $400,000 cash received for D&O Commitments is included in Restricted Cash and recognized as a Subscription Receipt liability.

In addition, PCEP also provided a $1.6 million standby commitment for the Rights Offering, to purchase up to 64,000,000 additional Common Shares, less the total number of Common Shares acquired under the Rights Offering on the exercise of Rights by holders other than PCEP and directors and management pursuant to the D&O Commitments (the "Standby Commitment").

On October 28, 2024, the Company completed its previously announced Rights Offering and Standby Commitment and issued an additional 80,000,000 Common Shares of the Company at a price of $0.025 per share for additional gross proceeds of $2.0 million (Note 19). PCEP acquired 15,434,906 Common Shares under the Standby Commitment at the same subscription price of $0.025 per share for proceeds of $0.4 million. Of the 64,565,094 Common Shares purchased under the Rights Offering by shareholders other than PCEP, 16,600,046 Common Shares were acquired by directors and management of the Company under the Rights Offering. No fees or commissions were paid by the Company in connection with the Rights Offering or the Standby Commitment.

Following completion of the Rights Offering and Standby Commitment, there are 1,196,405,336 Common Shares issued and outstanding of which PCEP holds 956,360,015 Common Shares, or approximately 79.9% of the total Common Shares outstanding.

(d) Income (loss) per share

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**2024**	2023	**2024**	2023
Net income (loss) for the period	**5,164**	(2,690)	**(5,960)**	(3,635)
Weighted average number of Common Shares				
Basic	**729,199**	715,264	**720,476**	423,800
Diluted	**729,199**	715,264	**720,476**	423,800
Income (Loss) per Common Share				
Basic	**$ 0.01**	$ —	**$ (0.01)**	$ (0.01)
Diluted	**$ 0.01**	$ —	**$ (0.01)**	$ (0.01)

The weighted average diluted Common Shares outstanding for each of the three and nine months ended September 30, 2024 and 2023, exclude the impact of all outstanding equity settled awards issued under the Company's long-term incentive plans and Warrants as they were anti-dilutive.

12. SHARE-BASED COMPENSATION

(a) Stock Options

The following table summarizes the Stock Options outstanding and exercisable under PPR's Stock Option Plan:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2023	4,456,894	$0.13
Granted	2,670,000	$0.10
Exercised	(71,906)	$0.05
Forfeited or expired	(1,810,904)	$0.12
Balance, September 30, 2024	5,244,084	$0.10
Exercisable, September 30, 2024	1,121,584	$0.21

	Options Outstanding			Options Exercisable	
Year of Grant	**Number Outstanding**	**Weighted Averag e Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted A verage Exercise Price**
2020	54,085	$0.05	0.0	54,084	$0.00
2021	200,000	$0.09	0.1	200,000	$0.02
2022	744,999	$0.29	0.4	667,500	$0.17
2023	2,160,000	$0.07	1.7	200,000	$0.01
2024	2,085,000	$0.08	1.8	—	$0.00
Total	5,244,084	$0.10	3.9	1,121,584	$0.20

During the nine months ended September 30, 2024, 2,085,000 stock options were granted at an exercise price of $0.075 per share.

The fair value of stock options granted in 2024 was $0.07 per stock option, estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions and resulting fair value:

Weighted Average	Nine Months Ended September 30, 2024
Risk-free interest rate (%)	3.74
Expected life (years)	4.0
Expected volatility (%)	258
Estimated forfeiture rate (%)	—
Expected dividends ($)	—
Exercise price of options ($)	0.075

(b) Deferred Restricted Share Units ("DSUs")

DSUs are granted under the Company's incentive security plan to non-management directors of the Company. DSUs vest in their entirety on the grant date and will be settled when a director ceases to be a member of the Board of Directors. DSUs may be settled in Common Shares (by issuance from treasury or through the delivery of Common Shares purchased through the open market) or cash at the discretion of the Company; however, it is PPR's intention to settle the DSUs in Common Shares and the plan has been accounted for as equity-settled.

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2023	3,465,134
Settled	**(457,567)**
Balance, September 30, 2024	**3,007,567**

(c) Restricted Share Units ("RSUs")

RSUs are granted under the Company's incentive security plan to the Company's employees and management. RSUs vest evenly over a three-year period and will be settled in Common Shares or cash at the discretion of the Company; however, it is PPR's intention to settle the RSUs in Common Shares and the plan has been accounted for as equity-settled.

The following table summarizes the RSUs outstanding under the plan:

	RSUs
Balance, December 31, 2023	2,071,667
Granted	**1,780,000**
Settled	**(95,833)**
Forfeited or expired	**(440,000)**
Balance, September 30, 2024	**3,315,834**

During the nine months ended September 30, 2024, 1,780,000 RSUs were issued at a price of $0.075 per RSU.

(d) Share-based compensation

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2024	2023	2024	2023
Share-based compensation				
Stock Options	**40**	(136)	**61**	97
RSUs	**22**	(90)	**109**	55
Total shared-based compensation	**62**	(226)	**170**	152
Capitalized to Property and equipment and E&E assets	**—**	—	**—**	—
Expensed in general and administrative expenses (Note 15)	**62**	(226)	**170**	152

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow

The following table details the components of non-cash working capital:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2024**	2023	**2024**	2023
Provided by (used in):				
Accounts receivable	**486**	(3,358)	**2,772**	1,033
Prepaid expenses and other assets	**(739)**	475	**(65)**	1,227
Accounts payable and accrued liabilities	**218**	2,685	**(4,361)**	(12,315)
Foreign exchange on translation	**—**	(88)	**—**	(574)
	(35)	(286)	**(1,654)**	(10,629)
Provided by (used in):				
Operating activities	**579**	(1,090)	**(598)**	(11,805)
Financing activities	**—**	804	**—**	1,802
Investing activities	**(614)**	—	**(1,056)**	(626)
	(35)	(286)	**(1,654)**	(10,629)
Cash interest paid	**158**	2,617	**555**	6,683

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	First Lien Loan Accrued Interest	**First Lien Loan Debt**	**Second Lien Note Debt**
Balance, December 31, 2023	859	66,202	6,429
Cash items			
Debt advanced	**—**	**—**	**3,131**
Debt repayments	**—**	**(20,000)**	**—**
Non-cash changes			
Interest expense and finance costs - Debt	**5,966**	**538**	**2,055**
Interest capitalized to principal	**(6,634)**	**6,634**	**—**
Unrealized foreign exchange (gain) loss	**(182)**	**606**	**(119)**
Gain on extinguishment of financial liabilities	**—**	**(7,114)**	**(4,263)**
Loss on settlement of financial liabilities	**—**	**—**	**435**
Offset against Common Share subscription proceeds (Note 11)	**—**	**—**	**(3,131)**
Balance, September 30, 2024	**9**	**46,866**	**4,537**

14. REVENUE

A breakdown of PPR's petroleum and natural gas sales is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2024**	2023	**2024**	2023
Crude oil and condensate	**8,894**	19,420	**28,394**	54,310
Natural gas	**371**	1,839	**2,582**	5,617
Natural gas liquids	**386**	442	**1,159**	1,493
Petroleum and natural gas sales	**9,651**	21,701	**32,135**	61,420

Included in accounts receivable at September 30, 2024 was $2.6 million of accrued petroleum and natural gas sales related to September 2024 production (December 31, 2023 – $4.9 million related to December 2023 production).

15. GENERAL AND ADMINISTRATIVE ("G&A") EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2024**	2023	**2024**	2023
G&A costs	**1,989**	1,984	**6,162**	7,432
Share-based compensation expense (Note 12)	**63**	(226)	**170**	152
Gross G&A expense	**2,052**	1,758	**6,332**	7,584
G&A costs capitalized to Property and equipment	**(10)**	(58)	**(87)**	(124)
G&A expense	**2,042**	1,700	**6,245**	7,460

16. FINANCE COSTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2024**	2023	**2024**	2023
Interest expense and finance costs - Debt	**3,162**	2,699	**8,559**	11,568
Interest expense - Lease liabilities (Note 9)	**148**	149	**531**	421
Interest expense - Other	**13**	2	**25**	18
Interest income	**(186)**	(114)	**(186)**	(114)
Accretion expense – Decommissioning liabilities (Note 10)	**615**	832	**2,005**	2,475
Finance costs	**3,752**	3,568	**10,934**	14,368

17. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

During the periods ended September 30, 2024 and 2023, there were no transfers among Levels 1, 2 and 3 of the fair value hierarchy.

Derivative contracts are valued using valuation techniques with observable market inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations and third-party option valuation models. The models incorporate various inputs including the credit quality, foreign exchange spot and forward rates, forward rate curves and the volatility of the underlying commodity. The fair values of the derivative contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk.

(i) Fair value determination of amended First Lien Loan and Second Lien Notes on September 13, 2024

As described in Note 8, the substantial modification of the First Lien Loan and Second Lien Notes required the amended debt on September 13, 2024 to be recognized at fair value.

The fair value measurement of the amended debt was non-recurring and was assessed as Level 3 (refer the AFS) as the Company used inputs for the liabilities that are not based on observable market data. The fair value was calculated using the present value of expected future cash flows with the major assumptions and inputs being: (i) settlement of principal, and applicable x1.8 target multiple (in the case of the Second Lien Notes) at maturity date; (ii) interest on First Lien Loan principal based on the terms of the debt agreements with interest payments based on principal amount and referenced bank lending rates and spreads (as referenced in Note 8); (iii) First Lien Loan and Second Lien Notes discounted at 25% and 35%, respectively, based on management's best estimates of rates currently available to PPR for debt on similar terms, credit risk and remaining maturities.

A 1% change in the discount rate used in the fair value measurement of the debt would result in the following impact to net income (loss) for the three and nine month periods ended:

	First Lien Loan Debt	Second Lien Note Debt	Total
Impact on net income (loss)			
Increase of 1% of discount rate	663	141	804
Decrease of 1% of discount rate	(674)	(144)	(818)

(b) Risk Management

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development production and financing activities such as:

- Credit risk;
- Liquidity risk; and
- Market risk

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

(i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and 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 at September 30, 2024, the $4.6 million (December 31, 2023 - $4.2 million) of restricted cash includes $4.2 million (December 31, 2023 – $4.2 million) of guaranteed investment certificates with maturity dates of one year or less and $0.4 million of Subscription Receipt proceeds held in trust related to the Rights Offering (Note 11).

Accounts Receivable

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All of the Company's petroleum and natural gas production is marketed under standard industry terms. Accounts receivable from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a number of large purchasers and by entering into sales contracts with only established, credit-worthy counterparties. The Company historically has not experienced any collection issues with its petroleum and natural gas marketers.

PPR executes its derivative contracts with credit-worthy counterparties believed to have low credit risk. The Company historically has not experienced any collection issues with its derivative instruments counterparties.

Receivables from joint operators are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining the partners' pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint operators as disagreements occasionally arise that may increase the potential for non-collection. The Company does not typically obtain collateral from its marketers or joint operators; however, the Company can withhold production from joint operators in the event of non-payment or may be able to register security on the assets of joint operators.

For the nine months ended September 30, 2024, PPR had two external customers that constituted more than 10 per cent of petroleum and natural gas sales from production with combined sales of $25.5 million. For the nine months ended September 30, 2023, PPR had three external customers that constituted more than 10 per cent of petroleum and natural gas sales from production with combined sales of $40.2 million.

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

($000s)	September 30, 2024	December 31, 2023
Petroleum and natural gas marketing companies	**2,012**	4,918
Joint venture partners	**981**	1,695
Government agencies	**201**	—
Other	**366**	(20)
Total accounts receivable	**3,560**	6,593

The Company's accounts receivable are aged as follows:

($000s)	September 30, 2024	December 31, 2023
Current (less than 90 days)	**3,172**	6,279
Past due (more than 90 days)	**388**	314
Total	**3,560**	6,593

PPR recognized an allowance for doubtful accounts of $0.3 million as at September 30, 2024 (December 31, 2023 - $nil). 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 with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. As at September 30, 2024, there were no derivative contracts outstanding.

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at September 30, 2024 and December 31, 2023. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

($000s)	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
September 30, 2024			
Derivative instruments liabilities - Current	—	—	—
December 31, 2023			
Derivative instruments liabilities - Current	(416)	—	(416)

(ii) Liquidity Risk & Capital Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. As outlined in Note 8, at September 30, 2024, the Company had nil borrowing capacity under the Second Lien Loan. This, and the information provided in Note 2(b) (Going Concern), results in material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

As at September 30, 2024, PPR had outstanding letters of credit of $4.2 million (December 31, 2023 – $4.1 million). The letters of credit are issued by a financial institution at which PPR posted a cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market instruments with maturity dates of one year or less when purchased (see Cash and Restricted Cash above).

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

PPR monitors its capital structure using the Total Leverage Ratio (as defined in Note 8) to trailing twelve months' EBITDAX (as defined in Note 8). The Total Leverage Ratio provides a measure of the Company's ability to manage its debt levels under current operating conditions. The Company's goal is to manage this ratio within the financial covenants imposed on it under its outstanding debt agreements.

(iii) Market Risk

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing returns.

The Company may use financial derivative contracts to manage market risks as disclosed below. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

(iv) Currency Risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated long-term debt. The exposure to fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt.

(v) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the debt fluctuates with changes in interest rates. The Company is exposed to interest rate risk related to borrowings that are drawn under the First Lien Loan and the Second Lien Notes.

A change in interest rates by 100 basis points would have changed net income (loss) by approximately $0.5 million in the nine months ended September 30, 2024 (September 30, 2023 – $0.7 million) assuming all other variables remain constant.

(vi) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

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:

($000s)	**Crude oil and condensate**	**Natural Gas**	**Total**
September 30, 2024			
Derivative instruments – Current liabilities	—	—	—
Total Liabilities	—	—	—
December 31, 2023			
Derivative instruments – Current liabilities	(416)	—	(416)
Total Liabilities	(416)	—	(416)

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, 2024 and 2023:

($000s)	**Crude oil and condensate**	**Natural Gas**	**Total**
Three Months Ended September 30, 2024			
Realized gain (loss) on derivative instruments	—	—	—
Unrealized gain (loss) on derivative instruments	—	—	—
Total gain (loss) on derivative instruments	—	—	—
Three Months Ended September 30, 2023			
Realized gain (loss) on derivative instruments	(677)	357	(320)
Unrealized gain (loss) on derivative instruments	(241)	(310)	(551)
Total gain (loss) on derivative instruments	(918)	47	(871)
Nine months ended September 30, 2024			
Realized loss on derivative instruments	**(485)**	—	**(485)**
Unrealized gain on derivative instruments	**416**	—	**416**
Total loss on derivative instruments	**(69)**	—	**(69)**
Nine months ended September 30, 2023			
Realized gain (loss) on derivative instruments	(1,163)	534	(629)
Unrealized gain on derivative instruments	651	829	1,480
Total gain (loss) on derivative instruments	(512)	1,363	851

At September 30, 2024, the Company has no commodity derivative contracts.

18. RELATED PARTY TRANSACTIONS

PCEP Canadian Holdco, LLC is the immediate holding and parent company of PPR. Please see Notes 11 and 19 with regards to PCEP's participation in the Rights Offering and resulting Common Share subscription in September 2024, as well as its Committed Participation and further participation in the Rights Offering in October 2024.

The First Lien Loan is held with PGIM, Inc., the ultimate parent of PPR. The First Lien Loan and related transactions are described in Note 8.

The Second Lien Notes are held by Prudential Capital Energy Partners, L.P., a subsidiary of PPR's ultimate parent, PGIM. The Second Lien Notes and related transactions are described in Note 8.

19. SUBSEQUENT EVENTS

(a) Closing of Rights Offering

On October 30, 2024, the Company completed its previously announced Rights Offering (Note 11(c)).

In addition to the 400,000,000 Common Shares subscribed to by PCEP on September 27, 2024, PPR issued an additional 80,000,000 Common Shares of the Company pursuant to the Rights Offering and the Standby Commitment at a price of $0.025 per share for additional gross proceeds of $2.0 million. In addition to its 400,000,000 Common Shares subscription on the early exercise of its basic subscription privilege, PCEP acquired 15,434,906 Common Shares under the Standby Commitment at the same subscription price of $0.025 per share. Of the 64,565,094 Common Shares purchased under the Rights Offering by shareholders other than PCEP, 16,600,046 Common Shares were acquired by directors and management of the Company under the Rights Offering. No fees or commissions were paid by the Company in connection with the Rights Offering or the Standby Commitment.

Following completion of the Rights Offering and Standby Commitment, there are 1,196,405,336 Common Shares issued and outstanding of which PCEP holds 956,360,015 Common Shares, or approximately 79.9% of the total Common Shares outstanding.