Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Year Ended
December 31, 2022

Dated: March 31, 2023

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prairie Provident Resources Inc.

Opinion

We have audited the consolidated financial statements of Prairie Provident Resources Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of (loss) earnings and comprehensive (loss) income, consolidated statements of changes in equity (deficit) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2(b) in the consolidated financial statements, which describes events or conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. These events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. In addition to the matter described in the *Material uncertainty related to going concern* section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Reversal of impairment of property and equipment in the Evi CGU As at December 31, 2022, the carrying amount of property and equipment was $192.3 million, which includes the Evi CGU. An impairment recovery of $15.0 million on March 31, 2022 and an impairment of $7.5 million on December 31, 2022 was recorded with respect to property and equipment in the Evi CGU. The Company's disclosures related to property and equipment and impairment reversal are included in *Note 2(e) Use of Estimates and Judgments, Note 3 Significant Accounting Policies and Changes in Accounting Policies* and *Note 6 Property and Equipment*. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods. The recoverable amount of the Evi CGU was determined utilizing a fair value less costs of sale model based on the net present value of after-tax cash flows based on an independent reserve evaluation report. Auditing the Company's estimated recoverable amount for its Evi CGU was complex due to the subjective nature of the underlying inputs and assumptions and the significant effect changes in these would have on the recoverable amount. Additionally, the evaluation of this estimate required specialized skills and knowledge. The primary inputs noted in the determination of the recoverable amount were expected volumes, future commodity prices, royalties, operating costs, future development costs, discount rates and recent sales transactions completed within the industry on assets with similar characteristics to the CGU.	To test the Company's estimated recoverable amounts of its Evi CGU, we performed the following procedures, among others: • Evaluated the Company's independent reserve evaluator's competence, capability and objectivity as well as obtained an understanding of the work they performed. The appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the methods and assumptions utilized. • Involved our internal valuation specialists to assess the methodology applied, and the various inputs utilized in determining the after-tax discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums. • With the assistance of our internal valuation specialists, searched for recent sales transactions completed within the industry and compared the actual operating cash flow metrics based on those transactions to the metrics implied by the Company's estimated recoverable amounts. • Compared forecasted benchmark commodity pricing against historical realized prices and to other third-party price forecasts. • Assessed expected volumes, royalties, operating costs, and future development costs by comparing them to historical results. • Evaluated the adequacy of the impairment note disclosure included in Note 6 of the accompanying consolidated financial statements in relation to this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

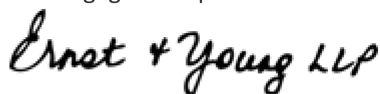
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Robert Mitchell.



Chartered Professional Accountants

Calgary, Alberta
March 31, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at *($000s)*	Note	December 31, 2022	December 31, 2021
ASSETS			
Cash		6,565	1,851
Restricted cash	8,20	4,137	4,332
Accounts receivable	20	9,541	9,315
Inventory		857	823
Prepaid expenses and other assets		4,493	3,282
Total current assets		25,593	19,603
Exploration and evaluation	5	3,832	4,344
Property and equipment	6	192,306	205,816
Right-of-use assets	7	780	2,581
Other assets		619	619
Total assets		223,130	232,963
LIABILITIES			
Accounts payable and accrued liabilities		36,661	19,970
Current portion of long-term debt	8	126,350	—
Lease liabilities - current	10	494	2,274
Derivative instruments – current	20	1,882	8,618
Current portion of decommissioning liability	11	5,500	4,000
Warrant liability	9	4,115	4,115
Total current liabilities		175,002	38,977
Long-term debt	8	—	109,355
Lease liabilities – non-current portion	10	154	584
Derivative instruments	20	140	686
Decommissioning liabilities	11	108,719	142,332
Other liabilities		8,228	7,589
Total liabilities		292,243	299,523
Commitments and contingencies	22		
SHAREHOLDERS' EQUITY			
Share capital	12	101,549	101,421
Contributed surplus		39,084	38,772
Accumulated deficit		(209,629)	(207,227)
Accumulated other comprehensive income (loss) ("AOCI")		(117)	474
Total equity		(69,113)	(66,560)
Total liabilities and shareholders' equity		223,130	232,963

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

Approved by the Board of Directors,

(signed)
Patrick McDonald
Chair of the Board of Directors and Director

(signed)
Ajay Sabherwal
Chair of the Audit Committee and Director

CONSOLIDATED STATEMENTS OF (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) INCOME

For the years ended *($000s)*	Note	December 31, 2022	December 31, 2021
REVENUE			
Oil and natural gas revenue	16	120,598	84,423
Royalties		(20,398)	(9,603)
Oil and natural gas revenue, net of royalties		100,200	74,820
Unrealized gain (loss) on derivative instruments	20	7,282	(10,102)
Realized loss on derivative instruments	20	(25,508)	(9,556)
		81,974	55,162
Other income	11	1,676	2,204
EXPENSES			
Operating	17	45,888	39,194
General and administrative	18	7,506	5,775
Depletion and depreciation	6	21,535	23,093
Exploration and evaluation	5	967	1,249
Depreciation on right-of-use assets	7	1,851	1,638
Gain on property dispositions		(23)	(476)
Loss on warrant liability	9	—	3,429
Gain on modification of financial liabilities	8	—	(3,456)
Impairment reversal	5,6	(16,818)	(40,739)
Loss on foreign exchange		5,476	150
Change in other liabilities		300	219
Finance costs	19	18,287	15,790
Transaction, restructuring and other costs		1,257	1,068
Total expenses – net		86,226	46,934
(Loss) earnings before taxes		(2,576)	10,432
Net tax (recovery) expense	14	(174)	14
Net (loss) earnings		(2,402)	10,418
Other comprehensive loss			
Items that may be reclassified to net earnings:			
Foreign currency translation adjustment		(586)	(48)
Items that will not be reclassified to net earnings:			
Actuarial loss on employee post-retirement benefit plan		(5)	(17)
Total other comprehensive loss		(591)	(65)
Comprehensive (loss) income		(2,993)	10,353

Net (loss) earnings per share			
Basic	12	(0.02)	0.08
Diluted	12	(0.02)	0.06

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

($000s)	Note	Share Capital Amount	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	12	**(2)**	**—**	**—**	**—**	**(2)**
Share-based compensation	13	**—**	**519**	**—**	**—**	**519**
Settlement of share-based compensation, net of withholding tax	12	**152**	**(207)**	**—**	**—**	**(55)**
Purchase of common shares for deferred share unit ("DSU") settlement	12	**(22)**	**—**	**—**	**—**	**(22)**
Actuarial loss on post-retirement benefit plan		**—**	**—**	**—**	**(5)**	**(5)**
Exchange differences on translation of foreign operations		**—**	**—**	**—**	**(586)**	**(586)**
Net loss		**—**	**—**	**(2,402)**	**—**	**(2,402)**
Balance at December 31, 2022		**101,549**	**39,084**	**(209,629)**	**(117)**	**(69,113)**

($000s)	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity (Deficit)
Balance at December 31, 2020	136,534	0	3,662	(217,645)	539	(76,910)
Share issuance costs	(4)	—	—	—	—	(4)
Share cancellation	(35,372)	—	35,372	—		—
Share-based compensation	—	—	60	—	—	60
Settlement of share-based compensation, net of withholding tax	289	—	(322)	—	—	(33)
Purchase of common shares for DSU settlement	(26)	—	—	—	—	(26)
Actuarial loss on post-retirement benefit plan	—	—	—	—	(17)	(17)
Exchange differences on translation of foreign operations	—	—	—	—	(48)	(48)
Net earnings	—	—	—	10,418	—	10,418
Balance at December 31, 2021	101,421	—	38,772	(207,227)	474	(66,560)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended *($000s)*	Note	December 31, 2022	December 31, 2021
OPERATING ACTIVITIES			
Net (loss) earnings		**(2,402)**	10,418
Adjustments for non-cash items:			
Impairment reversal	5,6	**(16,818)**	(40,739)
Gain on modification of financial liabilities	8	**—**	(3,456)
Unrealized (gain) loss on derivative instruments	20	**(7,282)**	10,102
Depletion and depreciation	6	**21,535**	23,093
Depreciation on right-of-use asset	7	**1,851**	1,638
Exploration and evaluation expense	5	**967**	1,249
Accretion and non-cash finance costs	19	**7,791**	8,984
Unrealized foreign exchange loss		**5,237**	277
Change in other liabilities		**300**	219
Gain on property dispositions		**(23)**	(476)
Loss on warrant liability	9	**—**	3,429
Share-based compensation	13	**516**	70
Non-cash other income	11	**(1,676)**	(2,204)
Settlements of decommissioning liabilities	11	**(5,505)**	(3,276)
Deferred interest on Senior Notes & Revolving Facility	8,19	**4,272**	1,798
Other, net		**(101)**	56
Change in non-cash working capital	15	**15,817**	(1,501)
Net cash from operating activities		**24,479**	9,681
FINANCING ACTIVITIES			
Issuance costs		**(13)**	(70)
Settlement of share-based compensation, including withholding taxes and net of proceeds	12,13	**(76)**	(59)
Repayment of principal related to lease obligations	10	**(2,415)**	(2,982)
Change in Revolving Facility borrowings	8,15	**2,524**	1,025
Change in non-cash working capital	15	**500**	1,201
Net cash from (used in) financing activities		**520**	(885)
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	5	**(216)**	(456)
Property and equipment expenditures	6	**(18,997)**	(14,316)
Proceeds from dispositions (net of acquisitions)		**27**	56
Change in non-cash working capital	15	**(1,294)**	3,227
Net cash used in investing activities		**(20,480)**	(11,489)
Change in cash and restricted cash		**4,519**	(2,693)
Cash and restricted cash beginning of period		**6,183**	8,876
Cash and restricted cash end of period		**10,702**	6,183

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2022 and 2021

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 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.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The Company’s significant accounting policies under IFRS are presented in Note 3. The annual financial statements were approved and authorized for issue by the Board of Directors of PPR on March 31, 2023 (the “Financial Statements”).

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

(b) Going Concern

These annual 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.

At December 31, 2022, the Company was in breach of several covenants on its debt facilities, and its revolving credit facility matured within one year. On March 29, 2023, the Company entered into agreements as part of a recapitalization plan (the "Recapitalization") with its lenders as further described in Note 8. The amended debt agreements provide for extensions of certain of the Company’s debt facilities and conversion of its Senior Subordinated notes to equity, and require that the Company close an equity financing for minimum gross proceeds of $4 million. Approval from the Toronto Stock Exchange is required for the issuance of shares in both the equity financing and the debt conversion that are part of the Recapitalization. Failure to complete these steps as part of the Recapitalization in advance of May 31, 2023 would constitute an event of default under the revolving credit facility. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both the revolving facility and the unsecured notes. Should an event of default occur, the Company does not have sufficient cash available to repay debt amounts. Further, the Company does not expect that it will have sufficient cash flows for ongoing operations without a successful equity raise.

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

(c) Basis of measurement

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

(d) Functional and Presentation Currency

The Financial Statements are presented in Canadian dollars (CAN), 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 financial statements in conformity with 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 period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are as follows:

- PPR's oil and gas assets are grouped into cash generating units ("CGUs"). A CGU is the lowest level of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgment and interpretations with respect to the integration between assets, geological formation, geographical proximity, the existence of common sales points and shared infrastructures and the way in which management monitors its operations. The recoverability of PPR's oil and gas assets is assessed at the CGU level, and therefore, the determination of a costs could have a significant impact on impairment losses or impairment reversals;

- Reserves engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering, economic and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgment of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; (iii) the determination of net recoverable amount of oil and gas properties for impairment assessment and measurement, (iv) purchase price allocation for business combinations, and (v) the determination of reserve lives which affect the timing of decommissioning activities, all of which could have a material impact on earnings and financial positions;

- Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs, royalties, and operating costs. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgment is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a change in: market value of assets, asset performance, estimate of future prices, royalties and costs, estimated quantity of reserves and appropriate discount rates;

- Amounts recorded for decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning expenditures, inflation rates and discount rates. Actual costs and cash outflows can differ from estimates because of changes in law and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Decommissioning liabilities are recognized in the period when it becomes probable that there will be a future cash outflow;

- Compensation costs recorded pursuant to share-based compensation plans are subject to the estimated fair values of the awards on the grant date and the estimated number of units that will ultimately vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of options, which requires the Company to determine the most appropriate inputs including the expected life of the options, volatility, forfeiture rates and future dividends, which by nature are subject to measurement uncertainty;

- Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include Black-Scholes option valuation model and forward pricing and swap models. The models incorporate various inputs including the credit quality, foreign exchange spot and forward rates, volatilities of commodity prices and forward rate curves of the underlying commodity. Changes in any of these

assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income;

- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions. PPR recognizes net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted;

- The determination of fair value requires judgment and is based on market information, where available and appropriate. Fair value is best evidenced by an independent quoted market price for the same asset or liability in an active market. However, quoted market prices and active markets do not always exist. In those instances, fair valuation techniques are used. The Company applies judgment in determining the most appropriate inputs and the weighting ascribed to each such input as well as its selection of valuation methodologies. The calculation of fair value is based on market conditions as at each reporting date, and may not be reflective of ultimate realizable value;

- Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events;

- Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing CGU properties requires the use of estimates and judgments and is by its nature subject to measurement uncertainty;

- Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew by considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to PPR's company-specific incremental borrowing rate. This rate represents the rate that PPR would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment; and

- Management applies judgment in reviewing modifications of financial liabilities to determine if the modifications are considered substantial under the requirements of IFRS 9, including the consideration of qualitative and quantitative factors. The classification of a modification as non-substantial or substantial impacts the accounting treatment for the financial liability as to the implementation of modification accounting or extinguishment accounting and as such, may have material implications on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(a) Basis of Consolidation

At December 31, 2022, the Financial Statements included the accounts of PPR and its wholly owned subsidiaries, including Prairie Provident Resources Canada Ltd. (“PPR Canada”), Prairie Provident Resources Canada Inc., Lone Pine Resources Inc., Lone Pine Resources (Holdings) Inc., Arsenal Energy USA Inc., and Arsenal Energy Holdings Ltd. Subsidiaries are consolidated from the date the Company obtains control and continues to be consolidated until the date such control ceases. Control is achieved when PPR is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-entity transactions have been eliminated upon

consolidation between PPR and its subsidiaries in these consolidated financial statements. PPR's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

(b) Joint Arrangements

PPR conducts some of its oil and gas activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. PPR does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, PPR recognizes in the Financial Statements its share of assets, liabilities, revenues and expenses of the arrangements.

(c) Business Combinations

Business combinations are accounted for using the acquisition method of accounting. The fair value of the assets acquired, the liabilities assumed and the consideration transferred is measured at the acquisition date. Transaction costs related to business combinations are expensed when incurred.

If the fair value of the consideration exceeds the net identifiable assets acquired, it is recorded as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a gain in the consolidated statement of earnings and comprehensive income.

(d) Revenue

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The Company satisfies performance obligations and the customer obtains control upon the delivery of crude oil, natural gas and natural gas liquids, which is generally at a point in time. While the transaction price is variable under the terms of the contract, at the time of delivery, there is only a minimal risk of a change in the transaction price to be allocated to the volume sold. Accordingly, at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognized, and there is no need to constrain any variable consideration. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs.

The Company does not have contracts with customers where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

(e) Exploration and Evaluation Assets and Property and Equipment

(i) Recognition and Measurement

Exploration and Evaluation ("E&E") Assets

Pre-license costs are recognized in the consolidated statements of earnings and comprehensive income as incurred.

E&E costs, including the costs of acquiring licenses, obtaining geological and geophysical data, drilling and completing E&E wells, and building associated facilities are initially capitalized as E&E assets according to the nature of the expenditure. E&E assets may include estimated decommissioning costs associated with E&E decommissioning obligations. The costs are accumulated by well, field or exploration area pending determination of technical feasibility and commercial viability. E&E assets are not amortized.

The technical feasibility and commercial viability of extracting a hydrocarbon resource are considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E assets attributable to those reserves are tested for impairment and if estimated recoverable amounts exceed carrying values the E&E assets, are transferred to petroleum and natural gas properties, within property and equipment assets. The cost of

undeveloped land that expires and E&E expenditures determined to be unsuccessful are derecognized by recording exploration and evaluation expense.

Production and Development ("P&D") Assets

P&D assets generally represent costs incurred in acquiring and developing proved and/or probable reserves, and bringing in or enhancing production from such reserves. Development costs include the initial purchase price and directly attributable costs relating to land and mineral leases, geological and seismic studies, property acquisitions, development drilling, construction of gathering systems and infrastructure facilities, decommissioning costs, transfers from E&E assets, and for qualifying assets, borrowing costs. These costs are accumulated on a field or an area basis (major components). The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

The production and development items of property and equipment, which includes oil and natural gas development, properties and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, net of impairment reversals. Development assets include certain stock equipment that is expected to be used in the normal course of P&D field development.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the net proceeds from disposal with the carrying amount of property and equipment and are recognized on a net basis on the consolidated statements of earnings and comprehensive income.

(ii) Depletion and Depreciation

The net carrying value of P&D assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are prepared by independent reserve engineers at least annually.

Proved plus probable reserves are estimated annually by independent and qualified reserve evaluators and represent the estimated quantities of petroleum and natural gas which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves are the remaining quantities of, petroleum and natural gas from known accumulations estimated to be recoverable from a given date forward. The estimates of reserves are determined from drilling, geological, geophysical and engineering data based on established technology and specified economic conditions. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

For other assets, depreciation is recognized in profit or loss on a straight-line or declining-balance basis over the estimated useful life of each part of an item of property and equipment. Leasehold improvements are depreciated over the term of the lease. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Computer equipment is depreciated using the declining-balance basis at a rate of 30 percent per year. Office furniture is depreciated on a straight line basis over five years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

(iii) Impairment

E&E Assets

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) at such time that facts and circumstances indicate that the carrying amount exceeds the recoverable amount. If the recoverable amount does not exceed the carrying amount, an impairment adjustment is recognized in the consolidated statements of earnings and comprehensive income.

For the purposes of impairment testing, E&E assets are allocated to CGUs based on geographical proximity. E&E assets that are not related to established CGUs with reserves, such as undeveloped land holdings, seismic, equipment, and exploration drilling, are subject to impairment testing based on the nature and estimated recoverable amount of the respective cost components.

P&D Assets

PPR assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less cost of disposal ("FVLCD") and its value-in-use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGU level. A CGU is a group of assets that PPR aggregates based on their ability to generate largely independent cash flows. As at December 31, 2022, the Company has five principal operating CGUs – Evi, Michichi, Princess, Provost and Other.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods.

(f) Financial Instruments

(i) Recognition and Measurement

PPR recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. The Company initially measures all financial instruments at fair value. Subsequent measurement of the financial instrument is based on its classification. Financial assets and financial liabilities are classified into the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVPL").

Financial assets and financial liabilities classified as FVPL are measured at fair value with subsequent changes recognized through net income. Financial assets and liabilities classified as amortized cost are measured at amortized cost using the effective interest method of amortization. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial instruments are recognized in the consolidated statement of earnings and comprehensive income over the expected life of the instrument. Financial assets classified as FVOCI are measured at fair values with changes in those fair values recognized in the consolidated statement of earnings and comprehensive income.

(ii) Liabilities and Equity

Financial instruments are classified as a liability or equity based on the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. A contract is also classified as a liability if it is a non-derivative and could obligate the Company to deliver a variable number of its own shares or it is a derivative other than one that can be settled by the delivery of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. An instrument is classified as equity if it evidences a residual interest in the Company's assets after deducting all liabilities.

(iii) Derivative Financial Instruments

Derivative financial instruments are used by the Company to manage its exposure to market risks relating to commodity prices. The Company's policy is not to use derivative financial instruments for speculative purposes. The estimate of fair value of all derivative instruments is based on quoted market prices, or in their absence, third party market indications and forecasts and includes an estimate of the credit quality of counterparties to the derivative instruments. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

The Company has not designated its financial derivative contracts as effective accounting hedges, and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are measured at fair value, with any gains and losses recorded in the consolidated statement of earnings and comprehensive income.

(iv) Derecognition of Financial Instruments

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying value of the liability and the ultimate consideration paid is recognized in the consolidated statement of earnings and comprehensive income. If equity instruments are issued to extinguish a financial liability, the equity instruments are treated as consideration paid and measured at their fair value at the date of extinguishment. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statement of earnings and other comprehensive income.

(v) Impairment

The Company recognizes allowances for losses on its financial assets measured at amortized costs based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of financial asset. To calculate the expected credit loss, PPR applies the simplified approach applying a provision matrix whereby financial assets are grouped into categories based on counterparty characteristics and aging categories. The Company considers past experience and forward-looking information if such information is reasonable and supportable, available without undue costs and effort, and can have a significant impact on the loss estimate.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in the consolidated statement of earnings and comprehensive income. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, PPR derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated statement of financial position.

(vi) Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(g) Fair Value Measurement

PPR measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCD to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 20. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

- the principal market for the asset or liability, or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. PPR uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, PPR determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(h) Provisions

(i) Provisions and Contingencies

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the consolidated statement of earnings and comprehensive income net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A contingency is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable.

(ii) Decommissioning Liabilities

PPR recognizes decommissioning liabilities related to its obligations to dismantle, retire and reclaim its oil and gas properties. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. The present value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligation is subsequently adjusted at the end period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement or towards the settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

(i) Share-Based Compensation

PPR has not offered any awards that are classified as cash-settled awards. For equity settled share-based awards granted to officers, directors and employees, the grant date fair value of such awards is recognized as compensation costs within operating and general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. The

Company also capitalizes a portion of the share-based compensation that is directly attributable to capital projects, with a corresponding decrease to compensation expense.

The fair value of option-based awards is measured using Black-Scholes option valuation model. Non-option based awards are valued based on the fair value of PPR's underlying shares at grant date. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. Upon the exercise of the share-based awards, any consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested awards expire, previously recognized compensation expense associated with such awards is not reversed. In the event that awards are forfeited, previously recognized compensation expense associated with the unvested portion of such awards is reversed.

(j) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Foreign Currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect to the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are not subsequently re-translated. Foreign currency differences arising on translation are recognized in the consolidated statement of earnings and comprehensive income.

(l) Government Grants

Government grants are recognized when there is reasonable assurance that PPR will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are met. When the conditions of a grant relate to income or expense, it is recognized in the consolidated statement of earnings and comprehensive income. When conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

(m) Leases

When PPR is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("ROU asset") and a corresponding lease obligation on the consolidated statements of financial position on the date that a leased asset becomes available for use.

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The ROU asset is depreciated over the lease term on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases or leases on low-value assets are expensed in the consolidated statements of earnings and comprehensive income on a straight-line basis over the lease term.

4. FUTURE ACCOUNTING STANDARD AMENDMENTS

The IASB has issued a number of new accounting standards, amendments to accounting standards, and interpretations that are effective for annual periods beginning on or after January 1, 2023. The following standards have been issued but are not yet in effect.

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.
The amendments are effective for annual periods beginning on or after Jan. 1, 2024, and are to be applied retrospectively. The Company has not yet determined the impact of these amendments on its consolidated financial statements.

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments are not expected to have a material impact on the Company's financial statements.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted.

The Company is currently revisiting their accounting policy information disclosures to ensure consistency with the amended requirements.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12

In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The Company has determined there is no impact to this amendment.

5. EXPLORATION AND EVALUATION ASSETS

($000s)	**December 31, 2022**	December 31, 2021
Cost Balance – beginning of year	62,614	62,544
Additions	**216**	456
Transfers to oil and gas property and equipment (Note 6)	**(77)**	(586)
Adjustments due to change in estimates in decommissioning liabilities (Note 11)	**(215)**	1,511
Exploration and evaluation expense	**(967)**	(1,249)
Disposals	**—**	(62)
Cost Balance – end of year	**61,571**	62,614
Provision for impairment – beginning of year	(58,270)	(56,759)
Impairment reversal (loss)	**531**	(1,511)
Provision for impairment – end of year	**(57,739)**	(58,270)
Net book value – beginning of year	4,344	5,785
Net book value – end of year	**3,832**	4,344

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

As at December 31, 2022, the Company assessed its E&E assets for indicators of impairment or impairment reversal and none were noted. During 2022, PPR recognized $0.5 million of impairment reversal (2021 - $1.5 million of impairment) for changes in estimates of decommissioning liabilities related to E&E properties with zero carrying value.

For the year ended December 31, 2022, PPR recognized $1.0 million (2021 - $1.2 million) of E&E expense related to expired and surrendered leases in various areas.

6. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Year Ended December 31, 2022
Cost:			
Balance – beginning of year	675,115	4,810	679,925
Additions	19,137	132	19,269
Acquisitions, net of dispositions	(27)	—	(27)
Adjustments due to change in estimates in decommissioning liabilities (Note 11)	(27,581)	—	(27,581)
Transfers from exploration and evaluation assets (Note 5)	77	—	77
Balance – end of year	666,721	4,942	671,663
Accumulated impairment, depletion and depreciation:			
Balance – beginning of year	(469,770)	(4,339)	(474,109)
Depletion and depreciation	(21,359)	(176)	(21,535)
Net impairment reversal	16,287	—	16,287
Balance – end of year	(474,842)	(4,515)	(479,357)
Net book value – beginning of year	205,345	471	205,816
Net book value – end of year	191,879	427	192,306

($000s)	Production and Development	Office Equipment	Year Ended December 31, 2021
Cost:			
Balance – beginning of year	677,689	4,650	682,339
Additions	14,568	160	697,067
Disposition, net of acquisitions	15	—	15
Adjustments due to change in estimates in decommissioning liabilities	(17,743)	—	(17,743)
Balance – end of year	675,115	4,810	679,925
Accumulated impairment, depletion and depreciation:			
Balance – beginning of year	(489,104)	(4,093)	(493,197)
Depletion and depreciation	(22,916)	(246)	(23,162)
Impairment reversal	42,250	—	42,250
Balance – end of year	(469,770)	(4,339)	(474,109)
Net book value – beginning of year	188,585	557	189,142
Net book value – end of year	205,345	471	205,816

As at December 31, 2022, an estimated $217.2 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2021 - $218.5 million).

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

During the year ended December 31, 2022, $1.1 million (2021 – $0.8 million) of directly attributable general and administrative expenses, including nil (2021 – nil) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment

During 2022, PPR recognized $8.8 million of impairment reversal (2021 - $7.3 million) for changes in estimates of decommissioning liabilities related to property and equipment with zero carrying value.

At March 31, 2022, the increase in forecast benchmark commodity prices was identified as an indicator of impairment reversal related to the Evi CGU. As a result, the Company completed an impairment test on the Evi CGU in accordance with IAS 36 and determined that the carrying amount exceeded the fair value less costs of sale ("FVLCD"), resulting in the recognition of $15.0 million of non-cash impairment reversal in the period. At March 31, 2022, there were no indicators of impairment or impairment reversal identified for any of the Company's other CGUs.

At December 31, 2022, the decrease in production from the Company's Evi CGU was considered an indicator of impairment. There were no indicators of impairment or impairment reversal on any other CGUs. As a result, the Company completed an impairment test on the Evi CGU in accordance with IAS 36 and determined that the carrying amount exceeded the fair value less costs of sale ("FVLCD"), resulting in the recognition of $7.5 million of non-cash impairment expense in the period. At December 31, 2022, there were no indicators of impairment or impairment reversal identified for any of the Company's other CGUs.

The FVLCD values used to determine the recoverable amount are classified as Level 3 in the fair value hierarchy (see Note 3(g)) as certain key assumptions are not based on observable market data but rather the Company's best estimate. In estimating the FVLCD, PPR considered the net present value of after-tax cash flows from reserves based on independent reserve evaluation report prepared as at December 31, 2022. The FVLCD was estimated using an after tax discount rate of 15.5%. The calculation of recoverable amounts are subject to the use of estimates and judgements (see Note 2(e)).

The recoverable amounts as at December 31, 2022 were calculated using the following benchmark prices and assumptions, based on the forecast provided by our independent reserve evaluator:

	WTI ($US/bbl)	Edmonton Light ($CAD/ bbl)	AECO ($CAD/ MMBtu)	Exchange rate ($US equals, $1CAD)	Inflation rate
2023	86.00	110.67	4.33	0.75	0%
2024	84.00	101.25	4.34	0.80	2%
2025	80.00	96.18	4.00	0.80	2%
2026	81.60	98.10	4.08	0.80	2%
2027	83.23	100.06	4.16	0.80	2%
2028	84.90	102.06	4.24	0.80	2%
2029	86.59	104.10	4.33	0.80	2%
2030	88.33	106.18	4.42	0.80	2%
2031	90.09	108.31	4.50	0.80	2%
2032	91.89	110.47	4.59	0.80	2%
2033	0.00	-1.02	0.00	0.80	2%
Thereafter (inflation percentage)	2%	2%	2%	0.80	2%

At June 30, 2021, the significant increase in forecast benchmark commodity prices since the last impairment test at March 31, 2020 was an indicator of impairment reversal. PPR conducted a test for impairment reversal and determined that the recoverable amount exceeded the carrying amount for the Evi and Princess CGUs, resulting in the recognition of $35.0 million of impairment reversal in net income for the period.

7. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance – December 31, 2020	1,862	6,687	312	8,861
Additions and modifications	62	—	214	276
Derecognitions	—	—	(5)	(5)
Balance – December 31, 2021	1,924	6,687	521	9,132
Additions and modifications	**80**	**—**	**92**	**172**
Derecognitions	**—**	**—**	**(122)**	**(122)**
Balance – December 31, 2022	**2,004**	**6,687**	**491**	**9,182**
Accumulated depreciation:				
Balance – December 31, 2020	(1,449)	(3,210)	(254)	(4,913)
Depreciation	22	(1,605)	(55)	(1,638)
Balance – December 31, 2021	(1,427)	(4,815)	(309)	(6,551)
Depreciation	**(197)**	**(1,605)**	**(49)**	**(1,851)**
Balance – December 31, 2022	**(1,624)**	**(6,420)**	**(358)**	**(8,402)**
Net book value – December 31, 2021	497	1,872	212	2,581
Net book value – December 31, 2022	**380**	**267**	**133**	**780**

8. LONG-TERM DEBT

($000s)	December 31, 2022	December 31, 2021
Revolving Facility		
USD Advances (US$19.0 million (December 31, 2021 - US$17 million))[1]	25,735	21,553
CAD Advances (US$30.0 million (December 31, 2021 - US$30.0 million))[2]	40,530	40,530
CAD Deferred Interest (US$0.4 million (December 31, 2021 - US$0.4 million)[2]	541	541
Total principal - Revolving Facility	66,806	62,624
Senior Notes Issued October 31, 2017		
Principal (US$16.0 million)[1]	21,671	20,285
Deferred interest (US$5.3 million (December 31, 2021 - US$4.4 million))[1]	7,241	5,587
Total Principal and Deferred Interest - October 31, 2017 Senior Notes	28,912	25,872
Senior Notes Issued November 21, 2018		
Principal (US $12.5 million)[1]	16,930	15,848
Deferred interest (US$3.3 million (December 31, 2021 - US$2.6 million))[1]	4,499	3,324
Total Principal and Deferred Interest - November 21, 2018 Senior Notes	21,429	19,172
Senior Notes Issued December 21, 2020		
Principal (US$11.4 million)[1]	15,424	14,438
Deferred interest (US$3.1 million (December 31, 2021 - US$1.5 million))[1]	4,180	1,866
Total Principal and Deferred Interest - December 21, 2020 Senior Notes	19,604	16,304
Total Principal and Deferred Interest - Senior Notes	69,945	61,348
Unamortized deferred financing fees	(201)	(389)
Unamortized value allocated to Warrant Liability	(304)	(330)
Unamortized value allocated to modifications	(9,896)	(13,898)
Long-term debt	126,350	109,355
Long-term debt due within one year	(126,350)	—
Long-term debt due beyond one year	—	109,355

[1] Converted using the month end exchange rate of $1.00 USD to $1.35 CAD as at December 31, 2022 and $1.00 USD to $1.27 CAD as at December 31, 2021.
[2] Converted using the exchange rate at the time of borrowing of $1.00 USD to $1.35 CAD.

(a) Revolving Facility

The Revolving Facility was scheduled to mature on December 31, 2023. On March 29, 2023, PPR and the Revolving Facility lenders agreed to amendments which extended the maturity date to June 30, 2024. As this extension was completed subsequent to December 31, 2022, the Revolving Facility has been classified as current at year end. As of December 31, 2022, the borrowing base was US$50.0 million (2021 — US$53.8 million) following a scheduled reduction from US$53.8 million on the same date. The next scheduled borrowing base re-determination is in Spring 2024 based on the year-end 2023 reserves evaluation. As at December 31, 2022, the Company had nil (2021 - US$6.4 million) available borrowing capacity as the lender indicated no additional draws were possible.

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 can be drawn in the form of USD or CAD advances bearing 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.

Under the Revolving Facility, PPR can make further draws under the Revolving Facility on or before the maturity date, subject at all times to the then-applicable commitment amount. 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 the lesser of CAN$54 million or US$30 million. As of March 29, 2023, the limit on CAD advances has been modified to approximately $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 December 31, 2022, PPR had outstanding letters of credit of $4.1 million (December 31, 2021 – $4.2 million). The letters of credit are issued by a financial institution at which PPR has posted cash deposits collateral. The related deposits are 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.

As at December 31, 2022, $0.5 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2021 – $0.4 million).

(b) Subordinated Senior Notes

On March 29, 2023, the Company announced a comprehensive recapitalization plan (the "Recapitalization"), see Note 8 (d). On December 29, 2021, PPR amended its agreements for senior notes originally issued on October 31, 2017 and November 21, 2018 with total principal outstanding of US$28.5 million (the "Senior Notes due 2024"). Interest on the Senior Notes due 2024 was nil until June 30, 2021, rising to 4% in March 2022 and to 8% in August 2022.

Interest on Senior Notes is payable quarterly. The Senior Note agreements provide that so long as any indebtedness remains outstanding under the Revolving Facility, PPR may elect to defer all interests due on the Senior Notes. The terms of the Revolving Facility require that the Company make this election. PPR will thereafter be permitted to elect to defer up to 4.00% per annum of interest on the Senior Notes.

PPR accounted for the December 29, 2021 amendments to the Senior Notes due 2024 as a modification, resulting in the recognition of a gain on revaluation of the liability in the fourth quarter of 2021 of $3.5 million.

(c) Covenants

The note purchase agreement for the Revolving Facility, the Senior Notes agreement 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 and the Senior Notes include the same financial covenants, with less restrictive thresholds under the Senior Notes agreements.

The applicable financial covenants thresholds as at December 31, 2022 are as follows:

	Revolving Facility Requirement	Senior Note Requirement	As at December 31, 2022
Senior Leverage[1]	Cannot exceed 3.00 to 1.00	Cannot exceed 3.45 to 1.00	2.86 to 1.00
Asset Coverage[2]	Cannot be less than 0.83 to 1.00	Cannot be less than 0.71 to 1.00	0.94 to 1.00
Current Ratio[3]	Cannot be less than 1.00 to 1.00	Cannot be less than 0.85 to 1.00	0.76 to 1.00

[1] Under the debt agreements, the Senior Leverage ratio is the ratio of Senior Adjusted Indebtedness (defined herein) to EBITDAX (defined herein) for the four quarters most recently ended. Senior Adjusted Indebtedness is defined as Adjusted Indebtedness (defined herein) less subordinated borrowings. Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral. EBITDAX is defined as 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 (“pro-forma adjustments”).
[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 (as defined above).
[3] Under the debt agreements, the Current Ratio is the ratio of consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities at the end of any fiscal quarter. Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, lease liabilities, decommissioning obligations, derivative liabilities and non-cash liabilities.

The Company was in breach of the Current Ratio and other non-financial covenants as at December 31, 2022 and subsequently received a waiver from the lenders. These covenant breaches created a right for the lenders under each facility to accelerate the maturity of their indebtedness. None of the Company’s lenders have delivered a notice of an event of default required to accelerate the maturity of their facilities, and the contractual maturity of all facilities has not changed as a result of these defaults. However, as a result of the lenders’ right to accelerate the maturity, under IFRS requirements, the Subordinated Senior Notes have been classified as current as at December 31, 2022. As of March 29, 2023, these defaults have been waived, and the lenders no longer have the right to accelerate the maturities of the facilities.

The amendments to debt facilities agreed as of March 29, 2023 require the Company to maintain minimum cash and cash equivalents of $500,000 at all times and include the following modifications to the covenants, for the following quarters only:

- For the quarter ended March 31, 2023, the financial covenants will not apply;
- Senior Leverage cannot exceed:
  - 3.50 to 1.00 for the quarters ended June 30 and September 30, 2023 (Revolving Facility)
  - 3.75 to 1.00 For the quarters ended June 30 and September 30, 2023, and 3.25 to 100 for all remaining quarters until maturity (Senior Notes)
- Asset Coverage cannot be less than:
  - For the quarters ended June 30 and September 30, 2023, 75% (Senior notes 71%)
  - For all remaining quarters until maturity, 90% (Senior Notes 78%)
- Current Ratio cannot be less than:
  - For the quarters ended June 30 and September 30, 2023, 0.90 (Senior Notes 0.75)
  - For all remaining quarters until maturity, 1.00 (Senior Notes 0.90)

(d) Recapitalization

On March 29, 2023, the Company announced the Recapitalization. Through a series of transactions, the Recapitalization provides for:

- Immediate waiver of covenant breaches on all debt facilities, including the Current Ratio default described above
- Immediate extension of the Revolving Facility to July 1, 2024
- Immediate funding of a new US$3.6 million (approximately $5.0 million Canadian) second lien notes (the "Second Lien Facility"), which closed March 30, 2023
- Conversion of the Subordinated Senior Notes to equity, contingent on an equity financing of at least $4.0 million (the "Debt Conversion"), and conversion of the Senior Subordinated Noteholders' warrants to equity
- An equity financing of at least $4.0 million (the "Equity Financing")

Completion of the Recapitalization is contingent on successful completion of the Equity Financing. Failure to complete the Equity Financing by May 31, 2023, would constitute an event of default under the Revolving Facility. The Company launched an offering of units (composed of common shares and warrants) that would satisfy the Equity Financing requirement on March 29, 2023, if the offering closes successfully. The Equity Financing and the Debt Conversion are subject to approval by the Toronto Stock Exchange.

The second Lien Facility has an initial amount of US$3.6 million (approximately $5.0 million Canadian) and maturity of December 31, 2024. It bears interest at the Secured Overnight Financing Rate ("SOFR") plus 1150 basis points with all interest payments in kind. The Second Lien Facility is also subject to a deferred compensation fee of up to 0.8 times the principal amount, subject to a cap on the noteholders' internal rate of return of 45%.

9. WARRANT LIABILITY

	Warrants ***(000s)***	**Amount** ***($000s)***
PPR Warrant Liability, December 31, 2020	34,292	686
Fair value adjustment	—	3,429
PPR Warrant Liability, December 31, 2021	34,292	4,115
Fair value adjustment	—	—
PPR Warrant Liability, December 31, 2022	**34,292**	**4,115**

In conjunction with the modification of Senior Notes due 2024 on December 21, 2020 and the issuance of Senior Notes due 2026, PPR issued a total of 34,292,360 warrants with an exercise price of $0.0192 per share for an eight-year term expiring on December 21, 2028. As part of the Recapitalization described in Note 8, the warrant holders are required to exercise all warrants on the closing of the Equity Financing.

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 earnings and comprehensive income. The fair value of these warrants is determined using the Black-Scholes option valuation model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position. The value of the warrant liability as at December 31, 2022 was $4.1 million (December 31, 2021 - $4.1 million). For the year ended December 31, 2022, PPR recorded a charge of nil (2021— $3.4 million loss) on warrant liabilities.

The fair value of the warrants as at December 31, 2022 of $0.12 per warrant was estimated using the following assumptions:

December 31, 2022	**Warrants Expiring December 21, 2028**
Risk free interest rate	**3.41 %**
Expected life of options (years)	**5.92**
Expected volatility	**159 %**
Stock price	**$0.12**
Dividends per share	**—**

10. LEASE LIABILITIES

($000s)	December 31, 2022	December 31, 2021
Opening balance	2,858	5,154
Additions and modifications	36	286
Finance expense	169	414
Lease payments	(2,415)	(2,996)
Ending balance	648	2,858
Less: current portion	494	2,274
Ending balance – long-term portion	154	584

The expense recognized for variable lease payments (net of variable sublease income) excluded from the measure of lease liabilities during the year ended December 31, 2022 was $0.2 million (2021 - $0.1 million).

The Company incurs lease payments related to vehicles, head office facilities and a gas processing facility. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments at the incremental borrowing rates between 7.0% - 10.0% (2021 - 7.0% - 10.0%).

Short-term leases are leases with a lease term of twelve months or less while low-value assets comprised of information technology and miscellaneous equipment. Such items are charged to operating expenses and general and administrative expenses in the consolidated statements of earnings and comprehensive income and are immaterial.

The following table details the undiscounted cash flows of PPR's lease obligations, as at December 31, 2022:

($000s)	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	494	184	12	44	734	648

11. DECOMMISSIONING LIABILITIES

($000s)	December 31, 2022	December 31, 2021
Total Balance – beginning of year	146,332	166,226
Liabilities incurred	269	422
Liabilities acquired (disposed) - net	—	(467)
Government grants	(1,676)	(2,204)
Settlements	(5,505)	(3,276)
Change in estimates	(27,833)	(16,232)
Accretion of decommissioning liabilities	2,632	1,863
Total Balance – end of year	114,219	146,332
Current portion – end of year	5,500	4,000
Long-term portion – end of year	108,719	142,332

The Company estimated the undiscounted and inflated total future liabilities to be approximately $254.6 million (December 31, 2021 – $245.9 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 $20.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at December 31, 2022 were determined using risk-free rates of 2.77% - 2.93% (December 31, 2021 – 0.72% - 1.88%) and an inflation rate of 1.8% (December 31, 2021 – 1.6%).

In 2022, the change in estimates of $27.8 million is comprised of a $33.8 million decrease resulting from higher risk-free discount rates applied at December 31, 2022, which were partially offset by a $5.9 million increase resulting from higher inflation rates and other changes applied as at December 31, 2022. In 2021, the decrease in decommissioning liabilities of $16.2 million related to changes in estimates was comprised of a $20.1 million increase from a higher inflation rate, a $26.4 million decrease due to higher risk-free rates and a $9.9 million decrease resulting from changes in cost and timing estimates applied at December 31, 2021.

During 2022, PPR recognized $1.7 million (2021 - $2.2 million) of non-cash other income and a corresponding reduction in decommissioning liabilities related to government grants under the Government of Alberta's Site Rehabilitation Program.

12. SHARE CAPITAL

(a) Authorized

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

(b) Units Outstanding

	Number of Shares *(000s)*	**Amount *($000s)***
Common shares:		
PPR Shares, December 31, 2020	172,324	136,534
Share issuance costs	—	(4)
Issued for Options, RSU and DSU settlement	1,468	328
Witholding taxes on RSU and DSU settlement	—	(39)
Share repurchase for DSU settlement	(356)	(26)
Share cancellation	(44,711)	(35,372)
PPR Shares, December 31, 2021	128,725	101,421
Share issuance costs	—	(2)
Issued for Options, RSU and DSU settlement	1,463	301
Witholding taxes on RSU and DSU settlement	—	(149)
Share repurchase for DSU settlement	(91)	(22)
PPR Shares, December 31, 2022	**130,097**	**101,549**

In the first quarter of 2021, PPR cancelled 44,711,330 common shares, representing approximately 25.9% of the total number of common shares previously outstanding, that were surrendered by a shareholder to the Company for nominal consideration. The difference between the carrying value of the cancelled shares and the consideration received was recorded as contributed surplus.

(c) Earnings per Share

Years Ended *(000s)*	December 31, 2022	December 31, 2021
Net (loss) earnings for the year	(2,402)	10,418
Weighted average number of common shares		
Basic	129,295	136,944
Diluted	129,295	165,529
Basic net (loss) earnings per share	(0.02)	0.08
Diluted net (loss) earnings per share	(0.02)	0.06

The weighted-average diluted common shares for the year ended December 31, 2022, 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 (December 31, 2021 – 1.9 million options and 1.1 million DSUs).

13. SHARE-BASED COMPENSATION

(a) Stock Options

Under the Company's stock option plan, options granted vest evenly over a three-year period and expire 5 years after the grant date. Each option entitles the holder to purchase one common share at the specified exercise price.

The following tables summarize the stock options outstanding and exercisable under the plan:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2020	5,514,877	0.34
Granted	1,000,000	0.08
Exercised	(124,040)	—
Forfeited or expired	(2,989,822)	0.39
Balance, December 31, 2021	3,401,015	0.24
Granted	2,620,000	0.29
Exercised	(762,237)	0.12
Forfeited or expired	(2,491,990)	0.24
Balance, December 31, 2022	2,766,788	0.32
Exercisable at December 31, 2022	806,829	0.12

	Options Outstanding			Options Exercisable	
Year of Grant	**Number Outstanding**	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Life (years)**	**Number Exercisable**	**Weighted Average Exercise Price**
2019	270,774	0.21	1	270,774	—
2020	316,014	0.05	2.1	202,721	0.05
2021	600,000	0.08	3.6	333,334	0.08
2022	1,580,000	0.29	3.5	—	—
Total	2,766,788	0.21	3.1	806,829	0.12

The weighted average remaining contractual life of options outstanding as at December 31, 2022 was 3.1 years (December 31, 2021 – 2.7 years). The fair value of options granted in 2022 was 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 for the year ended	December 31, 2022
Fair value of options per unit	$0.19
Risk free interest rate	2.4%
Expected life of options (years)	2.9
Expected volatility	157.8%
Estimated forfeiture rate	2.1%
Dividend per share	—
Exercise price of options	$0.29
Number of options granted	2,620,000

(b) Deferred Restricted Share Units

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. Certain of the DSU grants do not allow for settlement by issuance of common shares from treasury and require settlement to be made through the delivery of common shares purchased through the open market or by cash.

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2020	2,337,081
Granted	550,000
Settled	(1,006,813)
Balance, December 31, 2021	1,880,268
Granted	—
Settled	**(915,134)**
Balance, December 31, 2022	**965,134**

(c) Restricted Share Units

Restricted share units ("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.

	RSUs
Balance, December 31, 2020	1,805,021
Granted	1,816,000
Settled	(1,076,056)
Forfeited or expired	(1,070,702)
Balance – December 31, 2021	1,474,263
Granted	**975,000**
Settled	**(416,464)**
Forfeited or expired	**(233,910)**
Balance – December 31, 2022	**1,798,889**

The weighted average fair value at grant date for the RSUs awarded during the year ended December 31, 2022 was $0.26 per unit.

(d) Share-based compensation expense

Years Ended *($000s)*	**December 31, 2022**	December 31, 2021
Shared based compensation expense:		
Included in G&A	**519**	60
Share-based compensation expense before capitalization	**519**	60
Capitalized during the period	**(3)**	10
Share-based compensation expense after capitalization	**516**	70

14. INCOME TAX

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to net loss before income tax expense as follows:

Years ended *($000s)*	December 31, 2022	December 31, 2021
Net earnings (loss) before taxes	(2,576)	10,432
Statutory income tax rate [1]	23.00 %	22.94 %
Expected income tax expense (recovery)	(592)	2,393
Add (deduct):		
Change in unrecognized deferred tax asset	1,193	(4,038)
Foreign currency translation gains (losses)	(601)	(30)
Non-deductible share-based compensation	(119)	16
Other	(55)	1,673
Tax expenses (recovery)	(174)	14

As of December 31, 2022 and 2021, the Company did not recognize any deferred tax assets in excess of taxable temporary differences as there was insufficient evidence to indicate that it was probable that future taxable profits in excess of profits arising from the reversal of existing temporary difference would be generated to utilize the existing deferred tax assets.

15. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Years Ended *($000s)*	December 31, 2022	December 31, 2021
Source (use) of cash:		
Accounts receivable	(226)	(1,440)
Prepaid expenses and other current assets	(1,245)	(847)
Accounts payable and accrued liabilities	16,691	5,287
Less: Foreign exchange on translation	(197)	(73)
	15,023	2,927
Related to operating activities	15,817	(1,501)
Related to financing activities	500	1,201
Related to investing activities	(1,294)	3,227
	15,023	2,927
Other:		
Interest paid during the year	5,570	5,128

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance as of December 31, 2020	60,798	42,273
Changes in cash flows	1,025	—
Deferred interest	—	1,798
Debt issuance costs	(66)	—
Non-cash changes		
Unrealized foreign exchange loss	110	174
Amortization of debt issuance costs	368	13
Fair valuation of debt	—	(3,456)
Amortization of fair value adjustment	—	6,318
Balance as of December 31, 2021	62,235	47,120
Draws on Revolving Facility	2,524	—
Deferred interest	—	4,272
Debt issuance costs	(12)	—
Non-cash changes		
Unrealized foreign exchange loss	1,657	3,574
Amortization of debt issuance costs	199	26
Amortization of fair value adjustment	—	4,755
Balance as of December 31, 2022	66,603	59,747

16. REVENUE

Years Ended *($000s)*	December 31, 2022	December 31, 2021
Crude oil	76,870	61,740
Heavy oil	22,860	7,739
Natural gas	17,419	12,123
Natural gas liquids	3,449	2,821
Oil and natural gas revenue	120,598	84,423

Included in accounts receivable at December 31, 2022 was $7.0 million (December 31, 2021 – $6.9 million related to December 2021 production) of accrued oil and natural gas revenue related to December 2022 production.

17. OPERATING EXPENSES

Years Ended *($000s)*	December 31, 2022	December 31, 2021
Lease operating expense	33,364	29,042
Transportation and processing	7,050	4,679
Production and property taxes	5,474	5,473
Operating expense	45,888	39,194

18. GENERAL AND ADMINISTRATIVE COSTS

Years Ended *($000s)*	December 31, 2022	December 31, 2021
Salaries and benefits	**4,058**	3,668
Share-based compensation (Note 13)	**519**	60
Office rents and leases	**203**	895
Professional fees	**3,153**	1,927
Other – office	**697**	(8)
Gross general and administrative expense	**8,630**	6,542
Amounts capitalized to P&E	**(1,124)**	(767)
General and administrative expense	**7,506**	5,775

During the year ended December 31, 2021, PPR qualified for $0.6 million of government grants under the Canada Emergency Wage Subsidy program, which were recognized as reductions in general and administrative expenses in the "Other - office" category.

19. FINANCE COSTS

Years Ended ($000s)	December 31, 2022	December 31, 2021
Interest expense	**6,225**	5,008
Deferred interest expense[1]	**4,272**	1,798
Accretion – decommissioning liabilities (Note 11)	**2,632**	1,863
Non-cash interest on debt modifications and warrant liabilities	**4,781**	6,331
Amortization of financing costs	**199**	368
Non-cash interest on lease obligations (Note 10)	**169**	414
Accretion – other liabilities	**9**	8
Finance cost	**18,287**	15,790

[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.

20. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Values of financial instruments

The fair value of the borrowings under PPR's Revolving Facility approximates its carrying value (excluding deferred financing charges and the value assigned to the warrant liability) as the Revolving Facility bears floating market rates. At December 31, 2022 the fair value of borrowings under the Senior Notes was $59.7 million (December 31, 2021 - $47.1 million).

Cash, derivative instruments and warranty liability are measured and recorded on PPR's statement of financial position at FVPL. Cash, restricted cash, derivative contracts and the warrant liability have been assessed on the fair value hierarchy described in Note 3(g). Cash is classified as Level 1, while restricted cash, derivative contracts and warrant liability are classified as Level 2. The disclosure of the fair value of the Revolving Facility and Senior Notes are classified as Level 3. During the years ended December 31, 2022 and 2021, there were no transfers among Levels 1, 2 and 3.

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, and forward rate curves and volatilities 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.

(b) Risk Management

The Company's activities expose it to a variety of financial risks that arise as 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 of December 31, 2022, restricted cash included $4.1 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2021 – $4.3 million).

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 oil 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 oil 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 oil and natural gas 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 year ended December 31, 2022, PPR had four external customers that constituted more than 10 per cent of oil and natural gas revenue with combined revenues of $83.6 million. At December 31, 2021, PPR had four external customers that constituted more than 10 per cent of commodity sales from production, with sales of $64.6 million.

As at December 31, the maximum exposure to credit risk for receivables at the reporting date by type of customer was:

($000s)	**December 31, 2022**	December 31, 2021
Oil and natural gas marketing companies	**7,733**	7,435
Joint operators	**1,367**	928
Other	**441**	952
Total accounts receivable	**9,541**	9,315

As at December 31, the Company's accounts receivable are aged as follows:

($000s)	**December 31, 2022**	December 31, 2021
Current (less than 90 days)	**9,147**	8,993
Past due (more than 90 days)	**394**	322
Total	**9,541**	9,315

PPR's allowance for doubtful accounts was $0.02 million as at December 31, 2022 (December 31, 2021 – $0.03 million). Based on industry experience, the Company considers its joint interest accounts receivable to be in default when the receivable is more than 90 days past due. 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 of December 31, 2022, all of the derivative counterparties have entered inter-creditor agreements with the Company's lender to eliminate the need to post any collateral. PPR does not require the posting of collateral for its benefit under its derivative agreements. However, PPR's ISDA Master Agreements generally contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions generally apply to all derivative transactions, or all derivative transactions of the same type (e.g., commodity, interest rate, etc.), with the particular counterparty.

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. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at December 31, 2022 and December 31, 2021. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

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

December 31, 2021 *($000s)*	Gross Assets (Liabilities)	Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments liabilities	(9,224)	606	(8,618)
Long-term:			
Derivative instruments liabilities – long-term	(950)	264	(686)

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity and equity issuances along with its planned capital expenditure program. As outlined in Note 8, at December 31, 2022, the Company had nil borrowing capacity under the Revolving Facility as the lender indicated no additional draws were possible.

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

The Company forecasts that it will continue to meet its obligations including interest payments, capital spending and abandonment and remediation expenses with its internally generated cash flows and available borrowing capacity should the Equity Financing be completed.

PPR anticipates its future development to be funded primarily with cash flows from operations. The Company has determined that its current financial obligations, including current commitments (Note 22), will be adequately funded from the available borrowing capacity, cash flows from operating activities and working capital derived from operations.

The following table details the cash flows and contractual maturities of the Company's financial liabilities at December 31, 2022, and does not reflect the Restructuring described in Note 8:

As at December 31, 2022	Total	1 Year	2-3 Years	4-5 Years	Beyond 5 Years
Account Payable and accrued liabilities	36,661	36,661	—	—	—
Derivative instruments	2,022	1,882	140	—	—
Lease obligations	734	494	184	12	44
Interest payments[1]	7,020	7,020	—	—	—
Long-term debt	136,751	136,751	—	—	—
Total	183,188	182,808	324	12	44

1 Interest payments are estimated for the Revolving Facility using year-end outstanding borrowing and year-end prime interest rate plus applicable margins for the related borrowing periods.

(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 the return.

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. Therefore, the Company has entered into commodity hedges in US dollars to maintain such natural economic hedges.

The following table demonstrates the effect of a 10% strengthening or weakening of the Canadian/US exchange rate on the Company's earnings before taxes due to changes in the unrealized gain or loss on revaluation of outstanding US dollar denominated long-term debt and unrealized gain or loss on derivative instruments on contracts in place at December 31, 2022:

	Increase in CAD/USD Rate		Decrease in CAD/USD Rate	
($000s)	**2022**	**2021**	**2022**	**2021**
US dollar-denominated debt	**9,568**	8,290	**(9,568)**	(8,290)
Risk management contracts	**(202)**	(930)	**202**	930
Earnings (loss) before taxes	**9,366**	7,360	**(9,366)**	(7,360)

(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 Revolving Facility fluctuates with changes in prime interest rates. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Facility.

A change in prime interest rates by 100 basis points would have changed net loss by approximately $0.7 million in 2022 (2021 – $0.6 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:

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)**

December 31, 2021	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current liabilities	(7,815)	(803)	(8,618)
Derivative instruments – long-term liabilities	(364)	(322)	(686)
Total liabilities	(8,179)	(1,125)	(9,304)

The following table summarizes commodity derivative transactions as at December 31, 2022:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Put Spread Options (No Ceiling)				
January 01, 2023 - March 31, 2023	US$ WTI	1,100	3.50[1]	$40.00/50.00
April 01, 2023 - June 30, 2023	US$ WTI	1,050	3.75[1]	$40.00/50.00
Crude Oil Three-way Collars				
July 01, 2023 - December 31, 2023	US$ WTI	500		$55.00/65.00/105.00

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

Remaining Term	Reference	Total Daily Volume (MMBtu)	Weighted Average Price/MMBtu
Natural Gas Three-way Collars			
January 01, 2023 - March 31, 2023	US$ NYMEX	3,300	$2.00/2.50/3.75
July 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.65
Natural Gas Collars			
April 01, 2023 - June 30, 2023	US$ NYMEX	3,000	$2.00/3.80

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the year ended December 31, 2022 and 2021:

Year ended December 31, 2022	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(20,108)	(5,400)	(25,508)
Unrealized gain on derivative instruments	6,880	402	7,282
Total loss	(13,228)	(4,998)	(18,226)

Year ended December 31, 2021	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(8,114)	(1,442)	(9,556)
Unrealized loss on derivative instruments	(8,957)	(1,145)	(10,102)
Total loss	(17,071)	(2,587)	(19,658)

The Company's operational results and financial condition are largely dependent on the commodity price received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors.

PPR manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts. The Company assesses the effects of movement in commodity prices on income before tax. When assessing the potential impact of these commodity price changes, the Company believes a ten percent volatility is a reasonable measure. A ten percent increase or decrease in commodity prices would have resulted in the following impact to

unrealized gains (losses) on derivative instruments and earnings (loss) before taxes, assuming all other variables, including the Canadian/United States dollar exchange rate, remain constant:

	Increase by 10%		Decrease by 10%	
($000s)	2022	2021	2022	2021
Crude oil	**(5,166)**	(5,566)	**(1,599)**	1,915
Natural gas	**(1,234)**	(1,160)	**(191)**	(155)

(c) Capital Management

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.

The Company monitors its current and forecasted capital structure in response to changes in economic conditions and the risk characteristics of its oil and gas properties. Adjustments are made on an ongoing basis in order to meet its capital management objectives. PPR's short-term capital management objective is to fund its capital expenditures necessary for the replacement of production declines using primarily cash flow from operating activities. Value-creating activities may be financed with a combination of cash flow from operating activities and other sources of capital.

PPR monitors its capital structure using the ratio of Senior Leverage (as defined in Note 8) to trailing twelve months' EBITDAX (as defined in Note 8). Senior Leverage to EBITDAX 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. As December 31, 2022, the Senior Leverage ratio was 2.86 to 1.00, lower than the required threshold.

21. KEY MANAGEMENT COMPENSATION

The aggregate compensation of directors and executive management is summarized as follows:

Years Ended *($000s)*	**December 31, 2022**	December 31, 2021
Salary, bonus and fees	**1,813**	1,773
Termination payments	**606**	617
Share based compensation	**46**	39
Total remuneration	**2,465**	2,429

Share based compensation included in key management compensation is non-cash compensation.

22. COMMITMENTS AND CONTINGENCIES

The Company has non-cancellable contractual obligations summarized at December 31, 2022, and does not reflect the Restructuring described in Note 8, as follows:

	2023	**2024**	**2025**	**2026**	**2027**	**Thereafter**	**Total**
Debt (interest and principal)	**136,751**	**—**	**—**	**—**	**—**	**—**	**136,751**
Leases - variable	**244**	**244**	**244**	**—**	**—**	**—**	**732**
Firm transportation agreements	**145**	**58**	**40**	**9**	**2**	**—**	**254**
Other agreements	**289**	**57**	**53**	**31**	**32**	**238**	**700**
Total	**137,429**	**359**	**337**	**40**	**34**	**238**	**138,437**

The table above excludes contractual obligations for lease payments which are recorded as lease liabilities on the consolidated statement of financial position in accordance with IFRS 16 (see Note 10).

Contingencies

PPR is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on the Company's results of operations or cash flows.