Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Six Months Ended
June 30, 2017

Dated: August 9, 2017

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	June 30, 2017	December 31, 2016
ASSETS			
Cash		—	7,926
Accounts receivable		**9,063**	8,535
Inventory		**629**	521
Prepaid expenses and other assets		**2,846**	557
Derivative instruments – current	17	**4,461**	—
Total current assets		**16,999**	17,539
Exploration and evaluation	6	**33,108**	26,437
Property and equipment	7	**255,089**	203,381
Derivative instruments	17	**106**	—
Other assets		**440**	478
Total assets		**305,742**	247,835
LIABILITIES			
Accounts payable and accrued liabilities		**19,938**	21,919
Flow-through share premium		**129**	390
Derivative instruments – current	17	—	2,311
Current portion of decommissioning liability	9	**500**	3,500
Total current liabilities		**20,567**	28,120
Long-term debt	8	**50,429**	15,047
Flow-through share premium		**798**	—
Derivative instruments	17	**348**	3,800
Decommissioning liabilities	9	**111,474**	94,220
Other liabilities		**4,403**	4,062
Total Liabilities		**188,019**	145,249
SHAREHOLDERS' EQUITY			
Share capital	10	**121,550**	115,062
Warrants	10	**337**	—
Contributed surplus		**498**	514
Accumulated deficit		**(4,938)**	(13,266)
Accumulated other comprehensive income ("AOCI")		**276**	276
Total Equity		**117,723**	102,586
Total liabilities and shareholders' equity		**305,742**	247,835

See accompanying notes to the condensed interim consolidated financial statements.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	Note	**2017**	2016	**2017**	2016
REVENUE					
Oil and natural gas revenue		**21,682**	9,151	**40,890**	16,354
Royalties		**(3,009)**	(924)	**(6,038)**	(1,573)
Oil and natural gas revenue, net of royalties		**18,673**	8,227	**34,852**	14,781
Unrealized gain (loss) on derivative instruments	17	**4,471**	(10,959)	**10,329**	(10,107)
Realized gain on derivative instruments	17	**1,150**	2,539	**1,853**	6,124
		24,294	(193)	**47,034**	10,798
EXPENSES					
Operating	13	**10,099**	5,026	**18,732**	11,456
General and administrative	14	**2,567**	2,450	**4,827**	5,154
Depletion and depreciation	7	**9,224**	5,043	**17,425**	9,701
Exploration and evaluation	6	**58**	8	**66**	34
(Gain) loss on property dispositions	5	**—**	73	**(548)**	73
(Gain) loss on business combination	4	**450**	—	**(3,893)**	—
Impairment loss	7	**—**	25,190	**—**	25,065
Loss (gain) on foreign exchange		**(229)**	506	**(314)**	(10,142)
Finance costs	15	**1,078**	4,351	**1,857**	8,824
Reorganization	16	**—**	116	**—**	392
Transaction costs	4	**138**	267	**815**	267
Total expenses – net		**23,385**	43,030	**38,967**	50,824
Net earnings (loss) before taxes		**909**	(43,223)	**8,067**	(40,026)
Deferred tax recovery		**(157)**	—	**(261)**	—
Net earnings (loss) and comprehensive earnings (loss)		**1,066**	(43,223)	**8,328**	(40,026)
Net earnings (loss) per share	10				
Basic		**0.01**	(0.44)	**0.08**	(0.41)
Diluted		**0.01**	(0.44)	**0.07**	(0.41)

See accompanying notes to the condensed interim consolidated financial statements.

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

($000s)	Note	Share Capital Amount	Warrants	Capital Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2016		115,062	—	514	(13,266)	276	102,586
Issued for cash	10	7,204	337	—	—	—	7,541
Share issuance costs	10	(1,061)	—	—	—	—	(1,061)
Share-based compensation	11	—	—	373	—	—	373
Settlement of restricted share units	11	389	—	(389)	—	—	—
Withholding taxes on settlement of restricted share units	11	(44)	—	—	—	—	(44)
Net earnings		—	—	—	8,328	—	8,328
Balance at June 30, 2017		121,550	337	498	(4,938)	276	117,723

($000s)	Note	Share Capital Amount	Warrants	Capital Surplus	Accumulated Deficit	AOCI	Total Deficit
Balance at December 31, 2015		73,912	—	1,024,623	(1,172,884)	287	(74,062)
Share-based compensation	11	—	—	145	—	—	145
Net loss		—	—	—	(40,026)	—	(40,026)
Balance at June 30, 2016		73,912	—	1,024,768	(1,212,910)	287	(113,943)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

($000s)	Note	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES					
Net earnings (loss)		**1,066**	(43,223)	**8,328**	(40,026)
Adjustments for non-cash items:					
Impairment loss	7	**—**	25,190	**—**	25,065
Unrealized loss (gain) on derivative instruments	17	**(4,471)**	10,959	**(10,329)**	10,107
Depletion and depreciation	7	**9,224**	5,043	**17,425**	9,701
Exploration and evaluation expense	6	**58**	8	**66**	34
Accretion and financing charges	9, 15	**553**	4,167	**1,023**	8,462
Unrealized foreign exchange (gain) loss		**(87)**	504	**(117)**	(10,071)
(Gain) loss on sale of properties	5	**—**	73	**(548)**	73
(Gain) loss on business combination	4	**450**	—	**(3,893)**	—
Deferred tax recovery		**(157)**	—	**(261)**	—
Share-based compensation	11	**204**	45	**328**	137
Amortization of deferred costs		**82**	103	**157**	201
Settlements of decommissioning liabilities	9	**(510)**	245	**(4,552)**	(2,742)
Other, net		**1**	(163)	**(61)**	(188)
Change in non-cash working capital	12	**(3,076)**	(1,043)	**(2,574)**	1,681
Net cash from operating activities		**3,337**	1,908	**4,992**	2,434
FINANCING ACTIVITIES					
Debt issuance costs		**(20)**	(71)	**(54)**	(71)
Issuance of common shares	10	**339**	—	**8,340**	—
Share issuance costs	10	**(49)**	—	**(1,061)**	—
Withholding taxes on settlement of restricted share units	11	**—**	—	**(44)**	—
Change in credit facility borrowings		**3,787**	—	**35,342**	—
Net cash (used in) from financing activities		**4,057**	(71)	**42,523**	(71)
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	6	**(3,308)**	(685)	**(8,063)**	(7,873)
Property and equipment expenditures	7	**(1,436)**	(532)	**(3,566)**	(4,073)
Business combination	4	**—**	—	**(40,894)**	—
Asset acquisition (net of dispositions)	5	**—**	20	**(586)**	20
Change in non-cash working capital	12	**(2,650)**	(3,216)	**(2,332)**	(1,859)
Net cash used in investing activities		**(7,394)**	(4,413)	**(55,441)**	(13,785)
Change in cash		**—**	(2,576)	**(7,926)**	(11,422)
Cash beginning of period		**—**	4,175	**7,926**	13,021
Cash end of period		**—**	1,599	**—**	1,599

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 2017 and 2016

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 provinces of Alberta, British Columbia and Quebec, and in the Northwest Territories. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these consolidated annual financial statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

On September 12, 2016, Lone Pine Resources Canada Ltd. ("LPR Canada"), Lone Pine Resources Inc. ("Lone Pine Resources", collectively with LPR Canada, "Lone Pine") and Arsenal Energy Inc. ("Arsenal") completed a business combination by way of a plan of arrangement (the "Arrangement" or the "Transaction") whereby the Arrangement brought together Lone Pine and Arsenal under a new parent corporation, PPR, of which Lone Pine and Arsenal became direct or indirect wholly-owned subsidiaries (see Note 1 to the Annual Financial Statements, defined hereunder).

The acquisition of Arsenal was accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business and the assets and liabilities assumed were recorded at their fair values (Note 4 to the Annual Financial Statements). Transaction costs associated with the acquisition were expensed when incurred.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*.

The Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of PPR as at and for the years ended December 31, 2016 and 2015 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

The Interim Financial Statements were approved and authorized for issue by the Audit and Reserves Committee of the Board of Directors of PPR on August 9, 2017.

(b) Basis of Measurement

The Interim Financial Statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

(c) Functional and Presentation Currency

The Interim Financial Statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of Estimates and Judgements

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies are outlined in the Annual Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The Company is currently evaluating the impact of new standards and updates on its financial statements as outlined in the Annual Financial Statements.

4. BUSINESS COMBINATION

(a) Red Earth Acquisition

On March 22, 2017, PPR acquired oil and natural gas properties in the Greater Red Earth area ("Red Earth Acquisition") of Northern Alberta for cash consideration of $40.9 million. The assets acquired include high quality and low decline oil production, which is complementary to PPR's existing operations at Evi in the Peace River Arch area of Northern Alberta.

PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the six months ended June 30, 2017 included approximately $4.9 million and $1.3 million, respectively, attributable to the Red Earth Acquisition. Had the Red Earth Acquisition closed on January 1, 2017, PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the six months ended June 30, 2017 would have been approximately $46.3 million and $18.8 million, respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable.

The acquisition has been accounted for as a business combination using the acquisition method of accounting. The following table summarizes preliminary purchase price allocation:

($000s)	
Allocation:	
Property and equipment	50,500
Decommissioning liabilities	(5,263)
Other liabilities	(450)
Net assets acquired	44,787
Consideration:	
Cash	40,894
Gain on business combination	3,893

The recognized amounts of identifiable assets, liabilities and consideration issued are preliminary estimates and are subject to change. During the three months ended June 30, 2017, PPR adjusted the purchase price allocation, resulting in a reduction of the initial gain on business combination by $0.5 million in the consolidated statement of earnings. The gain on business combination arose as the result of acquiring the assets for proceeds below the fair value of the assets acquired.

Transaction costs incurred in the three and six months ended June 30, 2017 of $0.1 million (2016 – $nil) and $0.5 million (2016 – $nil), respectively, were recognized as expense in the consolidated statement of earnings. Transaction costs included primarily legal fees and professional fees.

(b) Arsenal Energy Inc.

The acquisition of Arsenal in 2016 was accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business (Note 4 to the Annual Financial Statements).

Transaction costs to effect the Arrangement with Arsenal incurred in the three and six months ended June 30, 2017 of $nil (2016 – $0.3 million) and $0.3 million (2016 - $0.3 million) were recognized as expense in the consolidated statement of earnings. Transaction costs included primarily legal fees and professional fees.

5. ASSET ACQUISITON AND DISPOSITIONS

During the six months ended June 30, 2017, PPR acquired properties in the Wheatland area comprised of undeveloped land and wellbores without associated reserves for cash consideration of $0.9 million. The transactions resulted in $2.1 million addition to exploration and evaluation assets and $1.1 million addition to decommissioning liabilities.

During the six months ended June 30, 2017, the Company disposed of certain non-core properties and undeveloped land in the provinces of Alberta and British Columbia for proceeds of $0.3 million. The associated property and equipment, exploration and evaluation assets and decommissioning liabilities were derecognized, resulted in gains of $0.5 million which were recognized in the consolidated statement of earnings during the six months ended June 30, 2017 (three months ended June 30, 2017 – $nil).

6. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2016	81,374
Additions	**8,389**
Asset acquisitions (Note 5)	**2,076**
Transfers to oil and gas property and equipment (Note 7)	**(3,728)**
Exploration and evaluation expense	**(66)**
Dispositions (Note 5)	**(3,807)**
Cost Balance – June 30, 2017	**84,238**
Provision for impairment – December 31, 2016	(54,937)
Dispositions (Note 5)	**3,807**
Provision for impairment – June 30, 2017	**(51,130)**
Net book value – December 31, 2016	26,437
Net book value – June 30, 2017	**33,108**

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.

During the six months ended June 30, 2017, $0.8 million (2016 – $0.4 million) of directly attributable general and administrative expenses including a nominal amount (2016 – a nominal amount) of share-based compensation, were capitalized to E&E assets.

In the three and six months ended June 30, 2016, PPR recognized impairment of $25.0 million against the Quebec exploratory area to a recoverable amount of $13.0 million based on its value in use.

7. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance – December 31, 2016	460,617	4,196	464,813
Additions	**3,477**	**94**	**3,571**
Acquisitions – business combination (Note 4)	**50,500**	**—**	**50,500**
Adjustments due to change in estimates in decommissioning liabilities (Note 9)	**11,452**	**—**	**11,452**
Dispositions (Note 5)	**(531)**	**—**	**(531)**
Transfers from exploration and evaluation assets (Note 6)	**3,728**	**—**	**3,728**
Balance – June 30, 2017	**529,243**	**4,290**	**533,533**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2016	(258,718)	(2,714)	(261,432)
Depletion and depreciation	**(17,255)**	**(229)**	**(17,484)**
Dispositions (Note 5)	**472**	**—**	**472**
Balance – June 30, 2017	**(275,501)**	**(2,943)**	**(278,444)**
Net book value – December 31, 2016	201,899	1,482	203,381
Net book value – June 30, 2017	**253,742**	**1,347**	**255,089**

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

During the six months ended June 30, 2017, $0.2 million (2016 – $0.1 million) of directly attributable general and administrative expenses, including a nominal amount (2016 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

As at June 30, 2017, the Company assessed its production and development assets for indicators of impairment or impairment recovery. Based on the assessment, no indicators of impairment or impairment recovery were noted.

During the three and six months ended June 30, 2016, the Company recorded impairment of $0.2 million on the write down of certain surplus equipment. The 2016 year to date impairment loss includes a recovery of $0.1 million recorded first quarter of 2016 as a result of an increase in the net realizable value of inventory.

8. LONG-TERM DEBT

Under the Company's credit facility, PPR had outstanding long-term debt at June 30, 2017 of $47.0 million (December 31, 2016 - $15.0 million), net of deferred financing costs and prepaid interest of $0.4 million (December 31, 2016 - $0.5 million) and $4.7 million of letters of credit issued (December 31, 2016 – $5.4 million). Also included in long-term debt were $3.8 million of cheques issued in excess of cash balance.

On March 22, 2017, the Company amended its credit facility with a syndicate of banks. Under the Amended Credit Facility, PPR has a $55 million syndicated revolving term facility and a $10 million operating facility, both mature one year after the term-out date. Annually prior to the applicable term-out date, subject to the lenders' approval, PPR may extend the term-out date by 364 days. The Company and its lending syndicate are progressing with new financing arrangements.

As at June 30, 2017, the Company was in compliance with all covenants under the Amended Credit Facility.

9. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2016	97,720
Liabilities incurred	**287**
Liabilities acquired – business combination (Note 4)	**5,263**
Liabilities acquired – asset acquisition (Note 5)	**1,141**
Dispositions (Note 5)	**(296)**
Settlements	**(4,552)**
Change in estimates	**11,452**
Accretion	**959**
Total Balance – June 30, 2017	**111,974**
Comprised of:	
Current portion – June 30, 2017	**500**
Long-term portion – June 30, 2017	**111,474**
Current portion – December 31, 2016	3,500
Long-term portion – December 31, 2016	94,220

The Company has estimated the undiscounted and inflated total future liabilities to be approximately $174.8 million, based on an inflation rate of 1.7% (December 31, 2016 – $141.1 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 25 years.

Decommissioning liabilities at June 30, 2017 and December 31, 2016 were determined using risk-free rates of 0.7% - 2.2% and an inflation rate of 1.7%.

Decommissioning obligations acquired are initially measured at fair value using a credit-adjusted risk free rate of 5.7% to discount estimated future cash flows. In accordance with PPR's accounting policy, decommissioning obligations are carried on the financial statements using risk-free discount rates. As such, acquired decommissioning obligations are revalued immediately after their initial recognition using the corresponding risk-free rates. The revaluation of the decommissioning liabilities acquired during the first quarter of 2017 (Notes 4 and 5) resulted in an increase to the carrying values of decommissioning liabilities of $11.5 million, which was included in changes in estimates.

10. 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, 2016	104,153	115,062
Issued	11,651	7,204
Share issuance costs	—	(1,061)
Issued on settlement of restricted share units	84	389
Withholding taxes on settlement of restricted share units	—	(44)
PPR Shares, June 30, 2017	**115,888**	**121,550**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
PPR Warrants, December 31, 2016	—	—
Issued	3,155	337
PPR Warrants, June 30, 2017	**3,155**	**337**

On March 16, 2017, the Company closed a bought-deal financing under which, the Company issued 5,195,000 flow-through common shares with respect to Canadian Exploration Expenses ("CEE") at $0.77 per share and 5,971,000 subscription receipts ("Subscription Receipts") at $0.67 per unit for total gross proceeds of $8.0 million (net proceeds of $7.0 million). The proceeds from the sale of Subscription Receipts were held in escrow until the closing of the Red Earth Acquisition, upon which, the purchasers of the Subscription Receipts automatically received, for every Subscription Receipt held, one PPR common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one common share at an exercise price of $0.87 per share until March 16, 2019. The fair value of warrants was determined as the difference between the trading price of common shares on the date of closing of $0.62 and the price for Subscription Receipts of $0.67

per unit, resulting in a value of $0.05 per half warrant or $0.10 per Warrant. Pursuant to the bought deal financing, the underwriters' had an over-allotment option to purchase, at any time prior to April 15, 2017, up to an additional 15% of the number of flow-through common shares and Subscription Receipts initially offered. On April 12, 2017, the overallotment option was partially exercised, resulting in the issuance of an additional 146,170 CEE flow-through common shares at $0.77 per share and 338,650 Subscription Receipts at $0.67 per share for total gross proceeds of $0.3 million (net proceeds of $0.3 million). The fair value of the common shares and warrants issued pursuant to the over-allotment Subscription Receipts was determined on a pro-rata basis with reference to the trading prices of common shares and warrants on the date the over-allotment closed.

As defined by the Income Tax Act, the Company has until December 31, 2018 to incur $4.1 million of CEE costs related to the flow-through common share issuances in 2017. The difference between cash received from the issuance of flow-through shares and the market value of common shares issued of $0.8 million was recognized as a flow-through premium liability.

(c) Earnings (loss) per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s)	**2017**	2016	**2017**	2016
Net earnings (loss) for the period	**1,066**	(43,223)	**8,328**	(40,026)
Weighted average number of common shares [(1)]				
Basic	**115,824**	97,409	**110,771**	97,409
Diluted	**116,364**	97,409	**111,224**	97,409
Basic net earnings (loss) per share	**0.01**	(0.44)	**0.08**	(0.41)
Diluted net earnings (loss) per share	**0.01**	(0.44)	**0.07**	(0.41)

(1) As the historical financial statements were prepared on a combined and consolidated basis it is not possible to measure loss per share in accordance with IAS 33 until subsequent to the closing of the Arrangement on September 12, 2016 when the entities were brought under a common parent entity. The Company calculated loss per share for the current and historical periods by assuming that the shares issued upon the closing of the Arrangement at September 12, 2016 were outstanding since the beginning of the period.

The weighted average diluted common shares for the three and six months ended June 30, 2017 exclude the impact of 2,721,969 options (2016 – nil) and 3,154,825 warrants (2016 – nil) that were anti-dilutive.

11. SHARE-BASED COMPENSATION

(a) Long-term incentive plans subsequent to the Arrangement

In conjunction with the closing of the Arrangement, the Company adopted new long-term incentive plans for employees and directors pursuant to which share-based incentive awards may be granted.

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2016	752,174	0.96
Granted	1,969,795	0.75
Balance, June 30, 2017	2,721,969	0.81
Exercisable at June 30, 2017	250,724	0.96

The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values for the grants made:

	June 30, 2017	December 31, 2016
Fair value of options	$0.37	$0.41
Risk free interest rate	1.0%	0.7%
Expected life of options (years)	3.0	3.1
Expected volatility [(1)]	70.0%	70.0%
Estimated forfeiture rate	3.2%	2.0%
Dividends per share	—	—

(1) The expected volatility was calculated with reference to the volatilities of peer companies over a time period consistent with the expected life of the options upon grant due to the limited trading history of PPR at the date of grant.

Performance Share Units

Under the Company's incentive security plan, performance share units ("PSUs") granted vest on a date specified under the grant agreement, no more than 3 years after the grant date. The number of common shares issued for each PSU is subject to a performance multiplier from 0 to 2 based on share performance relative to a selected peer group. PSUs may be settled in common shares or cash at the discretion of the Company; however, it is PPR's intention to settle the PSUs in common shares and the plan has been accounted for as equity settled.

The following table summarizes the PSUs outstanding under the plan:

	PSUs
Balance, December 31, 2016	116,427
Granted	354,905
Balance, June 30, 2017	471,332

The fair value of PSUs issued is determined at the date of the grant using the closing price of common shares, multiplied by the estimated performance multiplier. For the purposes of share-based compensation expense, a performance multiplier of 1 has been estimated for units granted in 2017 and 2016. The weighted average fair value of units granted in 2017 is $0.80 and will vest on December 15, 2019.

Deferred Restricted Share Units

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 or cash at the discretion of the Company; however, it is PPR's intention to settle the DSUs in common shares and the plan has been accounted for as equity settled.

The following table summarizes the PSUs outstanding under the plan:

	DSUs
Balance, December 31, 2016	—
Granted	89,850
Balance, June 30, 2017	**89,850**

The fair value of DSUs issued is determined at the date of the grant using the closing price of common shares. The weighted average fair value of units granted in 2017 is $0.60.

(b) Long-term incentive plans prior to the Arrangement

Restricted shares units ("RSUs") were issued in 2014 pursuant to the Company's previous Equity Incentive Plan ("EIP"). On February 10, 2017, the entity issued 84,086 common shares related to the settlement of 142,812 RSUs. The difference between the number of RSUs settled and the number of common shares issued relates to shares withheld to cover the withholding tax obligations of certain unit holders. The Company settled the withholding tax obligation with the related tax authority in cash rather than through the issuance of shares.

The number of RSUs outstanding is as follows:

	RSUs Issued to Officers and Employees
Outstanding – December 31, 2016	142,812
Settled	(142,812)
Outstanding – June 30, 2017	—
Weighted average fair value per RSU at grant date:	$1.57

(c) Share-based compensation expense

For the three and six months ended June 30, 2017, share-based compensation of $0.2 million (2016 – a nominal amount) and $0.3 million (2016 – $0.1 million), respectively was included in general and administrative expense net of a nominal amount (2016 – a nominal amount) of capitalized share based compensation. A nominal amount of share-based compensation was included in operating expense for the three and six months ended June 30, 2017 and June 30, 2016.

12. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2017**	2016	**2017**	2016
Source (use) of cash:				
Accounts receivable	**(419)**	523	**(528)**	2,013
Prepaid expenses and other current assets	**(2,485)**	190	**(2,397)**	422
Accounts payable and accrued liabilities	**(2,822)**	(4,972)	**(1,981)**	(2,613)
	(5,726)	(4,259)	**(4,906)**	(178)
Related to operating activities	**(3,076)**	(1,043)	**(2,574)**	1,681
Related to investing activities	**(2,650)**	(3,216)	**(2,332)**	(1,859)
	(5,726)	(4,259)	**(4,906)**	(178)
Other:				
Interest paid during the period	**471**	150	**837**	284

13. OPERATING EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2017**	2016	**2017**	2016
Lease operating expense	**7,121**	3,286	**12,823**	8,160
Transportation and processing	**1,776**	1,310	**3,995**	2,430
Production and property taxes	**1,202**	430	**1,914**	866
Operating expense	**10,099**	5,026	**18,732**	11,456

14. GENERAL AND ADMINISTRATIVE COSTS

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	**2017**	2016	**2017**	2016
Salaries and benefits	**1,370**	1,314	**2,872**	2,803
Share-based compensation	**220**	49	**359**	143
Office rents and leases	**395**	347	**819**	691
Professional fees	**678**	606	**1,039**	1,221
Other – office	**390**	427	**711**	966
	3,053	2,743	**5,800**	5,824
Amounts capitalized	**(486)**	(293)	**(973)**	(670)
General and administrative expense	**2,567**	2,450	**4,827**	5,154

15. FINANCE COSTS

($000s)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Interest expense	525	184	834	362
Accretion – preferred shares	—	3,878	—	7,884
Accretion – decommissioning liabilities (Note 9)	520	289	959	578
Accretion – other liabilities	33	—	64	—
Finance cost	1,078	4,351	1,857	8,824

16. REORGANIZATION COSTS

($000s)	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Salaries and benefits – terminations	—	116	—	382
Professional fees	—	—	—	10
Reorganization cost	—	116	—	392

Reorganization expenses are non-recurring costs related to corporate restructuring activities.

17. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

Financial instruments of PPR consist of cash, accounts receivable, accounts payable, borrowings under its credit facilities and derivative contracts.

Cash and derivative contracts are classified as held for trading. Accounts receivable are classified as loans and receivables. The remaining instruments are considered other financial liabilities.

(a) Fair Value

The fair value of the borrowings under PPR's credit facilities approximates the carrying value (excluding deferred financing charges) as they bear floating market rates.

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation process and results are reviewed and approved by management at least once every quarter, in line with the Company's quarterly reporting dates.

Cash and derivative instruments are measured and recorded on PPR's statement of financial position at fair value through profit and loss. Cash is classified as Level 1 in the fair value hierarchy, while derivative contracts are classified as Level 2. During the six months ended June 30, 2017, there were no transfers among Levels 1, 2 and 3 in the fair value hierarchy.

Derivatives are valued using valuation techniques with market observable 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 of counterparties, foreign exchange spot and forward rates, and forward rate curves of the underlying commodity. The fair values of the risk management contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk.

(b) Risk Management

(i) 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, equity issuance along with its planned capital expenditure program. As outlined in Note 8, the Company has $65 million borrowing capacity under the Amended Credit Facility, under which $47.0 million was drawn as at June 30, 2017 and $4.7 million letters of credit were issued.

During the first quarter of 2017, the Company acquired assets in the Greater Red Earth area for cash consideration of $40.9 million (Note 4). The acquisition was funded through net proceeds of $7.3 million from the issuance of common shares in 2017 (Note 10) and borrowings under the Amended Credit Facility, which resulted in an increase in the Company's debt leverage in 2017. Though PPR has increased its debt leverage, PPR expects its future funds flow to increase as the result of the Red Earth Acquisition. PPR anticipates its future development to be funded primarily with cash flows from operations, while maintaining a balanced capital structure. PPR monitors its capital structure based on the ratio of total debt to trailing twelve months Adjusted EBITDAX (as defined in Note 7 to the Annual Financial Statements). Total debt to Adjusted EBITDAX at June 30, 2017 was 1.7 to 1.0 (2016 – 1.2 to 1.0), which was well below the financial covenant requirement of 3.0 to 1.0. The Company plans to maintain a prudent financial position by actively managing its capital program with careful consideration of the commodity pricing environment in order to optimize leverage, liquidity and cash flows.

The Company has determined that its current financial obligations, including current commitments, are adequately funded from the available borrowing capacity and from cash flows from operations. Except for the long-term debt and the long-term portion of derivative financial instruments, all of the Company's financial liabilities are due within one year.

(ii) Commodity Price Risk

PPR enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following table summarizes commodity derivative transactions as at June 30, 2017:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	500 bbls/d	July 1, 2017 – December 31, 2017	CDN$ WTI	$ 87.78	Swap
Oil	500 bbls/d	July 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/ 72.00	Collar
Oil	250 bbls/d	July 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/ 75.00	Collar
Oil	500 bbls/d	July 1, 2017 – December 31, 2017	CDN$ WTI	$ 58.00/ 67.50	Collar
Oil	400 bbls/d	July 1, 2017 – December 31, 2017	CDN$ WTI	$ 70.00/ 85.00	Collar
Light Oil Differential	1,000 bbls/d	July 1, 2017 – December 31, 2017	CDN$MSW[1]	$ (5.70)	Swap
Natural Gas	6,050 GJ/d	July 1, 2017 – December 31, 2017	AECO 7A Monthly Index	$ 2.79	Swap
Natural Gas	800 GJ/d	October 1, 2017 – December 31, 2017	AECO 7A Monthly Index	$ 2.95	Swap
Oil	500 bbls/d	January 1, 2018 – December 31, 2018	USD$ WTI	$ 65.00	Sold Call Option
Oil	800 bbls/d	January 1, 2018 – December 31, 2018	CDN$ WTI	$ 58.00/ 67.50	Collar
Natural Gas	2,500 GJ/d	January 1, 2018 – March 31, 2018	AECO 7A Monthly Index	$ 3.12	Swap
Natural Gas	1,500 GJ/d	January 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Swap
Natural Gas	1,500 GJ/d	January 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Sold Call Option
Oil	400 bbls/d	January 1, 2019 – December 31, 2019	CDN$ WTI	$ 85.00	Sold Call Option
Natural Gas	2,000 GJ/d	January 1, 2019 – March 31, 2019	AECO 7A Monthly Index	$ 2.73	Swap

(1) Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI

The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

June 30, 2017	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current asset	**3,866**	**595**	**4,461**
Derivative instruments – long-term asset	**—**	**106**	**106**
Derivative instruments – long-term liabilities	**(348)**	**—**	**(348)**
Total asset	**3,518**	**701**	**4,219**

December 31, 2016	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current liabilities	(1,536)	(775)	(2,311)
Derivative instruments – long-term liabilities	(3,800)	—	(3,800)
Total liabilities	(5,336)	(775)	(6,111)

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three and six months ended June 30, 2017 and 2016:

Three Months Ended June 30, 2017	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized gain on derivative instruments	**1,076**	**74**	**1,150**
Unrealized gain on derivative instruments	**3,893**	**578**	**4,471**
Total gain	**4,969**	**652**	**5,621**

Three Months Ended June 30, 2016	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	2,239	300	2,539
Unrealized loss on derivative instruments	(10,130)	(829)	(10,959)
Total loss	(7,891)	(529)	(8,420)

Six Months Ended June 30, 2017	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized gain on derivative instruments	**1,781**	**72**	**1,853**
Unrealized gain on derivative instruments	**8,854**	**1,475**	**10,329**
Total gain	**10,635**	**1,547**	**12,182**

Six Months Ended June 30, 2016	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	5,733	391	6,124
Unrealized loss on derivative instruments	(9,884)	(223)	(10,107)
Total gain (loss)	(4,151)	168	(3,983)

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 June 30, 2017 and December 31, 2016. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

June 30, 2017 *($000s)*	**Gross Assets (Liabilities)**	**Amount Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments assets	**5,572**	**(1,111)**	**4,461**
Derivative instruments liabilities	**(1,111)**	**1,111**	**—**
Long-term:			
Derivative instruments assets – long-term	**969**	**(863)**	**106**
Derivative instruments liabilities – long-term	**(1,211)**	**863**	**(348)**

December 31, 2016 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	2,944	(2,944)	—
Derivative instruments liabilities	(5,255)	2,944	(2,311)
Long-term:			
Derivative instruments assets – long-term	940	(940)	—
Derivative instruments liabilities – long-term	(4,740)	940	(3,800)

18. COMMITMENTS

As described in Note 20 of the Annual Financial Statements, the Company had committed to annual capital expenditures pursuant to the acquisition of approximately 73,500 net undeveloped acres in the Wheatland area. For the first two years of the leases (which ended on June 30, 2017), if the average WTI prices for a calendar quarter were below US$50/bbl, PPR may defer a portion of the drilling commitment from that commitment period to be allocated over the remaining term. Average WTI prices for the first two calendar quarters of the second commitment period were below US$50/bbl and the deferral option was exercised in the second quarter of 2017 to extend the remaining July 1, 2017 capital commitment to July 1, 2018. As of June 30, 2017, the Company has incurred $8.7 million (December 31, 2016 - $1.6 million) towards the remaining total lease acquisition capital commitment of $35.0 million. In the event that PPR does not incur the minimum capital expenditures by the end of a given commitment period, the shortfall may be payable to the vendor. The Company has determined that its current commitments are adequately funded from the available borrowing capacity and from cash flows from operations (see Note 17(b)(i)).