Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2017

Dated: November 9, 2017

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2017	December 31, 2016
ASSETS			
Cash		**906**	7,926
Accounts receivable		**7,501**	8,535
Inventory		**855**	521
Prepaid expenses and other assets		**1,344**	557
Derivative instruments – current	16	**1,712**	—
Assets held for sale	7	**1,063**	—
Total current assets		**13,381**	17,539
Exploration and evaluation	6	**34,289**	26,437
Property and equipment	7	**244,972**	203,381
Derivative instruments	16	**110**	—
Other assets		**914**	478
Total assets		**293,666**	247,835
LIABILITIES			
Accounts payable and accrued liabilities		**19,367**	21,919
Flow-through share premium		**7**	390
Derivative instruments – current	16	**—**	2,311
Current portion of decommissioning liability	9	**500**	3,500
Bank debt	8	**50,274**	—
Liabilities associated with assets held for sale	7	**170**	—
Total current liabilities		**70,318**	28,120
Long-term debt	8	**—**	15,047
Flow-through share premium		**798**	—
Derivative instruments	16	**190**	3,800
Decommissioning liabilities	9	**112,109**	94,220
Other liabilities		**4,298**	4,062
Total Liabilities		**187,713**	145,249
SHAREHOLDERS' EQUITY			
Share capital	10	**121,546**	115,062
Warrants	10	**337**	—
Contributed surplus		**717**	514
Accumulated deficit		**(16,923)**	(13,266)
Accumulated other comprehensive income ("AOCI")		**276**	276
Total Equity		**105,953**	102,586
Total liabilities and shareholders' equity		**293,666**	247,835

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	**2017**	2016	**2017**	2016
REVENUE					
Oil and natural gas revenue		**17,611**	9,334	**58,501**	25,688
Royalties		**(2,164)**	(1,050)	**(8,202)**	(2,623)
Oil and natural gas revenue, net of royalties		**15,447**	8,284	**50,299**	23,065
Unrealized gain (loss) on derivative instruments	16	**(2,586)**	(1,936)	**7,743**	(12,043)
Realized gain on derivative instruments	16	**2,222**	2,257	**4,075**	8,381
		15,083	8,605	**62,117**	19,403
EXPENSES					
Operating	13	**10,606**	5,757	**29,338**	17,213
General and administrative	14	**2,388**	2,938	**7,215**	8,092
Depletion and depreciation	7	**8,636**	4,234	**26,061**	13,935
Exploration and evaluation	6	**1,100**	15	**1,166**	49
(Gain) loss on property dispositions	5	**9**	—	**(539)**	73
Gain on business combination	4	**—**	—	**(3,893)**	—
Impairment loss	6,7	**3,400**	1,712	**3,400**	26,777
(Gain) loss on foreign exchange		**(344)**	417	**(658)**	(9,725)
Finance costs	15	**1,186**	3,614	**3,043**	12,438
Reorganization		**—**	—	**—**	392
Transaction costs	4	**209**	1,506	**1,024**	1,773
Total expenses – net		**27,190**	20,193	**66,157**	71,017
Net loss before taxes		**(12,107)**	(11,588)	**(4,040)**	(51,614)
Deferred tax recovery		**(122)**	—	**(383)**	—
Net loss and comprehensive loss		**(11,985)**	(11,588)	**(3,657)**	(51,614)
Net loss per share	10				
Basic and Diluted		**(0.10)**	(0.12)	**(0.03)**	(0.53)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (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	(1,065)	—	—	—	—	(1,065)
Share-based compensation	11	—	—	592	—	—	592
Settlement of restricted share units	11	389	—	(389)	—	—	—
Withholding taxes on settlement of restricted share units		(44)	—	—	—	—	(44)
Net loss		—	—	—	(3,657)	—	(3,657)
Balance at September 30, 2017		121,546	337	717	(16,923)	276	105,953

($000s)	Note	Share Capital Amount	Warrants	Capital Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2015		73,912	—	1,024,623	(1,172,884)	287	(74,062)
Issued for the Business Combination		38,735	—	—	—	—	38,735
Issued in exchange of the Preferred Shares		193,851	—	—	—	—	193,851
Share-based compensation	11	—	—	229	—	—	229
Net loss		—	—	—	(51,614)	—	(51,614)
Reduction of share capital		(198,570)	—	(1,021,157)	1,220,014	(287)	—
Balance at September 30, 2016		107,928	—	3,695	(4,484)	—	107,139

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	2017	2016	2017	2016
OPERATING ACTIVITIES					
Net loss		(11,985)	(11,588)	(3,657)	(51,614)
Adjustments for non-cash items:					
Impairment loss	6,7	3,400	1,712	3,400	26,777
Unrealized loss (gain) on derivative instruments	16	2,586	1,936	(7,743)	12,043
Depletion and depreciation	7	8,636	4,234	26,061	13,935
Exploration and evaluation expense	6	1,100	15	1,166	49
Accretion and financing charges	9,15	553	3,476	1,576	11,938
Unrealized foreign exchange (gain) loss		(130)	378	(247)	(9,693)
(Gain) loss on sale of properties	5	9	—	(539)	73
Gain on business combination	4	—	—	(3,893)	—
Deferred tax recovery		(122)	—	(383)	—
Share-based compensation	11	195	81	523	218
Amortization of deferred costs		85	60	242	261
Settlements of decommissioning liabilities	9	(351)	(141)	(4,903)	(2,883)
Other, net		(215)	(222)	(276)	(410)
Change in non-cash working capital	12	2,222	2,147	(352)	3,828
Net cash from operating activities		5,983	2,088	10,975	4,522
FINANCING ACTIVITIES					
Debt issuance costs		(2)	(92)	(56)	(163)
Issuance of common shares	10	—	—	8,340	—
Share issuance costs	10	(4)	—	(1,065)	—
Withholding taxes on settlement of restricted share units	10	—	—	(44)	—
Change in credit facility borrowings		(342)	2,586	35,000	2,586
Net cash (used in) from financing activities		(348)	2,494	42,175	2,423
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	6	(2,187)	(10,282)	(10,250)	(18,155)
Property and equipment expenditures	7	(2,578)	(737)	(6,144)	(4,810)
Business combination	4	—	—	(40,894)	—
Cash acquired on business combination		—	249	—	249
Asset acquisition (net of dispositions)	5	(9)	—	(595)	20
Change in non-cash working capital	12	45	4,589	(2,287)	2,730
Net cash used in investing activities		(4,729)	(6,181)	(60,170)	(19,966)
Change in cash		906	(1,599)	(7,020)	(13,021)
Cash beginning of period		—	1,599	7,926	13,021
Cash end of period		906	—	906	—

See accompanying notes to condensed interim consolidated financial statements.

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 November 9, 2017.

(b) Functional and Presentation Currency

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

(c) 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.

NEW ACCOUNTING PRONOUNCEMENTS

- In April 2016, the IASB issued its final amendments to IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which replaces IAS 11 – Construction Contracts, IAS 18 – Revenue and several revenue-related interpretations. The new standard establishes a single revenue recognition framework that applies to contracts with customers and requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. PPR primarily enters into non-complex and routine revenue contracts with customers that require daily physical delivery of produced volumes priced at the current daily or monthly average spot price. Performance obligations are met upon delivery of the volumes at the processing facility and the transaction price is established based on the date of delivery. The Company has inventoried its revenue streams and underlying contracts with customers and is in the process of completing its review and documentation of such contracts. At this point, it is expected that the adoption of the new standard could result in presentation changes in revenue and royalties, which will not affect net income or loss. In addition, the Company will expand the disclosures in the notes to its financial statements as outlined in IFRS 15 including disaggregating revenue streams by product type;

- In July 2014, the IASB completed the final elements of IFRS 9 - Financial Instruments. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Based on a preliminary assessment, the Company does not expect the 'expected loss' impairment model to have a material impact on its consolidated financial statements. The Company does not currently apply hedge accounting to its derivative financial instruments and does not expect to apply hedge accounting upon adoption of IFRS 9; and

- In January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17 – Leases. For lessees, IFRS 16 removes the classification of leases as financing or operating leases, effectively treating all leases as finance leases which requires the recognition of lease assets and lease obligations. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company intends to adopt IFRS 16 on January 1, 2019 and is in the process of identifying and reviewing contracts that fall within the scope of the new standard. The extent of the impact on the adoption of the standard has not yet been determined.

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 nine months ended September 30, 2017 included approximately $9.1 million and $3.4 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 nine months ended September 30, 2017 would have been approximately $63.9 million and $23.7 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. 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 nine months ended September 30, 2017 of $0.1 million (2016 – $nil) and $0.6 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 nine months ended September 30, 2017 of $0.1 million (2016 – $1.5 million) and $0.4 million (2016 - $1.8 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 nine months ended September 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.

In the first nine months of 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 nine months ended September 30, 2017 (three months ended September 30, 2017 – a nominal amount).

6. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2016	81,374
Additions	**10,670**
Asset acquisitions (Note 5)	**2,076**
Transfers to oil and gas property and equipment (Note 7)	**(3,728)**
Exploration and evaluation expense	**(1,166)**
Dispositions (Note 5)	**(3,807)**
Cost Balance – September 30, 2017	**85,419**
Provision for impairment – December 31, 2016	(54,937)
Dispositions (Note 5)	**3,807**
Provision for impairment – September 30, 2017	**(51,130)**
Net book value – December 31, 2016	26,437
Net book value – September 30, 2017	**34,289**

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 nine months ended September 30, 2017, $1.1 million (2016 – $0.6 million) of directly attributable general and administrative expenses including $0.1 million (2016 – a nominal amount) of share-based compensation, were capitalized to E&E assets.

In the three and nine months ended September 30, 2016, PPR recognized impairment of $0.9 million and $25.9 million, respectively. Impairment recognized in the third quarter of 2016 related to leases that were due to expire in the next twelve months in the Evi CGU. The year-to-date 2016 impairment included 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	6,527	183	6,710
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
Transfers to assets held for sale	(11,740)	—	(11,740)
Balance – September 30, 2017	520,553	4,379	524,932
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2016	(258,718)	(2,714)	(261,432)
Depletion and depreciation	(25,946)	(331)	(26,277)
Impairment loss	(3,400)	—	(3,400)
Dispositions (Note 5)	472	—	472
Transfers to assets held for sale	10,677	—	10,677
Balance – September 30, 2017	(276,915)	(3,045)	(279,960)
Net book value – December 31, 2016	201,899	1,482	203,381
Net book value – September 30, 2017	243,638	1,334	244,972

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

During the nine months ended September 30, 2017, $0.4 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

Assets classified as held for sale as at September 30, 2017 were written down to their fair value less costs of disposal resulting in a loss of $3.4 million which was included in the consolidated statement of loss and comprehensive loss. This fair value measurement is non-recurring and is classified as level 2 in the fair value hierarchy (as defined in Note 3(g) of the Annual Financial Statements). In October 2017, the Company completed the sale of these assets for cash proceeds of $0.9 million.

As at September 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 nine months ended September 30, 2016, the Company recorded impairment of $0.8 million related to changes in estimated decommissioning liabilities on certain properties with zero carrying value. 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 and an impairment of $0.2 million recorded in the second quarter of 2016 on the write down of certain surplus equipment.

8. BANK DEBT

Under the Company's credit facility, PPR had outstanding debt at September 30, 2017 of $50.3 million (December 31, 2016 - $15.0 million), net of deferred financing costs and prepaid interest of $0.2 million (December 31, 2016 - $0.5 million) and $4.7 million of letters of credit issued (December 31, 2016 – $5.4 million).

On March 22, 2017, the Company amended its credit facility with a syndicate of banks (the "Amended Credit Facility"). Under the Amended Credit Facility, PPR had a $55 million syndicated revolving term facility and a $10 million operating facility. As at September 30, 2017, the Company was in compliance with all covenants under the Amended Credit Facility.

As of September 30, 2017, the maturity date of the Amended Credit Facility was within the following 12 months, as such, related debt outstanding under the facility was classified as current on the statement of financial position. Debt outstanding under the Amended Credit Facility was fully repaid and retired on October 31, 2017 (see Note 18 – Subsequent Event) and replaced with long-term debt under the Revolving Facility and the Subordinated Notes (as defined herein).

9. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2016	97,720
Liabilities incurred	**920**
Liabilities acquired – business combination (Note 4)	**5,263**
Liabilities acquired – asset acquisition (Note 5)	**1,141**
Dispositions (Note 5)	**(296)**
Transfers to liabilities associated with assets held for sale	**(170)**
Settlements	**(4,903)**
Change in estimates	**11,452**
Accretion	**1,482**
Total Balance – September 30, 2017	**112,609**
Comprised of:	
Current portion – September 30, 2017	**500**
Long-term portion – September 30, 2017	**112,109**
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 $175.6 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 September 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	—	(1,065)
Issued on settlement of restricted share units	84	389
Withholding taxes on settlement of restricted share units	—	(44)
PPR Shares, September 30, 2017	115,888	121,546

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
PPR Warrants, December 31, 2016	—	—
Issued	3,155	337
PPR Warrants, September 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 September 30,		Nine Months Ended September 30,	
(000s)	2017	2016	2017	2016
Net earnings (loss) for the period	(11,985)	(11,588)	(3,657)	(51,614)
Weighted average number of common shares [(1)]				
Basic & Diluted	115,888	97,409	112,495	97,409
Basic & Diluted net loss per share	(0.10)	(0.12)	(0.03)	(0.53)

(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 nine months ended September 30, 2017 exclude the impact of 2,684,469 options (2016 – nil), 3,154,825 warrants (2016 – nil) 471,332 performance share units (2016 – nil) and 166,166 deferred restricted share units (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
Cancelled	(37,500)	0.80
Balance, September 30, 2017	2,684,469	0.81
Exercisable at September 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:

	September 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, September 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	166,116
Balance, September 30, 2017	**166,116**

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 $0.52.

(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 – September 30, 2017	—
Weighted average fair value per RSU at grant date:	$1.57

(c) Share-based compensation expense

For the three and nine months ended September 30, 2017, share-based compensation of $0.2 million (2016 – $0.1 million) and $0.5 million (2016 – $0.2 million), respectively was included in general and administrative expense net of a nominal amount (2016 – a nominal amount) and $0.1 million (2016 – a nominal amount) of capitalized share based compensation, respectively. A nominal amount of share-based compensation was included in operating expense for the three and nine months ended September 30, 2017 and September 30, 2016.

12. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

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

($000s)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Source (use) of cash:				
Accounts receivable	1,562	(2,203)	1,034	(190)
Prepaid expenses and other current assets	1,276	(60)	(1,121)	362
Accounts payable and accrued liabilities	(571)	16,068	(2,552)	13,455
Working capital acquired	—	(7,069)	—	(7,069)
	2,267	6,736	(2,639)	6,558
Related to operating activities	2,222	2,147	(352)	3,828
Related to investing activities	45	4,589	(2,287)	2,730
	2,267	6,736	(2,639)	6,558
Other:				
Interest paid during the period	650	125	1,487	409

13. OPERATING EXPENSE

($000s)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Lease operating expense	7,560	4,237	20,383	12,397
Transportation and processing	1,864	1,116	5,859	3,546
Production and property taxes	1,182	404	3,096	1,270
Operating expense	10,606	5,757	29,338	17,213

14. GENERAL AND ADMINISTRATIVE COSTS

($000s)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Salaries and benefits	1,366	1,230	4,238	4,033
Share-based compensation	211	54	570	197
Office rents and leases	350	367	1,169	1,058
Professional fees	728	1,023	1,767	2,244
Other – office	270	528	981	1,494
	2,925	3,202	8,725	9,026
Amounts capitalized	(537)	(264)	(1,510)	(934)
General and administrative expense	2,388	2,938	7,215	8,092

15. FINANCE COSTS

($000s)	Three Months Ended September 30, 2017	2016	Nine Months Ended September 30, 2017	2016
Interest expense	633	138	1,467	500
Accretion – preferred shares	—	3,140	—	11,024
Accretion – decommissioning liabilities (Note 9)	523	329	1,482	907
Accretion – other liabilities	30	7	94	7
Finance cost	1,186	3,614	3,043	12,438

16. 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 nine months ended September 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.

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.

As outlined in Note 8, the Company had $65 million borrowing capacity under the Amended Credit Facility as at September 30, 2017, under which $50.5 million was drawn and $4.7 million letters of credit were issued. Subsequent to the third quarter, on October 31, 2017, the Company closed a two-part debt financing transaction (Note 18 – Subsequent Event). The transaction includes a three-year USD $40 million senior secured revolving note facility, under which USD $31 million principal amount of senior secured revolving notes due October 31, 2020 were issued at closing, and an issue of USD $16 million principal amount of four-year senior subordinated notes due October 31, 2021. The overall debt structure expanded the Company's borrowing base from CAD $65 million to approximately CAD $72 million (applying a USD/CAD exchange rate of USD $1.00 to CAD $1.29) and extended the term of its debt instruments.

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 September 30, 2017 was 1.9 to 1.0 (2016 – 1.2 to 1.0), which was well below the financial covenant requirement of 3.0 to 1.0 under the Amended Credit Facility and within future covenant requirements under the Revolving Facility and the Subordinated Notes. 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 portion of derivative financial instruments, all of the Company's financial liabilities were 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 September 30, 2017:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	500 bbls/d	October 1, 2017 – December 31, 2017	CDN$ WTI	$ 87.78	Swap
Oil	500 bbls/d	October 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/ 72.00	Collar
Oil	250 bbls/d	October 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/ 75.00	Collar
Oil	500 bbls/d	October 1, 2017 – December 31, 2017	CDN$ WTI	$ 58.00/ 67.50	Collar
Oil	400 bbls/d	October 1, 2017 – December 31, 2017	CDN$ WTI	$ 70.00/ 85.00	Collar
Light Oil Differential	1,000 bbls/d	October 1, 2017 – December 31, 2017	CDN$MSW[1]	$ (5.70	Swap
Natural Gas	6,050 GJ/d	October 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

All derivatives contracts outstanding as at September 30, 2017 were entered with PPR's credit facility lenders to minimize the need to post any collateral. The Company manages the credit risk exposure related to its ongoing risk management program by entering derivative contracts with counterparties that have acceptable credit ratings, including commercial banks and integrated energy companies.

Subsequent to September 30, 2017, the Company entered into the following derivative contracts:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	1,200 bbls/d	January 1, 2018 – March 31, 2018	USD$ WTI	$ 57.13	Swap
Oil	1,100 bbls/d	April 1, 2018 – June 30, 2018	USD$ WTI	$ 56.63	Swap
Oil	1,000 bbls/d	July 1, 2018 – September 30, 2018	USD$ WTI	$ 55.65	Swap
Oil	900 bbls/d	October 1, 2018 – December 31, 2018	USD$ WTI	$ 54.55	Swap
Oil	600 bbls/d	January 1, 2019 – March 31, 2019	USD$ WTI	$ 53.53	Swap
Oil	250 bbls/d	April 1, 2019 – May 31, 2019	USD$ WTI	$ 52.65	Swap
Oil	325 bbls/d	April 1, 2019 – June 30, 2019	USD$ WTI	$ 52.75	Swap

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

September 30, 2017	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current asset	**776**	**936**	**1,712**
Derivative instruments – long-term asset	**—**	**110**	**110**
Derivative instruments – long-term liabilities	**(190)**	**—**	**(190)**
Total asset	**586**	**1,046**	**1,632**

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 nine months ended September 30, 2017 and 2016:

Three Months Ended September 30, 2017	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized gain on derivative instruments	**1,747**	**475**	**2,222**
Unrealized gain (loss) on derivative instruments	**(2,932)**	**346**	**(2,586)**
Total gain (loss)	**(1,185)**	**821**	**(364)**

Three Months Ended September 30, 2016	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	2,142	115	2,257
Unrealized gain (loss) on derivative instruments	(2,000)	64	(1,936)
Total gain	142	179	321

Nine Months Ended September 30, 2017	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	3,528	547	4,075
Unrealized gain on derivative instruments	5,922	1,821	7,743
Total gain	9,450	2,368	11,818

Nine Months Ended September 30, 2016	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	7,875	506	8,381
Unrealized loss on derivative instruments	(11,884)	(159)	(12,043)
Total gain (loss)	(4,009)	347	(3,662)

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

September 30, 2017 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	3,023	(1,311)	1,712
Derivative instruments liabilities	(1,311)	1,311	—
Long-term:			
Derivative instruments assets – long-term	445	(335)	110
Derivative instruments liabilities – long-term	(525)	335	(190)

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)

17. 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 September 30, 2017, the Company has incurred $10.5 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 16(b)(i)).

18. SUBSEQUENT EVENT

On October 31, 2017, PPR completed a two-part debt financing transaction. The transaction includes a three-year USD $40 million senior secured revolving note facility (the "Revolving Facility"), under which USD $31 million principal amount of senior secured revolving notes due October 31, 2020 ("Secured Notes") were issued at closing, and an issue of USD $16 million principal amount of four-year senior subordinated notes due October 31, 2021 (“Subordinated Notes”). The overall debt structure expanded the Company’s borrowing base from CAD $65 million to approximately CAD $72 million (applying a USD/CAD exchange rate of USD $1.00 to CAD $1.29) and extended the term of its debt instruments. All notes were issued at par by PPR’s wholly-owned subsidiary, Prairie Provident Resources Canada Ltd. (“PPR Canada”), and are guaranteed by the PPR and certain of its other subsidiaries.

Contemporaneously with the closing of the financing, the Company issued to Prudential warrants to purchase up to 2,318,000 common shares, or 2% of the PPR’s outstanding shares, at an exercise price of CAD $0.549 (subject to adjustment in certain circumstances) with a 5-year term expiring on October 31, 2022. The exercise price represents a 20% premium over the 30-day weighted-average trading price of the Company’s common shares at closing.

Approximately $43 million (or CAD $55.5 million) of the proceeds from the Financing Transaction was used to repay and to retire the Amended Credit Facility and to cash collateralize approximately CAD $4.8 million in outstanding letters of credit issued for ordinary business operations.

Following the closing of the financing, the Company's bank debt, less funds collateralized for outstanding letters of credit and cash proceeds remained from the transaction, is approximately CAD $53 million (applying a USD/CAD exchange rate of USD $1.00 to CAD $1.29).

Revolving Facility

The Revolving Facility is a borrowing base facility that provides for total revolving commitments equal to the lesser of USD $40 million and the then-applicable borrowing base determined by the secured noteholders in accordance with their customary procedures and standards having regard to, among other things, the Company's proved reserves. The borrowing base is subject to a semi-annual redetermination following scheduled delivery of year-end and mid-year reserves reports on or before March 31 and September 30 for each year during the term. The first borrowing base redetermination will occur in April 2018 based on delivery of the 2017 year-end reserves report in late March 2018.

The Revolving Facility is a three-year facility, and all Secured Notes issued thereunder will mature October 31, 2020. PPR can make further draws under the Revolving Facility on or before October 31, 2019, subject at all times to the then-applicable commitment amount. The Secured Notes are repayable at the Company's election at par plus interest and any applicable breakage costs, without reduction in the aggregate commitment under the Revolving Facility.

Based on USD $31 million principal amount of Secured Notes having been issued at closing, the Company has 22.5% borrowing capacity available under the Revolving Facility, or approximately CAD $12 million based on a current USD/CAD exchange rate of approximately USD $1.00 to CAD $1.29.

The Revolving Facility is ultimately denominated in United States dollars but accommodates Canadian dollar denominated advances up to the lesser of CAD $18 million and the Canadian dollar equivalent of USD $10 million. Based on a current USD/CAD exchange rate of approximately USD $1.00 to CAD $1.29, the current Canadian dollar sublimit under the Revolving Facility is approximately CAD $12.9 million. Of all Secured Notes issued at closing, CAD $12.9 million are denominated Canadian dollar.

Amounts borrowed under the Revolving Facility can be drawn in the form of USD or CAD prime advances bearing interest based on reference bank USD and CAD prime lending rates announced from time to time, or LIBOR advances (in the case of USD amounts) or CDOR advances (in the case of CAD amounts) bearing interest based on LIBOR and CDOR rates in effect from time to time, plus an applicable margin. Applicable margins per annum are as follows:

(i) for CDOR advances and Canadian dollar prime advances, the margins are between 350 and 500 basis points (“bps”);
(ii) for LIBOR advances and US dollar prime advances, the margins range from 325 to 475 bps; and
(iii) standby fees on any undrawn borrowing capacity are between 50 to 87.5 bps per annum.

The applicable margins and standby fees all depend on the debt to EBITDAX (as herein defined) ratio of the Company calculated at the Company’s previous quarter-end.

The note purchase agreement for the Revolving Facility and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries. Included among the covenants are commitments by PPR to meet certain financial tests, calculated in accordance with the note purchase agreement, with respect to:

- total leverage, pursuant to which the ratio of adjusted indebtedness to EBITDAX for the four quarters most recently ended cannot exceed 3.5 to 1.0;
- senior leverage, pursuant to which the ratio of senior adjusted indebtedness to EBITDAX for the four quarters most recently ended cannot exceed 3.0 to 1.0;
- asset coverage, pursuant to which the ratio of adjusted net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) to adjusted indebtedness as of the date of any reserves report cannot be less than 1.3 to 1.0; and
- current ratio, pursuant to which 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 cannot be less than 1.0 to 1.0.

Subordinated Notes

The Subordinated Notes are four-year instruments with a scheduled maturity date of October 31, 2021. They bear interest at 15% per annum, payable quarterly in arrears on the 30th day of January, April, July and October in each year, with up to 5% per annum payable in kind at the election of PPR. Pursuant to the terms under the Revolving Facility, PPR is required to make the payable in kind election. The amount of any such in kind payment will become additional principal owing in respect of the Subordinated Notes.

The note purchase agreement for the Subordinated Notes and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries, including commitments by PPR Canada to meet the similar financial tests described above.