Prairie Provident Resources Announces Second Quarter 2020 Financial and Operating Results

Calgary, Alberta – August 12, 2020 – Prairie Provident Resources Inc. ("Prairie Provident", "PPR" or the "Company") today announces our financial and operating results for the three and six months ended June 30, 2020. PPR's unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2020 ("Interim Financial Statements") and related Management's Discussion and Analysis ("MD&A") for the three and six months ended June 30, 2020 are available on our website at www.ppr.ca and filed on SEDAR.

PPR's second-quarter financial results reflect the significant decline in global energy demand and resultant impact on crude oil pricing caused by the COVID-19 pandemic. While the health and safety of our employees, partners and communities remains a priority, the Company has proactively taken steps to maintain our liquidity and financial resilience during this unprecedented time. Initiatives undertaken include suspending the capital program; identifying immediate and targeted operating cost reductions; reducing compensation across the organization; and reaching an agreement with our lenders to defer the Company's borrowing base re-determination and to suspend cash interest payments on our 15% subordinated unsecured notes due October 31, 2021 ("Senior Notes"). As a result of these initiatives, the Company expects to realize adjusted funds flow[1] savings of approximately $8.0 million - $10.0 million for 2020. In addition, PPR has WTI hedges on over 80% of our 2020 forecast base oil production (net of royalties), which protect our operating cash flows and provide further resiliency amid continued volatility. At June 30, 2020, our hedges were fair valued at over $8.6 million.

Q2 2020 HIGHLIGHTS

- Due to the impacts of the COVID-19 pandemic and OPEC+ supply issues, oil prices experienced significant downturns during the second quarter of 2020. PPR's Q2 2020 cash flows were partially mitigated by our hedging program, which brought in $8.1 million of realized gains for the quarter.
- Production averaged 4,879 boe/d (68% liquids) in the second quarter of 2020, a 24% decrease from the same period in 2019, primarily driven by natural declines and gas production shut-in, partially offset by production from our 2019/2020 drilling program. Furthermore, in light of weak oil prices, during the second quarter of 2020 PPR permanently shut-in approximately 130 boe/d of uneconomic oil production. Workover activities were also suspended resulting in approximately 150 bbl/d of temporary lost production across the quarter. As oil prices have partially recovered, PPR has resumed workover activities in the third quarter of 2020 on selected projects that meet our current economic thresholds of less than one-year payout.
- Combined with shutting in uneconomic production and reducing workover activities, PPR implemented various other cost reduction initiatives, which resulted in over $1.0 million of operating expense savings for the second quarter of 2020. Together with lower production, operating expense decreased by $3.8 million compared to the second quarter of 2019.
- Operating netback[1] after the impact of realized gains on derivatives was $7.4 million ($16.56/boe) for the second quarter of 2020, reflecting a decrease of $3.6 million or 33% from the same period in 2019. Our hedging program provided $8.1 million of realized gains in the second quarter of 2020 which partially mitigated a 66% drop in realized oil prices from the corresponding period in 2019.

1 Non-IFRS measure – see below under "Non-IFRS Measures"

- The Michichi well drilled and completed in late March 2020 produced 220 boe/d (79% liquids) during the first 30 days and averaged 172 boe/d (79% liquids) for the second quarter of 2020. Net capital expenditures1 during the second quarter of 2020 were $0.4 million, primarily directed to the Michichi water injection facility.
- Effective April 2020, annual salaries for all executives and non-executives have been reduced. Certain employee benefit programs have also been suspended. Collectively, these measures are expected to result in $2.0 million of gross G&A reductions for 2020.
- Adjusted funds flow ("AFF")[1,] excluding $0.7 million of decommissioning settlements, was $5.2 million ($0.03 per basic and diluted share) for the second quarter of 2020, a 21% or $1.4 million decrease from the same quarter in 2019. Primary contributors to the decrease were lower production volumes and realized commodity prices, which were partially offset by a reduction in operating expenses, royalties, G&A expenses and cash interest expenses.
- Net loss totaled $17.6 million in the second quarter of 2020 compared to net earnings of $3.2 million in the same period last year, driven primarily by a non-cash unrealized loss on derivative instruments of $15.0 million. The unrealized loss on derivative instruments was due to a decrease in derivative asset value between March 31, 2020 and June 30, 2020. The decrease in derivative asset value was partially due to realizing $8.1 million of gains from contracts settled during the second quarter of 2020. In addition, as the forward commodity prices at June 30, 2020 improved from March 31, 2020, the marked-to-market value of the open hedges decreased accordingly.
- Net debt[1] at June 30, 2020 totaled $119.8 million, up $8.4 million from December 31, 2019. The increase from year end was attributed to an unrealized foreign exchange loss of $3.5 million which, was driven by a weaker Canadian dollar relative to the US dollar on the Company's US-dollar denominated debt, an increase of $3.3 million related to deferred interest on the Company's bank debt, in addition to the combination of capital expenditures and lease payments exceeding AFF during the first half of 2020.
- During the second quarter of 2020, a lender redetermination of the borrowing base on our senior secured revolving note facility ("Revolving Facility"), originally scheduled for the spring of 2020, was temporarily deferred. The Company agreed to direct excess funds, after payment of all operating, G&A and other costs of conducting our business, to the repayment of borrowings on the Revolving Facility and to not make further advances under that facility. PPR also agreed to a 200 basis point payment-in-kind margin increase on outstanding advances. The lenders under both the Revolving Facility and the Senior Notes agreed to waive application of all financial covenants for June 30, 2020.
- In addition, the holders of our outstanding USD$28,500,000 original principal amount of Senior Notes agreed to in-kind quarterly interest payments, rather than a portion payable in cash as had been done previously, for the payment date of April 30, 2020 and thereafter.
- The maturity date of the Revolving Facility is April 30, 2021. As the maturity date is within 12 months from June 30, 2020, the total outstanding amount under the Revolving Facility has been reclassified to current liabilities as at June 30, 2020. The Company and its lenders continue to work towards a long-term solution on the credit facilities.
- At June 30, 2020, PPR had US$57.0 million of borrowings drawn against the US$60.0 million Revolving Facility, comprised of US$30.2 million (C$40.5 million equivalent using the exchange rate at the time of borrowing, plus C$0.2 million equivalent of deferred interest, using the June 30, 2020 exchange rate of $1.00 USD to $1.36 CAD) of CAD-denominated borrowing and US$26.9 million of USD-denominated borrowing (C$$36.5 million, plus C$0.2 million of deferred interest equivalent using the June 30, 2020 exchange rate). In addition, US$33.0 million (C$38.6 million, plus C$6.3 million of deferred interest equivalent using the June 30, 2020 exchange rate) of Senior Notes were outstanding at June 30, 2020, for total borrowings of US$90.0 million (C$122.3 million using the June 30, 2020 exchange rate).

1 Non-IFRS measure – see below under "Non-IFRS Measures"

FINANCIAL AND OPERATING SUMMARY

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s except per unit amounts)	**2020**	2019	**2020**	2019
Production Volumes				
Crude oil (bbl/d)	**3,179**	4,230	**3,318**	4,062
Natural gas (Mcf/d)	**9,351**	11,709	**9,768**	11,639
Natural gas liquids (bbl/d)	**141**	204	**134**	173
Total (boe/d)	**4,879**	6,386	**5,080**	6,175
% Liquids	**68 %**	69 %	**68 %**	69 %
Average Realized Prices				
Crude oil ($/bbl)	**22.45**	66.44	**32.29**	61.80
Natural gas ($/Mcf)	**1.93**	1.15	**2.02**	1.79
Natural gas liquids ($/bbl)	**15.35**	28.60	**21.12**	32.73
Total ($/boe)	**18.77**	47.03	**25.53**	44.94
Operating Netback ($/boe)[1]				
Realized price	**18.77**	47.03	**25.53**	44.94
Royalties	**(2.33)**	(5.42)	**(2.51)**	(4.43)
Operating costs	**(18.09)**	(20.36)	**(20.35)**	(21.85)
Operating netback	**(1.65)**	21.25	**2.67**	18.66
Realized gains (losses) on derivatives	**18.21**	(2.46)	**10.90**	(1.39)
Operating netback, after realized gains (losses) on derivatives	**16.56**	18.79	**13.57**	17.27

1 Operating netback is a Non-IFRS measure (see “Non-IFRS Measures” below).

Capital Structure ($000s)	**June 30, 2020**	December 31, 2019
Working capital[1]	**0.3**	2.2
Bank debt[2]	**(120.1)**	(113.6)
Total net debt[3]	**(119.8)**	(111.4)
Common shares outstanding (in millions)	**172.1**	171.4

1 Working capital (deficit) is a Non-IFRS measure (see "Non-IFRS Measures" below) calculated as current assets less current portion of derivative instruments, minus accounts payable and accrued liabilities.

2 Bank debt includes the Revolving Facility and the Senior Notes.

3 Net debt is a Non-IFRS measure (see "Non-IFRS Measures" below), calculated by adding working capital (deficit) and bank debt.

	Three Months Ended June 30,		Six Months Ended June 30,	
Drilling Activity	**2020**	2019	**2020**	2019
Gross wells	**0.0**	0.0	**1.0**	**1.0**
Net (working interest) wells	**n/a**	n/a	**1.0**	**1.0**
Success rate, net wells (%)[1]	**n/a**	n/a	**100 %**	**100 %**

1 For the six months ended June 30, 2020, the Company drilled one development well with a 100% success rate.

OUTLOOK

The COVID-19 pandemic has resulted in a sharp decline in global economic activity, and consequently, a significant drop in energy demand. Although a number of countries around the world have started to ease physical distancing requirements and reopen their economies, there is a recent resurgence of COVID-19 cases in certain areas and the timing and extent of economic recovery remains highly uncertain.

The downturn in oil prices has adversely affected PPR's operating results and financial position, although the impact has been somewhat muted given that 80% of our 2020 forecast base oil production (net of royalties) is protected by hedges. Our hedges have shielded the Company against the severe price deterioration that has occurred during these unprecedented times, underpinning the importance of maintaining liquidity and financial resilience. After completing the Michichi well in March 2020, PPR has suspended our capital program to preserve liquidity and protect development economics.

Operationally, PPR has conducted a bottom-up review of all of our operating expenses and has identified immediate reduction opportunities totaling $2.9 million for 2020. Cost reductions are expected to be realized through rate negotiations, workforce optimizations, shutting-in uneconomic production and the deferral of activities.

In addition, effective April 2020, annual salaries for all executives and non-executives have been reduced, while the Board of Directors' annual remuneration has also been adjusted. Certain employee benefit programs have also been suspended. These measures are expected to result in approximately $2.0 million of gross G&A reductions for 2020.

PPR continues to actively pursue various COVID-19 relief programs announced by the Government of Canada and the Government of Alberta, including the Canada Emergency Wage Subsidy, the Business Credit Availability Program administered through Export Development Canada and the Business Development Bank of Canada, and the Site Rehabilitation Program (SRP) for funding abandonment and reclamation work. With respect to the SRP, PPR will assess the cost and benefits of directing spending towards decommissioning activities, with our participation decision dependent upon the incentives available and capital requirements from PPR.

As a result of the impacts caused by COVID-19, the Company expects the remainder of 2020 to be a challenging time for our industry and for the global economy in general. While PPR cannot control or influence the macro environment, we are committed to maintaining our balance sheet and liquidity through active cost reduction efforts and will continue to work closely with our lenders.

ABOUT PRAIRIE PROVIDENT

Prairie Provident is a Calgary-based company engaged in the exploration and development of oil and natural gas properties in Alberta. The Company's strategy is to grow organically in combination with accretive acquisitions of conventional oil prospects, which can be efficiently developed. Prairie Provident's operations are primarily focused at the Michichi and Princess areas in Southern Alberta targeting the Banff, the Ellerslie and the Lithic Glauconite formations, along with an established and proven waterflood project at our Evi area in the Peace River Arch. Prairie Provident protects its balance sheet through an active hedging program and manages risk by allocating capital to opportunities offering maximum shareholder returns.

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Forward-Looking Statements

This news release contains certain statements ("forward-looking statements") that constitute forward-looking information within the meaning of applicable Canadian securities laws. Forward-looking statements relate to future performance, events or circumstances, are based upon internal assumptions, plans, intentions, expectations and beliefs, and are subject to risks and uncertainties that may cause actual results or events to differ materially from those indicated or suggested therein. All statements other than statements of current or historical fact constitute forward-looking statements. Forward-looking statements are typically, but not always, identified by words such as "anticipate", "believe", "expect", "intend", "plan", "budget", "forecast", "target", "estimate", "propose", "potential", "project", "continue", "may", "will", "should" or similar words suggesting future outcomes or events or statements regarding an outlook.

Without limiting the foregoing, this news release contains forward-looking statements pertaining to: the Company's liquidity and financial resilience going-forward; cost reduction opportunities (including anticipated amounts) and the Company's ability to achieve them; and future improvements in economic activity and energy demand.

Forward-looking statements are based on a number of material factors, expectations or assumptions of Prairie Provident which have been used to develop such statements but which may prove to be incorrect. Although the Company believes that the expectations and assumptions reflected in such forward-looking statements are reasonable, undue reliance should not be placed on forward-looking statements, which are inherently uncertain and depend upon the accuracy of such expectations and assumptions. Prairie Provident can give no assurance that the forward-looking statements contained herein will prove to be correct or that the expectations and assumptions upon which they are based will occur or be realized. Actual results or events will differ, and the differences may be material and adverse to the Company. In addition to other factors and assumptions which may be identified herein, assumptions have been made regarding, among other things: future commodity prices and currency exchange rates, including consistency of future prices with current price forecasts; the economic impacts of the COVID-19 pandemic, including the adverse effect on global energy demand, and the oversupply of oil production; results from development activities, and their consistency with past operations; the quality of the reservoirs in which Prairie Provident operates and continued performance from existing wells, including production profile, decline rate and product mix; the accuracy of the estimates of Prairie Provident's reserves volumes; operating and other costs, including the ability to achieve and maintain cost improvements; continued availability of external financing and cash flow to fund Prairie Provident's current and future plans and expenditures, with external financing on acceptable terms; the impact of competition; the general stability of the economic and political environment in which Prairie Provident operates; the general continuance of current industry conditions; the timely receipt of any required regulatory approvals; the ability *of Prairie Provident to obtain qualified staff, equipment and services in a timely and cost efficient manner; drilling results; the ability of the operator of the projects in which Prairie Provident has an interest in to operate the field in a safe, efficient and effective manner; field production rates and decline rates; the ability to replace and expand oil and natural gas reserves through acquisition, development and exploration; the timing and cost of pipeline, storage and facility construction and expansion and the ability of Prairie Provident to secure adequate product transportation; regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which Prairie Provident operates; and the ability of Prairie Provident to successfully market its oil and natural gas products.*

Forward-looking statements are not guarantees of future performance or promises of future outcomes, and should not be relied upon. Such statements, including the assumptions made in respect thereof, involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements including, without limitation: changes in realized commodity prices; changes in the demand for or supply of Prairie Provident's products; the early stage of development of some of the evaluated areas and zones; the potential for variation in the quality of the geologic formations targeted by Prairie Provident's operations; unanticipated operating results or production declines; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in development plans of Prairie Provident or by third party operators; increased debt levels or debt service requirements; inaccurate estimation of Prairie Provident's oil and gas reserves volumes; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; and such other risks as may be detailed from time-to-time in Prairie Provident's public disclosure documents, (including, without limitation, those risks identified in this news release and Prairie Provident's current Annual Information Form).

The forward-looking statements contained in this news release speak only as of the date of this news release, and Prairie Provident assumes no obligation to publicly update or revise them to reflect new events or circumstances, or otherwise, except as may be required pursuant to applicable laws. All forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Barrels of Oil Equivalent

The oil and gas industry commonly expresses production volumes and reserves on a "barrel of oil equivalent" basis ("boe") whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip. It does not represent a value equivalency at the wellhead nor at the plant gate, which is where Prairie Provident sells its production volumes. Boes may therefore be a misleading measure, particularly if used in isolation. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency ratio of 6:1, utilizing a 6:1 conversion ratio may be misleading as an indication of value.

Initial Production Rates

The initial 30-day production rate for our Michichi development well may not be indicative of stabilized on-stream production rates, future product types, long-term well or reservoir performance, or ultimate recovery. Actual future results will differ from those realized during an initial short-term production period, and the difference may be material.

Non-IFRS Measures

The Company uses certain terms in this news release and within the MD&A that do not have a standardized or prescribed meaning under International Financial Reporting Standards (IFRS), and, accordingly these measurements *may not be comparable with the calculation of similar measurements used by other companies. For a reconciliation of each non-IFRS measure to its nearest IFRS measure, please refer to the "Non-IFRS Measures" section in the MD&A. Non-IFRS measures are provided as supplementary information by which readers may wish to consider the Company's performance but should not be relied upon for comparative or investment purposes. The non-IFRS measures used in this news release are summarized as follows:*

<u>Working Capital</u> – Working capital (deficit) is calculated as current assets excluding the current portion of derivative instruments, less accounts payable and accrued liabilities. This measure is used to assist management and investors in understanding liquidity at a specific point in time. The current portion of derivatives instruments is excluded as management intends to hold derivative contracts through to maturity rather than realizing the value at a point in time through liquidation. The current portion of bank debt is excluded from working capital calculation as it relates to financing activities and is included in net debt calculation. The current portion of decommissioning expenditures is excluded as these costs are discretionary and the current portion of flow-through share premium and warrant liabilities are excluded as it is a non-monetary liability. Lease liabilities have historically been excluded as they were not recorded on the balance sheet until the adoption of IFRS 16 – Leases on January 1, 2019.

<u>Net Debt</u> – Net debt is defined as bank debt plus working capital surplus or deficit. Net debt is commonly used in the oil and gas industry for assessing the liquidity of a company.

<u>Operating Netback</u> – Operating netback is a non-IFRS measure commonly used in the oil and gas industry. This measurement assists management and investors to evaluate the specific operating performance at the oil and gas lease level. Operating netbacks included in this news release were determined by taking (oil and gas revenues less royalties less operating costs). Operating netback may be expressed in absolute dollar basis or per unit basis. Per unit amounts are determined by dividing the absolute value by gross working interest production. Operating netback, including realized commodity (loss) and gain, adjusts the operating netback for only realized gains and losses on derivative instruments.

<u>Adjusted Funds Flow</u> – Adjusted funds flow is calculated based on cash flow from operating activities before changes in non-cash working capital, transaction costs, restructuring costs, and other non-recurring items. Management believes that such a measure provides an insightful assessment of PPR's operational performance on a continuing basis by eliminating certain non-cash charges and charges that are non-recurring or discretionary and utilizes the measure to assess its ability to finance capital expenditures and debt repayments. Adjusted funds flow as presented is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted funds flow per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of earnings per share.

<u>Net Capital Expenditures</u> – Net capital expenditures is a non-IFRS measure commonly used in the oil and gas industry. The measurement assists management and investors to measure PPR's investment in the Company's existing asset base. Net capital expenditures is calculated by taking total capital expenditures, which is the sum of property and equipment and exploration and evaluation expenditures from the consolidated statement of cash flows, plus capitalized stock-based compensation, plus acquisitions from business combinations, which is the outflow cash consideration paid to acquire oil and gas properties, less asset dispositions (net of acquisitions), which is the cash proceeds from the disposition of producing properties and undeveloped lands.