Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Three Months Ended March 31, 2018

Dated: May 9, 2018

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	March 31, 2018	December 31, 2017
ASSETS			
Cash		**2,799**	3,564
Restricted cash	7	**4,881**	4,881
Accounts receivable	13, 17	**8,354**	8,654
Inventory		**698**	697
Prepaid expenses and other assets		**1,055**	897
Derivative instruments – current	17	**770**	895
Total current assets		**18,557**	19,588
Exploration and evaluation	5	**26,689**	26,420
Property and equipment	6	**224,887**	217,035
Derivative instruments	17	**—**	192
Other assets		**247**	272
Total assets		**270,380**	263,507
LIABILITIES			
Accounts payable and accrued liabilities		**28,647**	20,894
Flow-through share premium		**683**	711
Derivative instruments	17	**7,271**	4,156
Current portion of decommissioning liability	9	**2,300**	2,300
Warrant liability	8	**463**	533
Total current liabilities		**39,364**	28,594
Long-term debt	7	**60,942**	55,760
Derivative instruments	17	**4,026**	2,258
Decommissioning liabilities	9	**111,107**	110,534
Other liabilities		**4,312**	4,193
Total Liabilities		**219,751**	201,339
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Share capital	10	**121,540**	121,546
Warrants	10	**337**	337
Contributed surplus		**1,137**	928
Accumulated deficit		**(72,810)**	(61,068)
Accumulated other comprehensive income ("AOCI")		**425**	425
Total equity		**50,629**	62,168
Total liabilities and shareholders' equity		**270,380**	263,507

See accompanying notes to the condensed interim consolidated financial statements.

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

Three Months Ended *($000s)*	Note	**March 31, 2018**	March 31, 2017
REVENUE			
Oil and natural gas revenue	13	**19,283**	19,208
Royalties		**(2,537)**	(3,029)
Oil and natural gas revenue, net of royalties		**16,746**	16,179
Unrealized (loss) gain on derivative instruments	17	**(5,199)**	5,858
Realized (loss) gain on derivative instruments	17	**(1,212)**	703
		10,335	22,740
EXPENSES			
Operating	14	**8,340**	8,633
General and administrative	15	**2,336**	2,260
Depletion and depreciation	6	**7,416**	8,201
Exploration and evaluation	5	**147**	8
Gain on property dispositions		**—**	(548)
Gain on business combination	4	**—**	(4,343)
Gain on warrant liability	8	**(70)**	—
Loss (gain) on foreign exchange		**1,553**	(85)
Finance costs	16	**2,164**	779
Reorganization cost		**187**	—
Transaction costs		**32**	677
Total expenses		**22,105**	15,582
Net (loss) earnings before taxes		**(11,770)**	7,158
Deferred tax recovery		**(28)**	(104)
Net (loss) earnings and comprehensive (loss) earnings		**(11,742)**	7,262

Net earnings per share			
Basic & diluted	10	**(0.10)**	0.07

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, 2017		121,546	337	928	(61,068)	425	62,168
Normal course issuer bid	10	(16)		9			(7)
Share-based compensation	11	—	—	220	—	—	220
Settlement of deferred restricted share units	11	20	—	(20)	—	—	—
Withholding taxes on settlement of deferred restricted share units	11	(10)	—	—	—	—	(10)
Net loss		—	—	—	(11,742)	—	(11,742)
Balance at March 31, 2018		121,540	337	1,137	(72,810)	425	50,629

($000s)	Note	Share Capital Amount	Warrants	Capital Surplus	Accumulated Deficit	AOCI	Total Deficit
Balance at December 31, 2016		115,062	—	514	(13,266)	276	102,586
Issued for cash		6,922	299	—	—	—	7,221
Share issuance costs		(1,012)	—	—	—	—	(1,012)
Share-based compensation		—	—	145	—	—	145
Settlement of restricted share units		389	—	(389)	—	—	—
Withholding taxes on settlement of restricted share units		(44)	—	—	—	—	(44)
Net earnings		—	—	—	7,262	—	7,262
Balance at March 31, 2017		121,317	299	270	(6,004)	276	116,158

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended *($000s)*	Note	March 31, 2018	March 31, 2017
OPERATING ACTIVITIES			
Net (loss) earnings		**(11,742)**	7,262
Adjustments for non-cash items:			
Unrealized loss (gain) on derivative instruments	17	**5,199**	(5,858)
Depletion and depreciation	6	**7,416**	8,201
Accretion and financing charges	9, 16	**803**	545
Unrealized foreign exchange loss (gain)		**1,352**	(30)
Gain on sale of properties		**—**	(548)
Gain on business combination		**—**	(4,343)
Share-based compensation	11	**164**	124
Exploration and evaluation expense	5	**147**	8
Gain on warrant liability		**(70)**	—
Deferred tax recovery		**(28)**	(104)
Settlements of decommissioning liabilities	9	**(660)**	(4,042)
Deferred interest on Senior Note	7	**422**	—
Other, net		**(19)**	(62)
Change in non-cash working capital	12	**391**	502
Net cash from operating activities		**3,375**	1,655
FINANCING ACTIVITIES			
Debt issuance costs		**(3)**	(34)
Issuance of common shares		**—**	8,001
Share issuance costs		**—**	(1,012)
Share repurchase	10	**(7)**	—
Withholding taxes on settlement of stock based compensations	10	**(10)**	(44)
Change in Revolving Facility borrowings	7	**3,272**	—
Change in credit facility borrowings		**—**	31,555
Net cash from financing activities		**3,252**	38,466
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	5	**(512)**	(4,755)
Property and equipment expenditures	6	**(13,496)**	(2,130)
Business combinations	4	**(887)**	(40,894)
Asset acquisition (net of dispositions)		**—**	(586)
Change in non-cash working capital	12	**7,503**	318
Net cash used in investing activities		**(7,392)**	(48,047)
Change in cash and restricted cash		**(765)**	(7,926)
Cash and restricted cash beginning of period		**8,445**	7,926
Cash and restricted cash end of period		**7,680**	—

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2018 and 2017

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.

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, 2017 and 2016 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 Committee of the Board of Directors of PPR on May 9, 2018.

(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 AND CHANGES IN ACCOUNTING POLICIES

The Company's significant accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements other than changes in accounting policies effective January 1, 2018 described below related to the adoption of new accounting pronouncements. 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 AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

The Company has applied revised IFRSs issues by the IASB that are mandatorily effective for accounting periods that begin on or after January 1, 2018 including the following new standards:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

For periods ending prior to January 1, 2018, the accounting policies followed are as disclosed in the Annual Financial Statements (unless otherwise stated).

(a) IFRS 15 – Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") which replaces IAS 11 – Construction Contracts, IAS 18 – Revenue and several revenue-related interpretations. PPR adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. Additional disclosure required under IFRS 15 related to the disaggregation of revenue is provided in Note 13. The Company's newly adopted accounting policy is as follows:

Revenue

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The Company satisfies performance obligations and the customer obtains control upon the delivery of crude oil, natural gas and natural gas liquids, which is generally at a point in time.

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

(b) IFRS 9 – Financial Instruments

Effective January 1, 2018, the Company adopted IFRS 9 – Financial Instruments ("IFRS 9") retrospectively. In accordance with transitional provisions, comparative figures have not been restated. No adjustment to retained earnings was required upon adoption of IFRS 9.

Classification of Financial Assets and Liabilities

IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company's business model for managing the financial asset. Additionally, financial assets with embedded derivatives are considered in their entirety when assessed for classification and measurement. The principal classification categories for financial assets include amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVPL"), replacing the previous categories under IAS 39 – Financial Instruments: Recognition and Measurement ("IAS 39") of held to maturity, FVPL, loans and receivables and available for sale.

The classifications of financial liabilities under IFRS 9 include amortized cost and FVPL, replacing IAS 39 categories of other financial liabilities and FVPL.

There were no adjustments to the carrying amounts of financial assets and financial liabilities as a result of changes in the classification categories from IAS 39 to IFRS 9. The following table summarizes the measurement categories of PPR's financial instruments under IAS 39 and IFRS 9:

	Measurement Category	
Financial Instrument	**IAS 39**	**IFRS 9**
Cash	FVPL	FVPL
Restricted cash	FVPL	FVPL
Accounts receivable	Loans and receivables	Amortized cost
Derivative instruments (assets)	FVPL	FVPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Derivative instruments (liability)	FVPL	FVPL
Warrant Liability	FVPL	FVPL
Long-term debt	Other financial liabilities	Amortized cost

Impairment of Financial Assets

IFRS 9 replaces the 'incurred loss' model under IAS 39 with an 'expected credit loss' model for financial assets carried at amortized cost, contract assets and FVOCI. PPR applied the expected credit loss model to its financial assets classified as amortized cost using the simplified approach applying a provision matrix whereby accounts are grouped into categories based on counterparty characteristics and aging categories. The application of the expected credit loss model did not result in an adjustment upon transition.

The Company has revised its accounting policy to reflect the new classification approach as outlined above. Additionally the PPR has revised is accounting policy related to the new impaired model as follows:

Impairment of financial instruments

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

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in profit and loss.

(c) New Accounting Pronouncement

In January 2016, the IASB issued IFRS 16 – Leases ("IFRS 16"), 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. ACQUISITIONS

During the three months ended March 31, 2018, PPR acquired oil and natural gas properties in the Princess area for cash consideration of $0.9 million. The transaction resulted in $0.9 million addition to property and equipment assets and a nominal amount of addition to decommissioning liabilities.

On March 22, 2017, PPR acquired oil and natural gas properties in the Greater Red Earth area of Northern Alberta for cash consideration of $40.9 million. The Company accounted for the transaction as a business combination and disclosed the purchase price allocation in the Annual Financial Statements.

5. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2017	77,271
Additions	**512**
Transfers to oil and gas property and equipment (Note 6)	**(96)**
Exploration and evaluation expense	**(147)**
Cost Balance – March 31, 2018	**77,540**
Balance - provision for impairment – December 31, 2017	(50,851)
Balance - provision for impairment – March 31, 2018	**(50,851)**
Net book value – December 31, 2017	26,420
Net book value – March 31, 2018	**26,689**

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 three months ended March 31, 2018, PPR did not capitalize any directly attributable general and administrative expenses (2017 – $0.4 million) or share-based compensation (2017 – a nominal amount) to E&E assets.

6. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Total
Cost:			
Balance – December 31, 2017	531,463	4,595	536,058
Additions	13,550	4	13,554
Acquisitions (Note 4)	925	—	925
Adjustments due to change in estimates in decommissioning liabilities (Note 9)	662	—	662
Transfers from exploration and evaluation assets (Note 5)	96	—	96
Balance – March 31, 2018	546,696	4,599	551,295
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2017	(315,879)	(3,144)	(319,023)
Depletion and depreciation	(7,267)	(118)	(7,385)
Balance – March 31, 2018	(323,146)	(3,262)	(326,408)
Net book value – December 31, 2017	215,584	1,451	217,035
Net book value – March 31, 2018	223,550	1,337	224,887

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

During the three months ended March 31, 2018, $0.6 million (2017 – $0.1 million) of directly attributable general and administrative expenses, including $0.1 million (2017 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

As at March 31, 2018, the Company assessed its property and equipment for indicators of impairment or impairment recovery. Based on the assessment, no indicators of impairment or impairment recovery were noted.

7. LONG-TERM DEBT

($000s)	March 31, 2018	December 31, 2017
Revolving Facility (USD $23.5 million and CAD $12.9 million)	43,189	39,233
Senior Notes (USD $16.0 million plus USD $0.3 million deferred interest)	21,062	20,072
Unamortized deferred financing fees	(2,766)	(2,979)
Unamortized value allocated to Warrant Liability	(543)	(566)
Balance	60,942	55,760

(a) Revolving Facility

On October 31, 2017, the Company entered into a US$40 million (CDN$51.6 million using the March 31, 2018 exchange rate of $1.00 USD to $1.29 CAD) borrowing base senior secured revolving note facility ("Revolving Facility") with a maturity date of October 31, 2020. The Company can make further draws on the facility on or before October 31, 2019. The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CDN$18 million or US$10 million. As at March 31, 2018, the Company has drawn US$23.5 million (CDN$30.3 million equivalent using the March 31, 2018 exchange rate) of USD denominated notes and CDN$12.9 million of CAD denominated notes under the Revolving Facility. All notes were issued at par by PPR Canada and are guaranteed by Prairie Provident Resources Inc. and certain of its other subsidiaries and secured by a US$200 million debenture.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of PPR's oil and natural gas properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is subject to a semi-annual redetermination. As of the date the Interim Financial Statements were authorized for issue, the Revolving Facility lenders are in the routine process of borrowing base redetermination.

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:

(a) for CDOR advances and CAD prime advances, the margins are between 350 and 500 basis points ("bps");
(b) for LIBOR advances and USD prime advances, the margins range from 325 to 475 bps; and
(c) standby fees on any undrawn borrowing capacity are between 50 to 87.5 bps per annum.

As at March 31, 2018, $1.9 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2017 – $2.0 million).

(b) Subordinate Senior Notes

On October 31, 2017, the Company obtained four-year US$16 million (CDN $20.6 million using the March 31, 2018 exchange rate of $1.00 USD to $1.29 CAD) subordinated senior notes ("Senior Notes") with a maturity date of October 31, 2021. They bear interest at 15% per annum, payable quarterly in arrears with up to 5% per annum deferrable at the election of PPR. The amount of any such deferred payment will become additional principal owing in respect of the Senior Notes payable at the maturity date. The terms of the Revolving Facility require that PPR Canada make the maximum deferred payment election.

As at March 31, 2018, $0.9 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2017 – $0.9 million).

(c) Covenants

The note purchase agreement for the Revolving Facility, the subordinated Senior Note agreement and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. The note purchase agreement for the Revolving Facility and the subordinated Senior Note purchase agreement include the same financial covenants, with less restrictive thresholds under the subordinated Senior Note agreement for certain covenants. The financial covenants are as follows:

(a) total leverage, pursuant to which the ratio of adjusted indebtedness to EBITDAX (as defined below) for the four quarters most recently ended cannot exceed 3.5 to 1.0 (Senior Notes – 3.75 to 1.00) (as at March 31, 2018— 2.4 to 1.0);
(b) senior leverage, pursuant to which the ratio of senior adjusted indebtedness to EBITDAX (as defined below) for the four quarters most recently ended cannot exceed 3.0 to 1.0 (Senior Notes – 3.25 to 1.00) (as at March 31, 2018 — 2.4 to 1.0);
(c) 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 (Senior Notes – 1.3 to 1.00) (1.9 to 1.0 as at March 31, 2018); and

(d) 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 – 0.85 to 1.00). Prior to first quarter-end of 2018, the noteholder of the Revolving Facility amended the current ratio covenant for Revolving Facility to 0.85 to 1.00 for the first quarter of 2018 (as at March 31, 2018— 0.9 to 1.0). Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, the decommissioning obligations, derivative liabilities and non-cash liabilities.

The Company was in compliance with all applicable covenants as at March 31, 2018.

(d) Letters of Credit

As at March 31, 2018, PPR had outstanding letters of credit of $4.8 million. The letters of credit are issued by a financial institution at which PPR has a $4.9 million cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

8. WARRANT LIABILITY

	Number of Warrants *(000s)*	Amount *($000s)*
Warrant liability		
PPR Warrant Liability, December 31, 2017	2,318	533
Revaluation of warrant liability	—	(70)
PPR Warrant Liability, March 31, 2018	**2,318**	**463**

In conjunction with the Subordinated Notes (Note 7), the Company issued 2,318,000 warrants with an exercise price of $0.549 with a 5 year term expiring October 31, 2022. The warrants issued were classified as a financial liability as a result of a cashless exercise provision. As such, the warrant liability will be measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the consolidated statement of loss. The fair value of these warrants is determined using the Black-Scholes option pricing model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position.

9. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2017	112,834
Liabilities incurred	421
Liabilities acquired (Note 4)	38
Payments	(660)
Change in estimates	240
Accretion	534
Total Balance – March 31, 2018	113,407

Comprised of:	
Current portion – March 31, 2018	2,300
Long-term portion – March 31, 2018	111,107
Current portion – December 31, 2017	2,300
Long-term portion – December 31, 2017	110,534

Decommissioning obligations acquired are initially measured at fair value using a credit-adjusted risk free rate of 10.3% 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 2018 (Note 4) resulted in an increase to the carrying values of decommissioning liabilities of $0.2 million, which was included in changes in estimates.

Decommissioning liabilities at March 31, 2018 were determined using risk-free rates of 1.2% - 2.2% (December 31, 2017 – 1.2% - 2.2%) and an inflation rate of 1.7% (December 31, 2017 – 1.7%).

The Company has estimated the undiscounted total future liabilities to be approximately $172.0 million, based on an inflation rate of 1.7% (December 31, 2017 – $171.5 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 25 years.

10. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

(b) Units Outstanding

	Number of Shares *(000s)*	Amount *($000s)*
Common shares:		
PPR Shares, December 31, 2017	115,888	121,546
Issued on settlement of deferred restricted share units	18	20
Share repurchase	(15)	(16)
Withholding taxes on settlement of deferred restricted share units	—	(10)
PPR Shares, March 31, 2018	**115,891**	**121,540**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
PPR Warrants, March 31, 2018 and December 31, 2017	**3,155**	**337**

On November 28, 2017, the Toronto Stock Exchange ("TSX") accepted the Company's notice to make a normal course issuer bid ("NCIB") to purchase its outstanding common shares on the open market. The TSX authorized the Company to purchase up to 4,900,000 common shares during the period from December 1, 2017 to November 30, 2018. Shares purchased under the bid will be cancelled. During the first quarter of 2018, the Company purchased and cancelled 15,000 shares under the NCIB at a weighted average cost of $0.48 per share.

(c) Earnings per Share

Period Ended *($000s)*	**March 31, 2018**	March 31, 2017
Net earnings for the period	**(11,742)**	7,262
Weighted average number of common shares[1]		
Basic	**115,888**	105,662
Diluted	**115,888**	106,027
Basic net earnings per share	**(0.10)**	0.07
Diluted net earnings per share	**(0.10)**	0.07

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

The weighted average diluted common shares at March 31, 2018 excludes the impact of outstanding equity settled awards issued under the Company's long-term incentive plans and warrants that were anti-dilutive.

11. SHARE-BASED COMPENSATION

(a) Stock Options

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

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2017	2,684,469	0.81
Forfeited or expired	(87,500)	0.80
Balance, March 31, 2018	**2,596,969**	0.81
Exercisable at March 31, 2018	**1,158,047**	0.84

(b) 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 accounted for as equity settled.

At December 31, 2017, there were 471,332 units outstanding and no additional unit were granted during the first three month of 2018.

(c) 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 DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2017	243,368
Granted	**72,922**
Settled	**(39,131)**
Balance, March 31, 2018	**277,159**

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 2018 is $0.43.

(d) Restricted Share Units

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

	RSUs
Outstanding – December 31, 2017	—
Granted	**1,922,274**
Outstanding – March 31, 2018	**1,922,274**

The weighted average fair value of units granted in 2018 is $0.45.

(e) Share-based compensation expense

For the three months ended March 31, 2018, share-based compensation of $0.2 million (March 31, 2017 – $0.1 million) was included in general and administrative expense net of $0.1 million (March 31, 2017 – a nominal amount) of capitalized share based compensation. A nominal amount of share-based compensation was included in operating expense for the three months ended March 31, 2018 and March 31, 2017.

12. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Three Months Ended *($000s)*	March 31, 2018	March 31, 2017
Source (use) of cash:		
Accounts receivable	300	(109)
Prepaid expenses and other current assets	(159)	88
Accounts payable and accrued liabilities	7,753	841
	7,894	820
Related to operating activities	391	502
Related to investing activities	7,503	318
	7,894	820
Other:		
Interest paid during the period	1,192	314

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance as of December 31, 2017	37,203	18,557
Changes in cash flows	3,272	—
Deferred interest	—	422
Debt issuance costs	(3)	—
Non-cash changes		
Unrealized foreign exchange gain	685	568
Amortization of debt issuance costs	179	59
Balance as of March 31, 2018	41,336	19,606

13. REVENUE

Three Months Ended *($000s)*	March 31, 2018	March 31, 2017
Crude oil	17,116	14,245
Natural gas	1,578	4,028
Natural gas liquid	589	935
Oil and natural gas revenue	19,283	19,208

Included in accounts receivable at March 31, 2018 is $5.6 million (December 31, 2017 – $6.2 million related to December 2017) of accrued oil and natural gas sales related to March 2018 production.

14. OPERATING EXPENSE

Three Months Ended *($000s)*	**March 31, 2018**	March 31, 2017
Lease operating expense	**6,089**	5,702
Transportation and processing	**1,134**	2,219
Production and property taxes	**1,117**	712
	8,340	8,633

15. GENERAL AND ADMINISTRATIVE EXPENSE

Three Months Ended *($000s)*	**March 31, 2018**	March 31, 2017
Salaries and benefits	**1,516**	1,502
Share-based compensation	**213**	139
Office rents and leases	**397**	424
Professional fees	**647**	361
Other – office and administration	**195**	321
	2,968	2,747
Amounts capitalized to property and equipment and E&E assets	**(632)**	(487)
	2,336	2,260

16. FINANCE COST

Three Months Ended *($000s)*	**March 31, 2018**	March 31, 2017
Interest expense	**1,600**	309
Accretion – decommissioning liabilities (Note 9)	**534**	439
Accretion – other liabilities	**30**	31
	2,164	779

17. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Value

The fair value of the borrowings under PPR's Revolving Facility and Senior Notes approximates their carrying values (excluding deferred financing charges and the value assigned to the warrant liability) due to their recent issuance. Additionally, the Revolving Facility bears floating market rates.

(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 7, at March 31, 2018, the Company has US$6.5 million borrowing capacity under the Revolving Facility.

During the first quarter of 2018, PPR's capital spending outpaced its cash flows from operations as the Company decided to complete over 50% of its planned 2018 capital program so to take advantage of oil price recovery and to gear up the Company for growth. Though PPR's working capital deficit and total debt to Adjusted EBITDAX ratio increased during the quarter, PPR anticipates the annual 2018 capital program to be funded primarily with cash flows from operations and as such expects the ratios to improve over time.

The Company has determined that its current financial obligations, including current commitments, are adequately funded from the available borrowing capacity and from working capital derived from operations. Except for the long-term portion of derivative financial instruments and long-term debt, 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 March 31, 2018:

Crude Oil Commodity Risk Management Contracts					
Commodity Contract	**Notional Quantity**	**Remaining Term**	**Reference**	**Weighted Average Price**	**Contract Type**
Oil	1,300 bbls/d	April 1, 2018 – June 30, 2018	US$ WTI	$ 57.76	Swap
Oil	1,175 bbls/d	July 1, 2018 – September 30, 2018	US$ WTI	$ 56.67	Swap
Oil	1,050 bbls/d	October 1, 2018 – December 31, 2018	US$ WTI	$ 55.50	Swap
Oil	500 bbls/d	April 1, 2018 – December 31, 2018	US$ WTI	$ 65.00	Sold Call Option
Oil	800 bbls/d	April 1, 2018 – December 31, 2018	CDN$ WTI	$ 58.00/ 67.50	Collar
Oil	600 bbls/d	January 1, 2019 – March 31, 2019	US$ WTI	$ 53.53	Swap
Oil	250 bbls/d	April 1, 2019 – May 31, 2019	US$ WTI	$ 52.65	Swap
Oil	325 bbls/d	April 1, 2019 – June 30, 2019	US$ WTI	$ 52.75	Swap
Oil	500 bbls/d	July 1, 2019 – September 30, 2019	US$ WTI	$ 52.50	Swap
Oil	450 bbls/d	October 1, 2019 – December 31, 2019	US$ WTI	$ 52.00	Swap
Oil	400 bbls/d	January 1, 2019 – December 31, 2019	CDN$ WTI	$ 85.00	Sold Call Option
Oil	400 bbls/d	January 1, 2019 – December 31, 2019	US$ WTI	$ 52.50/60.00	Collar
Oil	275 bbls/d	January 1, 2019 – December 31, 2019	US$ WTI	$ 50.00/57.00	Collar
Oil	450 bbls/d	January 1, 2020 – March 31, 2020	US$ WTI	$ 51.50	Swap
Oil	425 bbls/d	April 1, 2020 – June 30, 2020	US$ WTI	$ 51.00	Swap
Oil	400 bbls/d	July 1, 2020 – September 30, 2020	US$ WTI	$ 50.75	Swap
Oil	400 bbls/d	October 1, 2020 – December 31, 2020	US$ WTI	$ 50.50	Swap
Oil	400 bbls/d	January 1, 2020 – December 31, 2020	US$ WTI	$ 60.50	Sold Call Option
Oil	175 bbls/d	January 1, 2020 – December 31, 2020	US$ WTI	$ 49.00/ 54.75	Collar

Natural Gas Commodity Risk Management Contracts					
Commodity Contract	**Notional Quantity**	**Remaining Term**	**Reference**	**Weighted Average Price**	**Contract Type**
Natural Gas	1,500 GJ/d	April 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Swap
Natural Gas	1,500 GJ/d	April 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Sold Call Option
Natural Gas	3,000 GJ/d	January 1, 2019 – March 31, 2019	AECO 7A Monthly Index	$ 2.73	Swap

Subsequent to March 31, 2018, the Company entered into the following derivative contracts:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	300 bbls/d	January 1, 2019 – March 31, 2019	US$ WTI	$ 60.00	Swap

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

March 31, 2018	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	—	770	770
Derivative instruments – current liabilities	(7,271)	—	(7,271)
Derivative instruments – long-term liabilities	(4,026)	—	(4,026)
Total assets (liabilities)	(11,297)	770	(10,527)

December 31, 2017	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current assets	—	895	895
Derivative instruments – current liabilities	(4,156)	—	(4,156)
Derivative instruments – long-term assets	—	192	192
Derivative instruments – long-term liabilities	(2,258)	—	(2,258)
Total assets (liabilities)	(6,414)	1,087	(5,327)

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2018 and 2017:

Three months ended March 31, 2018	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(1,657)	445	(1,212)
Unrealized (loss) gain on derivative instruments	(4,882)	(317)	(5,199)
Total gains (loss)	(6,539)	128	(6,411)

Three months ended March 31, 2017	Crude Oil	Natural Gas	Total
($000s)			
Realized gain (loss) on derivative instruments	705	(2)	703
Unrealized gain on derivative instruments	4,961	897	5,858
Total gains	5,666	895	6,561

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 March 31, 2018 and December 31, 2017. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2018 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	771	(1)	770
Derivative instruments liabilities	(7,520)	249	(7,271)
Long-term:			
Derivative instruments assets – long-term	1,296	(1,296)	—
Derivative instruments liabilities – long-term	(5,322)	1,296	(4,026)

December 31, 2017 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	1,072	(177)	895
Derivative instruments liabilities	(4,333)	177	(4,156)
Long-term:			
Derivative instruments assets – long-term	1,736	(1,544)	192
Derivative instruments liabilities – long-term	(3,802)	1,544	(2,258)

18. COMMITMENTS

Lease Acquisition Capital Commitment

As described in Note 20 of the Annual Financial Statements, the Company is committed to capital expenditures of $45 million by March 31, 2019 pursuant to the acquisition of undeveloped land in the Wheatland area. As of March 31, 2018, the Company has incurred $27.0 million (December 31, 2017 - $21.3 million) towards the total commitment of $45.0 million. Under the amending agreement, the lease term and capital commitment may be further extended to September 30, 2019, should PPR incur at least $37.5 million of the $45.0 million total commitment by March 31, 2019. PPR expects to fulfill the remaining capital commitment through its capital program at the Wheatland area.

Flow-through Share Commitment

Pursuant to the bought deal financing which closed on March 16, 2017 and the related over-allotment option, the Company issued 5,341,170 flow-through common shares with respect to CEE at $0.77 per share. As defined by the Income Tax Act, the Company has until December 31, 2018 to incur $4.1 million of CEE costs related to this flow-through common share issuance.

As at March 31, 2018, the Company incurred a total of $0.6 million towards the flow-through share commitment. The lease acquisition capital commitment as described above and the flow-through share capital commitment may be fulfilled by the same exploration expenditures.