PRAIRIE PROVIDENT RESOURCES

Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Six Months Ended
June 30, 2018

Dated: August 8, 2018

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	June 30, 2018	December 31, 2017
ASSETS			
Cash		1,654	3,564
Restricted cash	7	4,881	4,881
Accounts receivable	13,17	9,890	8,654
Inventory		687	697
Prepaid expenses and other assets		1,917	897
Derivative instruments – current	17	510	895
Total current assets		19,539	19,588
Exploration and evaluation	5	26,409	26,420
Property and equipment	6	218,460	217,035
Derivative instruments	17	—	192
Other assets		227	272
Total assets		264,635	263,507
LIABILITIES			
Accounts payable and accrued liabilities		24,276	20,894
Flow-through share premium		542	711
Derivative instruments – current	17	12,929	4,156
Current portion of decommissioning liability	9	2,300	2,300
Warrant liability	8	394	533
Total current liabilities		40,441	28,594
Long-term debt	7	68,420	55,760
Derivative instruments	17	7,424	2,258
Decommissioning liabilities	9	108,134	110,534
Other liabilities		4,412	4,193
Total Liabilities		228,831	201,339
SHAREHOLDERS' EQUITY			
Share capital	10	121,496	121,546
Warrants	10	337	337
Contributed surplus		1,420	928
Accumulated deficit		(87,874)	(61,068)
Accumulated other comprehensive income ("AOCI")		425	425
Total Equity		35,804	62,168
Total liabilities and shareholders' equity		264,635	263,507

See accompanying notes to the condensed interim consolidated financial statements.

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

		Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	Note	**2018**	2017	**2018**	2017
REVENUE					
Oil and natural gas revenue	13	**24,187**	21,682	**43,470**	40,890
Royalties		**(3,815)**	(3,009)	**(6,352)**	(6,038)
Oil and natural gas revenue, net of royalties		**20,372**	18,673	**37,118**	34,852
Unrealized (loss) gain on derivative instruments	17	**(9,316)**	4,471	**(14,515)**	10,329
Realized (loss) gain on derivative instruments	17	**(2,943)**	1,150	**(4,155)**	1,853
		8,113	24,294	**18,448**	47,034
EXPENSES					
Operating	14	**9,199**	10,099	**17,539**	18,732
General and administrative	15	**2,200**	2,567	**4,536**	4,827
Depletion and depreciation	6	**8,259**	9,224	**15,675**	17,425
Exploration and evaluation	5	**99**	58	**246**	66
Gain on property dispositions	4	**(47)**	—	**(47)**	(548)
(Gain) loss on business combination	4	**—**	450	**—**	(3,893)
Gain on warrant liability	8	**(69)**	—	**(139)**	—
Impairment recovery	6	**(162)**	—	**(162)**	—
Loss (gain) on foreign exchange		**1,463**	(229)	**3,016**	(314)
Finance costs	16	**2,330**	1,078	**4,494**	1,857
Reorganization		**—**	—	**187**	—
Transaction costs		**46**	138	**78**	815
Total expenses – net		**23,318**	23,385	**45,423**	38,967
Net (loss) earnings before taxes		**(15,205)**	909	**(26,975)**	8,067
Deferred tax recovery		**(141)**	(157)	**(169)**	(261)
Net (loss) earnings and comprehensive (loss) earnings		**(15,064)**	1,066	**(26,806)**	8,328

Net (loss) earnings per share	10				
Basic		**(0.13)**	0.01	**(0.23)**	0.08
Diluted		**(0.13)**	0.01	**(0.23)**	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	(60)	—	35	—	—	(25)
Share-based compensation	11	—	—	477	—	—	477
Settlement of deferred share units	11	20	—	(20)	—	—	—
Withholding taxes on settlement of deferred share units	11	(10)	—	—	—	—	(10)
Net loss		—	—	—	(26,806)	—	(26,806)
Balance at June 30, 2018		121,496	337	1,420	(87,874)	425	35,804

($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		7,204	337	—	—	—	7,541
Share issuance costs		(1,061)	—	—	—	—	(1,061)
Share-based compensation		—	—	373	—	—	373
Settlement of restricted share units		389	—	(389)	—	—	—
Withholding taxes on settlement of restricted share units		(44)	—	—	—	—	(44)
Net earnings		—	—	—	8,328	—	8,328
Balance at June 30, 2017		121,550	337	498	(4,938)	276	117,723

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	Note	**2018**	2017	**2018**	2017
OPERATING ACTIVITIES					
Net (loss) earnings		**(15,064)**	1,066	**(26,806)**	8,328
Adjustments for non-cash items:					
Unrealized loss (gain) on derivative instruments	17	**9,316**	(4,471)	**14,515**	(10,329)
Depletion and depreciation	6	**8,259**	9,224	**15,675**	17,425
Exploration and evaluation expense	5	**99**	58	**246**	66
Accretion and financing charges	9, 16	**813**	635	**1,616**	1,180
Unrealized foreign exchange loss (gain)		**1,279**	(87)	**2,631**	(117)
Gain on sale of properties	4	**(47)**	—	**(47)**	(548)
(Gain) loss on business combination	4	**—**	450	**—**	(3,893)
Gain on warrant liability	8	**(69)**	—	**(139)**	—
Impairment recovery	6	**(162)**	—	**(162)**	—
Deferred tax recovery		**(141)**	(157)	**(169)**	(261)
Share-based compensation	11	**199**	204	**363**	328
Settlements of decommissioning liabilities	9	**(167)**	(510)	**(827)**	(4,552)
Deferred interest on Senior Note	7	**264**	—	**686**	—
Other, net		**(18)**	1	**(37)**	(61)
Change in non-cash working capital	12	**(534)**	(3,076)	**(143)**	(2,574)
Net cash from operating activities		**4,027**	3,337	**7,402**	4,992
FINANCING ACTIVITIES					
Debt issuance costs		**(54)**	(20)	**(57)**	(54)
Issuance of common shares		**—**	339	**—**	8,340
Share issuance costs	10	**—**	(49)	**—**	(1,061)
Share repurchase	10	**(17)**	—	**(24)**	—
Withholding taxes on settlement of share-based compensations	11	**—**	—	**(10)**	(44)
Change in Revolving Facility borrowings	7,12	**5,820**	—	**9,092**	—
Change in credit facility borrowings		**—**	3,787	**—**	35,342
Net cash from financing activities		**5,749**	4,057	**9,001**	42,523
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	5	**(129)**	(3,308)	**(641)**	(8,063)
Property and equipment expenditures	6	**(4,615)**	(1,436)	**(18,111)**	(3,566)
Business combination	4	**—**	—	**(887)**	(40,894)
Asset acquisition (net of dispositions)		**47**	—	**47**	(586)
Change in non-cash working capital	12	**(6,224)**	(2,650)	**1,279**	(2,332)
Net cash used in investing activities		**(10,921)**	(7,394)	**(18,313)**	(55,441)
Change in cash and restricted cash		**(1,145)**	—	**(1,910)**	(7,926)
Cash and restricted cash beginning of period		**7,680**	—	**8,445**	7,926
Cash and restricted cash end of period		**6,535**	—	**6,535**	—

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.

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 August 8, 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	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
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 require 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. 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 AND DISPOSITIONS

During the six months ended June 30, 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.

Subsequent to June 30, 2018, PPR disposed of certain producing properties and undeveloped land in the province of Alberta for gross cash proceeds of $2.8 million.

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.

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

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

5. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2017	77,271
Additions	**641**
Transfers to oil and gas property and equipment (Note 6)	**(406)**
Exploration and evaluation expense	**(246)**
Cost Balance – June 30, 2018	**77,260**
Provision for impairment – June 30, 2018 and December 31, 2017	**(50,851)**
Net book value – December 31, 2017	26,420
Net book value – June 30, 2018	**26,409**

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

During the six months ended June 30, 2018, PPR did not capitalize any directly attributable general and administrative expenses (2017 – $0.8 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	18,218	8	18,226
Acquisitions – business combination (Note 4)	925	—	925
Adjustments due to change in estimates in decommissioning liabilities (Note 9)	(2,681)	—	(2,681)
Transfers from exploration and evaluation assets (Note 5)	406	—	406
Balance – June 30, 2018	548,331	4,603	552,934
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2017	(315,879)	(3,144)	(319,023)
Depletion and depreciation	(15,388)	(225)	(15,613)
Impairment recovery	162	—	162
Balance – June 30, 2018	(331,105)	(3,369)	(334,474)
Net book value – December 31, 2017	215,584	1,451	217,035
Net book value – June 30, 2018	217,226	1,234	218,460

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

During the six months ended June 30, 2018, $1.1 million (2017 – $0.2 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 June 30, 2018, 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. The impairment recoveries reported for the three and six month ended in June 30, 2018 resulted from changes in estimated decommissioning liabilities of certain assets with zero carrying value.

No impairment or impairment recovery was record during the three and six months ended June 30, 2017.

7. LONG-TERM DEBT

($000s)	June 30, 2018	December 31, 2017
Revolving Facility (USD $28.0 million and CAD $12.9 million)	49,758	39,233
Senior Notes (USD $16.0 million plus USD $0.5 million deferred interest)	21,779	20,072
Unamortized deferred financing fees	(2,598)	(2,979)
Unamortized value allocated to Warrant Liability	(519)	(566)
Balance	68,420	55,760

(a) Revolving Facility

On June 21, 2018, PPR amended its senior secured revolving note facility ("Revolving Facility"), whereby the borrowing base was increased by US$5 million to a total of US$45 million (CDN$59.3 million equivalent using the June 30, 2018 exchange rate of $1.00 USD to $1.3168 CAD). The Company can make further draws against 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 June 30, 2018, the Company has drawn US$28.0 million (CDN$36.9 million equivalent using the June 30, 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, with the next redetermination scheduled for November 2018.

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 CAD prime advances, the margins are between 350 and 500 basis points ("bps");
(ii) for LIBOR advances and USD 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.

As at June 30, 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 is invested in short-term market deposits with maturity dates of one year or less when purchased.

As at June 30, 2018, $1.7 million of deferred financing 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 $21.1 million using the June 30, 2018 exchange rate of $1.00 USD to $1.3168 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. At June 30, 2018, the total deferred payment was $US0.5 million (December 31, 2017 – US$0.1 million).

As at June 30, 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:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at June 30, 2018
Total Leverage – adjusted Indebtedness to EBITDAX (as defined below) for the four quarters most recently ended	Cannot Exceed 3.5 to 1.0	Cannot Exceed 3.75 to 1.00	2.8 to 1.0
Senior Leverage – senior adjusted indebtedness to EBITDAX (as defined below) for the four quarters most recently ended	Cannot Exceed 3.0 to 1.0	Cannot Exceed 3.25 to 1.0	2.8 to 1.0
Asset Coverage – 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	Cannot be less than 1.3 to 1.0	2.1 to 1.0
Current ratio – consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated liabilities at the end of the quarter[1]	Cannot be less than 1.0 to 1.0	Cannot be less than 0.85 to 1.0	1.2 to 1.0

[1] 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 covenants as at June 30, 2018.

8. WARRANT LIABILITY

	Number of Warrants *(000s)*	Amount *($000s)*
Warrant liability		
PPR Warrant Liability, December 31, 2017	2,318	533
Revaluation of warrant liability	—	(139)
PPR Warrant Liability, June 30, 2018	**2,318**	**394**

In conjunction with the Senior 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	553
Liabilities acquired – business combination (Note 4)	38
Settlements	(827)
Change in estimates	(3,234)
Accretion	1,070
Total Balance – June 30, 2018	110,434

Comprised of:	
Current portion – June 30, 2018	2,300
Long-term portion – June 30, 2018	108,134
Current portion – December 31, 2017	2,300
Long-term portion – December 31, 2017	110,534

Decommissioning obligations acquired through business acquisitions are initially measured at fair value using a credit-adjusted risk free rate 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. Changes in estimates also included a decrease of $3.4 million due to changes in cost assumptions.

The Company has estimated the undiscounted and inflated total future liabilities to be approximately $167.9 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.

Decommissioning liabilities at June 30, 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%).

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, 2017	115,888	121,546
Issued on settlement of deferred share units	18	20
Share repurchase under normal course issuer bid	(57)	(60)
Withholding taxes on settlement of deferred share units	—	(10)
PPR Shares, June 30, 2018	115,849	121,496

	Number of Warrants (000s)	Amount ($000s)
Warrants:		
PPR Warrants, June 30, 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 first six month of 2018, the Company purchased and cancelled 57,000 shares under the NCIB at a weighted average cost of $0.43 per share.

(c) Earnings (loss) per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
(000s)	**2018**	2017	**2018**	2017
Net (loss) earnings for the period	**(15,064)**	1,066	**(26,806)**	8,328
Weighted average number of common shares				
Basic	**115,881**	115,824	**115,882**	110,771
Diluted	**115,881**	116,364	**115,882**	111,224
Basic net (loss) earnings per share	**(0.13)**	0.01	**(0.23)**	0.08
Diluted net (loss) earnings per share	**(0.13)**	0.01	**(0.23)**	0.07

The weighted average diluted common shares for the three and six month ended June 30, 2018 exclude 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	(223,208)	0.83
Balance, June 30, 2018	**2,461,261**	0.81
Exercisable at June 30, 2018	**1,047,573**	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 six 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	165,586
Settled	(39,131)
Balance, June 30, 2018	**369,823**

The weighted average fair value of units at the grant date in 2018 is $0.41.

(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
Forfeited or expired	(15,300)
Outstanding – June 30, 2018	**1,906,974**

The weighted average fair value of units at the grant date in 2018 is $0.45.

(e) Share-based compensation expense

For the three and six months ended June 30, 2018, share-based compensation of $0.2 million (2017 – $0.2 million) and $0.4 million (2017 – $0.3 million), respectively was included in general and administrative expense net of a nominal amount (2017 – a nominal amount) and $0.1 million (2017 – 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 six months ended June 30, 2018 and June 30, 2017.

12. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	2018	2017	2018	2017
Source (use) of cash:				
Accounts receivable	(1,536)	(419)	(1,236)	(528)
Prepaid expenses and other current assets	(851)	(2,485)	(1,010)	(2,397)
Accounts payable and accrued liabilities	(4,371)	(2,822)	3,382	(1,981)
	(6,758)	(5,726)	1,136	(4,906)
Related to operating activities	(534)	(3,076)	(143)	(2,574)
Related to investing activities	(6,224)	(2,650)	1,279	(2,332)
	(6,758)	(5,726)	1,136	(4,906)
Other:				
Interest paid during the period	1,223	460	2,415	774

(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	9,092	—
Deferred interest	—	686
Debt issuance costs	(57)	—
Non-cash changes		
Unrealized foreign exchange gain	1,434	1,021
Amortization of debt issuance costs	360	124
Balance as of June 30, 2018	48,032	20,388

13. REVENUE

	Three Months Ended June 30,		Six Months Ended June 30,	
($000s)	2018	2017	2018	2017
Crude oil	22,686	17,441	39,802	31,686
Natural gas	999	3,582	2,577	7,610
Natural gas liquid	502	659	1,091	1,594
Oil and natural gas revenue	24,187	21,682	43,470	40,890

Included in accounts receivable at June 30, 2018 is $7.2 million (December 31, 2017 – $6.2 million related to December 2017) of accrued oil and natural gas sales related to June 2018 production.

14. OPERATING EXPENSE

($000s)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Lease operating expense	7,202	7,121	13,291	12,823
Transportation and processing	1,555	1,776	2,689	3,995
Production and property taxes	442	1,202	1,559	1,914
Operating expense	9,199	10,099	17,539	18,732

15. GENERAL AND ADMINISTRATIVE COSTS

($000s)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Salaries and benefits	1,458	1,370	2,974	2,872
Share-based compensation	248	220	461	359
Office rents and leases	372	395	769	819
Professional fees	293	678	940	1,039
Other – office	272	390	467	711
	2,643	3,053	5,611	5,800
Amounts capitalized	(443)	(486)	(1,075)	(973)
General and administrative expense	2,200	2,567	4,536	4,827

16. FINANCE COSTS

($000s)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Interest expense	1,762	525	3,362	834
Accretion – decommissioning liabilities (Note 9)	536	520	1,070	959
Accretion – other liabilities	32	33	62	64
Finance cost	2,330	1,078	4,494	1,857

17. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

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

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

(a) Fair Value

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

Derivative instruments are measured and recorded on PPR's statement of financial position at fair value through profit and loss. Derivative contracts are classified as Level 2 in the fair value hierarchy. During the six months ended June 30, 2018, 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 and asset dispositions, along with its planned capital expenditure program. As outlined in Note 7, the Company had US$7.0 million borrowing capacity under the Revolving Facility as of June 30, 2018.

During the first half of 2018, PPR's capital spending outpaced its cash flows from operations as the Company accelerated its core area development and completed approximately 70% of its planned 2018 capital program so to take advantage of oil price recovery and to gear up the Company for growth. This resulted in an increase in PPR's working capital deficit and total debt to Adjusted EBITDAX ratio during this period. PPR expects debt to Adjusted EBITDAX ratio to improve over time as the Company recovers its capital investments and pays down its debt. Subsequent to June 30, 2018, the Company sold certain non-core properties for $2.8 million with no impact to its borrowing capacity and neutral impact on future cash flows from operating activities. The proceeds will be used to pay down liabilities. To further enhance its access to capital resources, PPR has increased its Revolving Facility borrowing base by US$5 million by the end of the second quarter of 2018.

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 June 30, 2018:

Crude Oil Commodity Risk Management Contracts

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
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	July 1, 2018 – December 31, 2018	US$ WTI	$ 65.00	Sold Call Option
Oil	800 bbls/d	July 1, 2018 – December 31, 2018	CDN$ WTI	$ 58.00/ 67.50	Collar
Oil	900 bbls/d	January 1, 2019 – March 31, 2019	US$ WTI	$ 55.68	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	July 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Swap
Natural Gas	1,500 GJ/d	July 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

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

June 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	—	510	510
Derivative instruments – current liabilities	(12,929)	—	(12,929)
Derivative instruments – long-term liabilities	(7,424)	—	(7,424)
Total liabilities	(20,353)	510	(19,843)

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 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 and six months ended June 30, 2018 and 2017:

Three Months Ended June 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Realized gain (loss) on derivative instruments	(3,187)	244	(2,943)
Unrealized loss on derivative instruments	(9,055)	(261)	(9,316)
Total loss	(12,242)	(17)	(12,259)

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

Six Months Ended June 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Realized gain (loss) on derivative instruments	(4,844)	689	(4,155)
Unrealized loss on derivative instruments	(13,937)	(578)	(14,515)
Total loss	(18,781)	111	(18,670)

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

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at June 30, 2018 and December 31, 2017. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

June 30, 2018 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	510	—	510
Derivative instruments liabilities	(13,143)	214	(12,929)
Long-term:			
Derivative instruments assets – long-term	—	—	—
Derivative instruments liabilities – long-term	(8,154)	730	(7,424)

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 June 30, 2018, the Company has incurred $28.1 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 June 30, 2018, the Company incurred a total of $1.3 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.