Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2018

Dated: November 7, 2018

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2018	December 31, 2017
ASSETS			
Cash		**1,043**	3,564
Restricted cash	7	**4,881**	4,881
Accounts receivable	13	**9,193**	8,654
Inventory		**566**	697
Prepaid expenses and other assets		**1,859**	897
Derivative instruments – current	17	**286**	895
Total current assets		**17,828**	19,588
Exploration and evaluation	5	**24,407**	26,420
Property and equipment	6	**211,820**	217,035
Derivative instruments	17	**—**	192
Other assets		**208**	272
Total assets		**254,263**	263,507
LIABILITIES			
Accounts payable and accrued liabilities		**22,641**	20,894
Flow-through share premium		**447**	711
Derivative instruments – current	17	**13,587**	4,156
Current portion of decommissioning liability	9	**2,300**	2,300
Warrant liability	8	**324**	533
Total current liabilities		**39,299**	28,594
Long-term debt	7	**63,397**	55,760
Derivative instruments	17	**8,426**	2,258
Decommissioning liabilities	9	**105,329**	110,534
Other liabilities		**4,379**	4,193
Total Liabilities		**220,830**	201,339
SHAREHOLDERS' EQUITY			
Share capital	10	**121,496**	121,546
Warrants	10	**337**	337
Contributed surplus		**1,676**	928
Accumulated deficit		**(90,501)**	(61,068)
Accumulated other comprehensive income ("AOCI")		**425**	425
Total Equity		**33,433**	62,168
Total liabilities and shareholders' equity		**254,263**	263,507

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	**2018**	2017	**2018**	2017
REVENUE					
Oil and natural gas revenue	13	**27,810**	17,611	**71,280**	58,501
Royalties		**(4,806)**	(2,164)	**(11,158)**	(8,202)
Oil and natural gas revenue, net of royalties		**23,004**	15,447	**60,122**	50,299
Unrealized (loss) gain on derivative instruments	17	**(1,884)**	(2,586)	**(16,399)**	7,743
Realized (loss) gain on derivative instruments	17	**(3,596)**	2,222	**(7,751)**	4,075
		17,524	15,083	**35,972**	62,117
EXPENSES					
Operating	14	**9,994**	10,606	**27,533**	29,338
General and administrative	15	**2,170**	2,388	**6,706**	7,215
Depletion and depreciation	6	**8,903**	8,636	**24,578**	26,061
Exploration and evaluation	5	**46**	1,100	**292**	1,166
(Gain) loss on property dispositions	4	**(2,905)**	9	**(2,952)**	(539)
Gain on business combination		**—**	—	**—**	(3,893)
Gain on warrant liability	8	**(70)**	—	**(209)**	—
Impairment loss (recovery)	6	**—**	3,400	**(162)**	3,400
(Gain) loss on foreign exchange		**(1,084)**	(344)	**1,932**	(658)
Finance costs	16	**2,409**	1,186	**6,903**	3,043
Reorganization		**—**	—	**187**	—
Transaction costs		**783**	209	**861**	1,024
Total expenses – net		**20,246**	27,190	**65,669**	66,157
Net loss before taxes		**(2,722)**	(12,107)	**(29,697)**	(4,040)
Deferred tax recovery		**(95)**	(122)	**(264)**	(383)
Net loss and comprehensive loss		**(2,627)**	(11,985)	**(29,433)**	(3,657)

Net loss per share	10				
Basic and Diluted		**(0.02)**	(0.10)	**(0.25)**	(0.03)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

($000s)	Note	Share Capital Amount	Warrants	Capital Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2017		121,546	337	928	(61,068)	425	62,168
Normal course issuer bid	10	(60)	—	35	—	—	(25)
Share-based compensation	11	—	—	733	—	—	733
Settlement of deferred share units ("DSUs"), net of withholding tax	10	10	—	(20)	—	—	(10)
Net loss		—	—	—	(29,433)	—	(29,433)
Balance at September 30, 2018		121,496	337	1,676	(90,501)	425	33,433

($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		(1,065)	—	—	—	—	(1,065)
Share-based compensation		—	—	592	—	—	592
Settlement of restricted share units ("RSUs"), net of withholding tax		345	—	(389)	—	—	(44)
Net loss		—	—	—	(3,657)	—	(3,657)
Balance at September 30, 2017		121,546	337	717	(16,923)	276	105,953

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

($000s)	Note	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
OPERATING ACTIVITIES					
Net loss		(2,627)	(11,985)	(29,433)	(3,657)
Adjustments for non-cash items:					
Unrealized loss (gain) on derivative instruments	17	1,884	2,586	16,399	(7,743)
Depletion and depreciation	6	8,903	8,636	24,578	26,061
Exploration and evaluation expense	5	46	1,100	292	1,166
Accretion and financing charges	9, 16	814	638	2,430	1,818
Unrealized foreign exchange (gain) loss		(1,081)	(130)	1,550	(247)
(Gain) loss on sale of properties	4	(2,905)	9	(2,952)	(539)
(Gain) loss on business combination		—	—	—	(3,893)
Gain on warrant liability	8	(70)	—	(209)	—
Impairment loss (recovery)	6	—	3,400	(162)	3,400
Deferred tax recovery		(95)	(122)	(264)	(383)
Share-based compensation	11	190	195	553	523
Settlements of decommissioning liabilities	9	(579)	(351)	(1,406)	(4,903)
Deferred interest on Senior Note	7	270	—	956	—
Other, net		4	(215)	(33)	(276)
Change in non-cash working capital	12	1,754	2,222	1,611	(352)
Net cash from operating activities		6,508	5,983	13,910	10,975
FINANCING ACTIVITIES					
Debt issuance costs		(23)	(2)	(80)	(56)
Issuance of common shares		—	—	—	8,340
Share issuance costs	10	—	(4)	—	(1,065)
Share repurchase	10	—	—	(24)	—
Withholding taxes on settlement of RSUs and DSUs	10	—	—	(10)	(44)
Change in Revolving Facility borrowings	7,12	(4,542)	—	4,550	—
Change in credit facility borrowings		—	(342)	—	35,000
Net cash (used in) from financing activities		(4,565)	(348)	4,436	42,175
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	5	(364)	(2,187)	(1,005)	(10,250)
Property and equipment expenditures	6	(2,466)	(2,578)	(20,577)	(6,144)
Business combination	4	—	—	(887)	(40,894)
Asset dispositions (net of acquisitions)		2,789	(9)	2,836	(595)
Change in non-cash working capital	12	(2,513)	45	(1,234)	(2,287)
Net cash used in investing activities		(2,554)	(4,729)	(20,867)	(60,170)
Change in cash and restricted cash		(611)	906	(2,521)	(7,020)
Cash and restricted cash beginning of period		6,535	—	8,445	7,926
Cash and restricted cash end of period		**5,924**	**906**	**5,924**	**906**

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 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.

On September 13, 2018 PPR and Marquee Energy Ltd. ("Marquee"), an oil and natural gas exploration and production company listed on the TSX Venture Exchange entered into a definitive agreement (the "Arrangement Agreement") to effect a business combination by way of a plan of arrangement (the "Arrangement") under the Business Corporations Act (Alberta). Under the Arrangement, Marquee shareholders will receive 0.0886 PPR common shares for each Marquee common share. Completion of the Arrangement is subject to various conditions as set out in the Arrangement Agreement, including approval of at least 66⅔% of votes cast of the Marquee shareholders at special meetings scheduled for November 19, 2018, and approval of the Court of Queen's Bench of Alberta pursuant to section 193 of the Business Corporations Act (Alberta). Each of the Companies may be subject to a $2.5 million break fee if the Arrangement is not completed under certain circumstances.

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 November 7, 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

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 prices 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, 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. An accounting policy choice can be made whereby 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 will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach and applying certain practical expedients available upon transition. PPR intends to apply a practical expedient that allows the Company to apply a recognition exemption for leases with remaining lease terms of less than 12 months on the transition date. The Company also intends to apply a practical expedient which allows the right-of-use asset recognized on transition to equal the lease liability recorded versus recognizing the carrying amount of the right-of-use asset as if IFRS 16 had been applied since the commencement date of the lease. This practical expedient is available on a lease by lease basis and PPR intends to apply it to leases that are not individually significant. PPR has identified and reviewed the majority of contracts entered into by PPR to date that fall within the scope of the new standard and is in the process of quantifying the impact. Subsequent to the closing of the Arrangement with Marquee, the Company will incorporate contracts previously entered into by Marquee into its assessment. The impact of Marquee's leases has not yet been determined.

4. ACQUISITIONS AND DISPOSITIONS

In March 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.

In July 2018, PPR disposed of certain producing properties and undeveloped land in the province of Alberta for cash proceeds of $2.8 million. The associated property and equipment, exploration and evaluation assets and decommissioning liabilities were derecognized, resulting in gains of $2.9 million which were recognized in the consolidated statement of earnings during the three and nine months ended September 30, 2018.

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 nine months ended September 30, 2017, PPR acquired properties in the Wheatland area comprised of undeveloped land and wellbores without associated reserves for cash consideration of $0.9 million. The transactions resulted in $2.1 million addition to exploration and evaluation assets and $1.1 million addition to decommissioning liabilities. Additionally, 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, resulting in gains of $0.5 million which were recognized in the consolidated statement of earnings during the nine months ended September 30, 2017 (three months ended September 30, 2017 – a nominal amount).

5. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2017	77,271
Additions	1,005
Transfers to oil and gas property and equipment (Note 6)	(650)
Exploration and evaluation expense	(292)
Dispositions (Note 4)	(2,076)
Cost Balance – September 30, 2018	75,258
Provision for impairment – September 30, 2018 and December 31, 2017	(50,851)
Net book value – December 31, 2017	26,420
Net book value – September 30, 2018	24,407

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

During the nine months ended September 30, 2018, PPR did not capitalize any directly attributable general administrative expense (2017 – $1.1 million) or share-based compensation (2017 – $0.1 million) 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	20,739	18	20,757
Acquisitions – business combination (Note 4)	925	—	925
Adjustments due to changes in decommissioning liabilities (Note 9)	(2,681)	—	(2,681)
Dispositions (Note 4)	(1,159)	—	(1,159)
Transfers from exploration and evaluation assets (Note 5)	650	—	650
Balance – September 30, 2018	549,937	4,613	554,550
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2017	(315,879)	(3,144)	(319,023)
Depletion and depreciation	(24,152)	(318)	(24,470)
Dispositions (Note 4)	601	—	601
Impairment recovery	162	—	162
Balance – September 30, 2018	(339,268)	(3,462)	(342,730)
Net book value – December 31, 2017	215,584	1,451	217,035
Net book value – September 30, 2018	210,669	1,151	211,820

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

During the nine months ended September 30, 2018, $1.4 million (2017 – $0.4 million) of directly attributable general and administrative expenses, including $0.2 million (2017 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

As at September 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 nine month ended September 30, 2018 were recorded in the second quarter of 2018 as a result of changes in estimated decommissioning liabilities of certain assets with zero carry values.

The $3.4 million impairment included in the three and nine month ended September 30, 2017 was a result of the write down of assets held for sale to their fair value less cost of disposal. The related assets were sold in the fourth quarter of 2017.

7. LONG-TERM DEBT

($000s)	**September 30, 2018**	December 31, 2017
Revolving Facility (USD $24.5 million and CAD $12.9 million)	**44,603**	39,233
Senior Notes (USD $16.0 million plus USD $0.7 million deferred interest)	**21,678**	20,072
Unamortized deferred financing fees	**(2,391)**	(2,979)
Unamortized value allocated to Warrant Liability	**(493)**	(566)
Balance	**63,397**	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$58.3 million equivalent using the September 30, 2018 exchange rate of $1.00 USD to $1.2945 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 September 30, 2018, the Company has drawn US$24.5 million (CDN$31.7 million equivalent using the September 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 September 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 September 30, 2018, $1.6 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 $20.7 million using the September 30, 2018 exchange rate of $1.00 USD to $1.2945 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 that is deferrable. 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 September 30, 2018, the total deferred payment was $US0.7 million (December 31, 2017 – US$0.1 million).

As at September 30, 2018, $0.8 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 September 30, 2018
Total Leverage – adjusted Indebtedness to EBITDAX[1] for the four quarters most recently ended	Cannot Exceed 3.5 to 1.0	Cannot Exceed 3.75 to 1.00	2.4 to 1.0
Senior Leverage – senior adjusted indebtedness to EBITDAX[1] for the four quarters most recently ended	Cannot Exceed 3.0 to 1.0	Cannot Exceed 3.25 to 1.0	2.4 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	2.0 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[2]	Cannot be less than 1.0 to 1.0	Cannot be less than 0.85 to 1.0	1.4 to 1.0

[1] Under the agreements, EBITDAX is defined as net earnings before financing charges, foreign exchange gain (loss), E&E expense, income taxes, depreciation, depletion, amortization, other non-cash items of expense and non-recurring items, adjusted for major acquisitions and material dispositions assuming that such transactions had occurred on the first day of the applicable calculation period ("pro-forma adjustments").

[2] 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 September 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	—	(209)
PPR Warrant Liability, September 30, 2018	**2,318**	**324**

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**
Dispositions (Note 4)	**(2,752)**
Settlements	**(1,406)**
Change in estimates	**(3,234)**
Accretion	**1,596**
Total Balance – September 30, 2018	**107,629**
Comprised of:	
Current portion – September 30, 2018	**2,300**
Long-term portion – September 30, 2018	**105,329**
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 reduction of $3.4 million for changes in cost assumptions.

The Company has estimated the undiscounted and inflated total future liabilities to be approximately $165.1 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 September 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 DSUs	18	20
Share repurchase under normal course issuer bid	(57)	(60)
Withholding taxes on settlement of DSUs	—	(10)
PPR Shares, September 30, 2018	**115,849**	**121,496**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
PPR Warrants, September 30, 2018 and December 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 nine months of 2018, the Company purchased and cancelled 57,000 shares under the NCIB at a weighted average cost of $0.43 per share.

Subsequent to September 30, 2018, PPR closed an equity financing for total gross proceeds of $5.5 million (see Note 19 – Subsequent Event). Additionally, the Company purchased and cancelled 85,000 shares under the NCIB at a weighted average cost of $0.35 per share.

(c) Loss per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**2018**	2017	**2018**	2017
Net loss for the period	**(2,627)**	(11,985)	**(29,433)**	(3,657)
Weighted average number of common shares (1)				
Basic & Diluted	**115,849**	115,888	**115,871**	112,495
Basic & Diluted net loss per share	**(0.02)**	(0.10)	**(0.25)**	(0.03)

The weighted average diluted common shares for the three and nine month ended September 30, 2018 excluded 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	(233,208)	0.83
Balance, September 30, 2018	**2,451,261**	0.81
Exercisable at September 30, 2018	**1,037,573**	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 nine month of 2018.

(c) 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	**250,865**
Settled	**(39,131)**
Balance, September 30, 2018	**455,102**

The weighted average fair value of units at the grant date in 2018 is $0.39.

(d) 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 – September 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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	2018	2017	2018	2017
Share-based compensation expense				
Included in G&A	245	211	706	570
Included in Operating Expense	11	8	27	22
	255	219	733	592
Capitalized during the period	(66)	(24)	(180)	(69)
Share-based compensation expense after capitalization	190	195	553	523

12. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2018	2017	2018	2017
Source (use) of cash:				
Accounts receivable	697	1,562	(539)	1,034
Prepaid expenses and other current assets	179	1,276	(831)	(1,121)
Accounts payable and accrued liabilities	(1,635)	(571)	1,747	(2,552)
	(759)	2,267	377	(2,639)
Related to operating activities	1,754	2,222	1,611	(352)
Related to investing activities	(2,513)	45	(1,234)	(2,287)
	(759)	2,267	377	(2,639)
Other:				
Interest paid during the period	1,289	448	3,704	1,222

(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	—	956
Debt issuance costs	(80)	—
Payments	(4,521)	—
Non-cash changes		
Unrealized foreign exchange gain	800	649
Amortization of debt issuance costs	547	194
Balance as of September 30, 2018	43,041	20,356

13. REVENUE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2018	2017	2018	2017
Crude oil	25,979	14,835	65,781	46,521
Natural gas	1,197	2,171	3,774	9,781
Natural gas liquids	634	605	1,725	2,199
Oil and natural gas revenue	27,810	17,611	71,280	58,501

Included in accounts receivable at September 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 September 2018 production.

14. OPERATING EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2018	2017	2018	2017
Lease operating expense	7,209	7,560	20,500	20,383
Transportation and processing	1,709	1,864	4,398	5,859
Production and property taxes	1,076	1,182	2,635	3,096
Operating expense	9,994	10,606	27,533	29,338

15. GENERAL AND ADMINISTRATIVE COSTS

($000s)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Salaries and benefits	1,388	1,366	4,362	4,238
Share-based compensation	245	211	706	570
Office rents and leases	369	350	1,138	1,169
Professional fees	380	728	1,320	1,767
Other – office	130	270	597	981
	2,512	2,925	8,123	8,725
Amounts capitalized	(342)	(537)	(1,417)	(1,510)
General and administrative expense	2,170	2,388	6,706	7,215

16. FINANCE COSTS

($000s)	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 2018	2017
Interest expense	1,852	633	5,214	1,467
Accretion – decommissioning liabilities (Note 9)	526	523	1,596	1,482
Accretion – other liabilities	32	30	93	94
Finance cost	2,409	1,186	6,903	3,043

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.

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 nine months ended September 30, 2018, there were no transfers among Levels 1, 2 and 3 in the fair value hierarchy.

(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$10.5 million borrowing capacity under the Revolving Facility as of September 30, 2018.

During the third quarter of 2018, PPR repaid US$3.5 million dollars of its Revolving Facility borrowings using cash flow from operations and cash proceeds from the disposition of certain non-core gas weighted properties. Additionally, during the second quarter of 2018, PPR increased its Revolving Facility borrowing base by US$5 million, enhancing its access to capital resources.

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 September 30, 2018:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price
Crude Oil Swaps			
October 1, 2018 – December 31, 2018	US$ WTI	1,050	$55.50
January 1, 2019 – March 31, 2019	US$ WTI	900	$55.68
April 1, 2019 – May 31, 2019	US$ WTI	250	$52.65
April 1, 2019 – June 30, 2019	US$ WTI	325	$52.75
July 1, 2019 – September 30, 2019	US$ WTI	500	$52.50
October 1, 2019 – December 31, 2019	US$ WTI	450	$52.00
January 1, 2020 – March 31, 2020	US$ WTI	450	$51.50
April 1, 2020 – June 30, 2020	US$ WTI	425	$51.00
July 1, 2020 – September 30, 2020	US$ WTI	400	$50.75
October 1, 2020 – December 31, 2020	US$ WTI	400	$50.50
Crude Oil Sold Call Options			
October 1, 2018 – December 31, 2018	US$ WTI	500	$65.00
January 1, 2019 – December 31, 2019	CDN$ WTI	400	$85.00
January 1, 2020 – December 31, 2020	US$ WTI	400	$60.50
Crude Oil Collars			
October 1, 2018 – December 31, 2018	CDN$ WTI	800	$58.00/67.50
January 1, 2019 – December 31, 2019	US$ WTI	400	$52.50/60.00
January 1, 2019 – December 31, 2019	US$ WTI	275	$50.00/57.00
January 1, 2020 – December 31, 2020	US$ WTI	175	$49.00/54.75

Remaining Term	Reference	Total Daily Volume (GJ)	Weighted Average Price
Natual Gas Swaps			
October 1, 2018 – December 31, 2018	AECO 7A Monthly Index	1,500	$2.76
January 1, 2019 – March 31, 2019	AECO 7A Monthly Index	3,000	$2.73
Natual Gas Sold Call Options			
October 1, 2018 – December 31, 2018	AECO 7A Monthly Index	1,500	2.76

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

September 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current assets	—	286	286
Derivative instruments – current liabilities	(13,587)	—	(13,587)
Derivative instruments – long-term liabilities	(8,426)	—	(8,426)
Total (liabilities) assets	(22,013)	286	(21,727)

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) assets	(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 nine months ended September 30, 2018 and 2017:

Three Months Ended September 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(3,800)	204	(3,596)
Unrealized loss on derivative instruments	(1,661)	(223)	(1,884)
Total loss	(5,461)	(19)	(5,480)

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

Nine Months Ended September 30, 2018	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(8,644)	893	(7,751)
Unrealized loss on derivative instruments	(15,598)	(801)	(16,399)
Total (loss) gain	(24,242)	92	(24,150)

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

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

September 30, 2018 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	287	(1)	286
Derivative instruments liabilities	(13,708)	121	(13,587)
Long-term:			
Derivative instruments liabilities – long-term	(8,688)	262	(8,426)

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

Wheatland 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 September 30, 2018, the Company has incurred $27.9 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 Canadian Exploration Expenses ("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 September 30, 2018, the Company incurred a total of $1.8 million towards the flow-through share commitment. The Wheatland capital commitment as described above and the flow-through share capital commitment may be fulfilled by the same exploration expenditures.

Additional flow-through shares were issued subsequent to September 30, 2018 (see Note 19 - Subsequent Event).

19. SUBSEQUENT EVENT

On October 11, 2018, PPR closed an equity financing comprised of a bought deal financing, which included the exercise of the over-allotment option, and a private placement for total gross proceeds of $5.5 million. The bought deal financing, included the immediate issuance of 3,750,150 PPR flow-through common shares with respect to

CEE, at a price of $0.46 per share and the issuance of 6,810,200 subscription receipts at $0.39 per unit. The private placement included the issuance of 2,780,000 subscription receipts at $0.39 per unit. The proceeds from the subscription receipts issued under both the bought deal financing and private placement will be held in escrow until the closing of the Arrangement with Marquee (Note 1), upon which, the purchasers of the subscription receipts will automatically receive for each subscription receipt held, one PPR common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder to acquire one common share at an exercise price of $0.50 until October 11, 2020. As such, the closing of the Arrangement will result in the issuance of 9,590,200 common shares and 4,795,100 warrants.

Should the Arrangement not be completed by December 6, 2018, or a later date if consented to in writing by the buyer and seller, the gross proceeds from the subscription receipts issued will be reimbursed on a pro rata basis, along with any interest income earned thereon, to the holders of the subscription receipts.

As prescribed in the Income Tax Act, the Company will have until December 31, 2019 to incur $1.7 million of qualifying CEE costs related to the flow-through common share issuance.