Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Three Months Ended March 31, 2019

Dated: May 8, 2019

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	March 31, 2019	December 31, 2018
ASSETS			
Cash		1,052	1,867
Restricted cash	8	4,917	7,083
Accounts receivable	15,19	11,162	5,767
Inventory		928	887
Prepaid expenses and other assets		3,782	3,462
Derivative instruments – current	19	—	5,768
Total current assets		21,841	24,834
Exploration and evaluation	5	9,685	9,682
Property and equipment	6	296,505	302,161
Right-of-use assets	3,7	9,370	—
Derivative instruments	19	49	867
Other assets		176	189
Total assets		337,626	337,733
LIABILITIES			
Accounts payable and accrued liabilities		26,684	35,205
Flow-through share premium		281	332
Lease liabilities – current portion	3,10	2,845	—
Derivative instruments	19	5,144	—
Current portion of decommissioning liability	11	1,700	4,700
Warrant liability		513	810
Total current liabilities		37,167	41,047
Long-term debt	8	110,523	101,144
Lease liabilities – non-current portion	3,10	8,019	—
Derivative instruments	19	2,779	—
Decommissioning liabilities	11	144,602	143,760
Other liabilities		9,610	4,731
Total Liabilities		312,700	290,682
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Share capital	12	135,778	136,145
Warrants	12	1,103	1,440
Contributed surplus		2,551	1,859
Accumulated deficit	3	(114,974)	(92,861)
Accumulated other comprehensive income ("AOCI")		468	468
Total equity		24,926	47,051
Total liabilities and shareholders' equity		337,626	337,733

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

Three Months Ended *($000s)*	Note	March 31, 2019	March 31, 2018
REVENUE			
Oil and natural gas revenue	15	**22,895**	19,283
Royalties		**(1,801)**	(2,537)
Oil and natural gas revenue, net of royalties		**21,094**	16,746
Unrealized loss on derivative instruments	19	**(14,509)**	(5,199)
Realized loss on derivative instruments	19	**(127)**	(1,212)
		6,458	10,335
EXPENSES			
Operating	16	**12,595**	8,340
General and administrative	17	**2,113**	2,336
Depletion and depreciation	6	**9,294**	7,416
Exploration and evaluation	5	**96**	147
Depreciation on right-of-use assets	7	**686**	—
Gain on property dispositions		**(70)**	—
Gain on warrant liability	9	**(297)**	(70)
(Gain) loss on foreign exchange		**(1,401)**	1,553
Finance costs	18	**4,301**	2,164
Transaction, restructuring and other costs		**452**	219
Total expenses		**27,769**	22,105
Net loss before taxes		**(21,311)**	(11,770)
Deferred tax recovery		**(51)**	(28)
Net loss and comprehensive loss		**(21,260)**	(11,742)

Net loss per share			
Basic & diluted	12	**(0.12)**	(0.10)

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	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2018		136,145	1,440	1,859	(92,861)	468	47,051
Impact on transition to IFRS 16	3	—	—	—	(853)	—	(853)
Balance at January 1, 2019		136,145	1,440	1,859	(93,714)	468	46,198
Share issuance costs		(9)	—	—	—	—	(9)
Normal course issuer bid (“NCIB”)	12	(510)	—	377	—	—	(133)
Share-based compensation	13	—	—	223	—	—	223
Settlement of restricted share units (“RSU”), net of withholding tax	12	178	—	(245)	—	—	(67)
Purchase of common shares for RSU settlement	12	(26)	—	—	—	—	(26)
Warrant expiries		—	(337)	337	—	—	—
Net loss		—	—	—	(21,260)	—	(21,260)
Balance at March 31, 2019		135,778	1,103	2,551	(114,974)	468	24,926

($000s)	Note	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2017		121,546	337	928	(61,068)	425	62,168
Normal course issuer bid		(16)	—	9	—	—	(7)
Share-based compensation		—	—	220	—	—	220
Settlement of deferred restricted share units		20	—	(20)	—	—	—
Withholding taxes on settlement of deferred restricted share units		(10)	—	—	—	—	(10)
Net loss		—	—	—	(11,742)	—	(11,742)
Balance at March 31, 2018		121,540	337	1,137	(72,810)	425	50,629

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Three Months Ended *($000s)*	Note	March 31, 2019	March 31, 2018
OPERATING ACTIVITIES			
Net loss earnings		(21,260)	(11,742)
Adjustments for non-cash items:			
Unrealized loss on derivative instruments		14,509	5,199
Depletion and depreciation	6	9,294	7,416
Depreciation on right-of-use assets	7	686	—
Accretion and financing charges	11,18	1,601	803
Unrealized foreign exchange (gain) loss		(1,321)	1,352
Gain on sale of properties		(70)	—
Share-based compensation	13	112	164
Exploration and evaluation expense	5	96	147
Gain on warrant liability	9	(297)	(70)
Deferred tax recovery		(51)	(28)
Settlements of decommissioning liabilities	11	(2,996)	(660)
Deferred interest on Senior Note	8	493	422
Other, net		15	(19)
Change in non-cash working capital	14	(7,704)	391
Net cash (used in) from operating activities		(6,893)	3,375
FINANCING ACTIVITIES			
Debt issuance costs		(231)	(3)
Share issuance costs		(9)	—
Purchase of common shares under NCIB	12	(133)	(7)
Purchase of common shares for RSU settlement		(26)	—
Withholding taxes on settlement of stock based Compensations	12	(54)	(10)
Finance lease payments	10	(951)	—
Change in Revolving Facility borrowings		9,911	3,272
Net cash from financing activities		8,507	3,252
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	5	(169)	(512)
Property and equipment expenditures	6	(3,474)	(13,496)
Acquisitions - business combinations	4	—	(887)
Asset dispositions (net of acquisitions)		70	—
Change in non-cash working capital	14	(1,022)	7,503
Net cash used in investing activities		(4,595)	(7,392)
Change in cash and restricted cash		(2,981)	(765)
Cash and restricted cash beginning of period		8,950	8,445
Cash and restricted cash end of period		5,969	7,680

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2019 and 2018

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, Saskatchewan 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, 2018 and 2017 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

The Interim Financial Statements were approved and authorized for issue by the Audit Committee of the Board of Directors of PPR on May 8, 2019.

(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, 2019 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

IFRS 16 – Leases

Effective January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases, using the modified retrospective method. Under this method, the cumulative effect of initially applying the standard recognized at the date of initial application without any restatement to the prior period financial information. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. PPR elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated right-of-use asset. In this case, no impairment assessment was performed under IAS 36 – *Impairment of Assets*.

Before the adoption of IFRS 16, a lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. The Company did not have any finance leases as of December 31, 2018. In an operating lease, the leased property was not capitalized and the lease payments were recognized in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. Right-of-use assets and corresponding lease liabilities are recognized at the date of which the leased assets are available for use by the Company.

(i) Summary of lease accounting policy

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The right-of-use asset is depreciated over the lease term on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Right-of-use assets recognized upon initial adoption of IFRS 16 are measured at cost on a lease-by-lease basis, comprising of the amount equal to the initial measurement of lease liability or the carrying amount as if IFRS 16 had been applied since the commencement date but discounted using the Company's incremental borrowing rate, any lease payments made at or before the commencement date and any initial direct costs.

Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases or leases on low-value assets are expensed in the condensed consolidated statements of operations on a straight-line basis over the lease term.

(ii) Significant judgement

Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement.

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain to exercise the option to renew by considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

(iii) Adoption impact

The effects of adopting IFRS 16, as at January 1, 2019 (increase/(decrease)) are as follows:

($000s)	As reported as December 31, 2018	Adjustments	**As at January 1, 2019**
Right-of use assets	—	10,056	**10,056**
Total Assets	—	10,056	**10,056**
Onerous contract	622	(622)	**—**
Lease liabilities – current portion	—	2,775	**2,775**
Lease liabilities – non-current portion	—	8,756	**8,756**
Total Liabilities	622	10,909	**11,531**
Accumulated deficit	—	853	**853**

On adoption of IFRS 16, the Company recognized lease liabilities for all operating leases. Such liabilities were measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases (service agreements), short-term and low-value leases, and discounted using the Company's incremental borrowing rate of 10.0% as of January 1, 2019:

($000s)	**Total**
Operating lease commitments, disclosed as at December 31, 2018	16,588
Others[1]	**174**
	16,762
Less commitments relating to:	
Sublease classified as operating lease	**542**
Short-term leases	**(16)**
Low-value leases	**(5)**
Variable lease payments	**(3,350)**
Net lease liabilities commitments	**13,933**
Impact from discounting	**(2,402)**
Balance lease liabilities – January 1, 2019	**11,531**

(1) Includes office equipment leases that were disclosed in the Other Agreements commitment category at December 31, 2018.

4. ACQUISITIONS

On November 21, 2018 PPR completed the acquisition of Marquee Energy Ltd. ("Marquee"), an oil and natural gas exploration and production company listed on the TSX Venture Exchange, by way of a plan of arrangement under the Business Corporations Act (Alberta) (the "Arrangement"). The Arrangement was accounted for as a business combination using the acquisition method of accounting whereby PPR was deemed to be the acquirer of the Marquee business (Note 4 to the Annual Financial Statements). Transaction costs incurred to effect the Arrangement in the three months ended March 31, 2019 of $0.5 million (2018 – $nil) were recognized as expense in the consolidated statement of earnings. Transaction costs included primarily legal fees, professional fees, and change of control settlements.

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

5. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance – December 31, 2018	65,642
Additions	**169**
Transfers to oil and gas property and equipment (Note 6)	**(70)**
Exploration and evaluation expense	**(96)**
Cost Balance – March 31, 2019	**65,645**
Balance - provision for impairment – December 31, 2018	(55,960)
Balance - provision for impairment – March 31, 2019	**(55,960)**
Net book value – December 31, 2018	9,682
Net book value – March 31, 2019	**9,685**

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

During the three months ended March 31, 2019, PPR did not capitalize any directly attributable general and administrative expenses (2018 – $nil) or share-based compensation (2018 – $nil) to E&E assets.

6. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance – December 31, 2018	645,891	4,618	650,509
Additions	**3,573**	**12**	**3,585**
Transfers from exploration and evaluation assets (Note 5)	**70**	**—**	**70**
Balance – March 31, 2019	**649,534**	**4,630**	**654,164**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2018	(344,830)	(3,518)	(348,348)
Depletion and depreciation	**(9,234)**	**(77)**	**(9,311)**
Balance – March 31, 2019	**(354,064)**	**(3,595)**	**(357,659)**
Net book value – December 31, 2018	301,061	1,100	302,161
Net book value – March 31, 2019	**295,470**	**1,035**	**296,505**

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

During the three months ended March 31, 2019, $0.5 million (2018 – $0.6 million) of directly attributable general and administrative expenses, including $0.1 million (2018 – $0.1 million) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

As at March 31, 2019, the Company assessed its property and equipment for indicators of impairment or impairment recovery. Based on the assessment, no indicators of impairment or impairment recovery were noted.

7. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance – January 1, 2019 (Note 3)	3,056	6,687	313	10,056
Additions and adjustments	—	—	—	—
Balance – March 31, 2019	**3,056**	**6,687**	**313**	**10,056**
Accumulated depreciation:				
Balance – January 1, 2019 (Note 3)	—	—	—	—
Depreciation	**(248)**	**(401)**	**(37)**	**(686)**
Balance – March 31, 2019	**(248)**	**(401)**	**(37)**	**(686)**
Net book value – January 1, 2019	3, 056	6,687	313	10,056
Net book value – March 31, 2019	**2,808**	**6,286**	**276**	**9,370**

8. LONG-TERM DEBT

($000s)	**March 31, 2019**	December 31, 2018
Revolving Facility (USD $26.5 million and CAD $39.5 million)	**74,890**	65,398
Senior Notes (USD $28.5 million plus USD $1.4 million deferred interest)	**39,947**	40,275
Unamortized deferred financing fees	**(3,111)**	(3,245)
Unamortized value allocated to Warrant Liability	**(1,204)**	(1,284)
Balance	**110,523**	101,144

(a) Revolving Facility

On November 21, 2018, in conjunction with the closing of the Marquee Energy Ltd. Arrangement ("Arrangement"), PPR amended the borrowing base under its senior secured revolving note facility ("Revolving Facility") with a maturity date of October 31, 2020. The amended Revolving Facility provided a borrowing base of US$65.0 million until January 31, 2019 (CAD$86.9 million equivalent using the March 31, 2019 quarter end exchange rate of $1.00 USD to $1.3363 CAD), an increase of US$20.0 million from the June 21, 2018 amended agreement. After January 31, 2019, the borrowing base was automatically reduced by US$5.0 million. The US$5.0 million was provided to bridge short-term liquidity needs from the Arrangement.

As at March 31, 2019, the Company had US$56.5 million (CAD$74.9 million equivalent) drawn under the facility, comprised of US$26.5 million of USD denominated notes (CAD$35.4 million equivalent using the March 31, 2019 quarter end exchange rate of $1.3363 CAD) and CAD$39.5 million of CAD denominated notes (US$30.0 million equivalent using exchange rate at the time of initial borrowing) 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. Subsequent to March 31, 2019, the Company's US$60.0 million borrowing base was confirmed. The borrowing base is subject to a semi-annual redetermination, with the next redetermination scheduled for November 2019.

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.

As at March 31, 2019, $2.0 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2018 – $2.0 million).

(b) Subordinate Senior Notes

On November 21, 2018, upon closing of the Arrangement, PPR issued an additional US$12.5 million (CDN $16.7 million using the March 31, 2019 quarter end exchange rate of $1.00 USD to $1.3363 CAD) of subordinated senior notes ("Senior Notes") due October 31, 2021. In addition to the US$16 million Senior Notes issued on October 31, 2017 (CDN $21.4 million using the March 31, 2019 quarter end exchange rate) due October 31, 2021, Senior Notes outstanding as at March 31, 2019 totaled US$28.5 million (CDN $38.1 million using the March 31, 2019 quarter end exchange rate). Senior Notes bear interest at 15% per annum, payable quarterly in arrears with up to 5% per annum deferrable at the election of PPR. The amount of any such deferred payment will become additional principal owing in respect of the Senior Notes payable at the maturity date. The terms of the Revolving Facility require that PPR Canada make the maximum deferred payment election.

As at March 31, 2019, $1.1 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2018 – $1.2 million).

(c) Covenants

Subsequent to March 31, 2019, PPR has finalized terms of amending agreements with its lender respecting its Revolving Facility and Senior Notes which relax certain financial covenant thresholds effective for the quarter ending March 31, 2019 through the quarter ending December 31, 2019. The relaxation was intended to accommodate the lasting impact from widened Canadian crude oil price differentials during the fourth quarter of 2018 on the computation of PPR's financial covenants for 2019. The financial covenants applicable to March 31, 2019 are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at March 31, 2019
Total Leverage – adjusted indebtedness to EBITDAX	Cannot Exceed 4.75 to 1.0	Cannot Exceed 5.00 to 1.00	4.1 to 1.0
Senior Leverage – senior adjusted indebtedness to EBITDAX	Cannot Exceed 3.25 to 1.0	Cannot Exceed 3.50 to 1.0	2.6 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	1.4 to 1.0
Current ratio – consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities	Cannot be less than 0.85 to 1.0	Cannot be less than 0.85 to 1.0	1.0 to 1.0

The Company was in compliance with all covenants as at March 31, 2019.

(d) Letters of Credit

As at March 31, 2019, PPR had outstanding letters of credit of $4.9 million. The letters of credit are issued by a financial institution at which PPR posted $4.9 million of cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

9. WARRANT LIABILITY

	Warrant Expiring October 22, 2022		Warrant Expiring October 31, 2023	
	Number of Warrants	Amount	Number of Warrants	Amount
PPR Warrant Liability, December 31, 2018	2,318	150	6,000	660
Fair value adjustment		(57)		(240)
PPR Warrant Liability, March 31, 2019	**2,318**	**93**	**6,000**	**420**

In conjunction with the Senior Notes issued on October 31, 2017, the Company issued 2,318,000 warrants with an adjusted exercise price of $0.473 expiring October 31, 2022. Together with the Senior Notes issued on November 21, 2018, the Company issued 6,000,000 warrants with an exercise price of $0.282 expiring on October 31, 2023. The warrants issued under both tranches were classified as financial liabilities due to a cashless exercise provision and are measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the condensed interim consolidated statement of loss. The fair value of these warrants is determined using the Black-Scholes option pricing model. The value of the warrant liability as at March 31, 2019 was $0.5 million (December 31, 2018 - $0.8 million).

10. LEASE LIABILITIES

($000s)	**Three months ended March 31, 2019**
Opening balance – January 1, 2019	**11,531**
Finance expense	**284**
Lease payments	**(951)**
Ending balance – March 31, 2019	**10,864**
Less: current portion	**2,845**
Ending balance – non-current portion	**8,019**

($000s)	**Three months ended March 31, 2019**
Variable lease payments	**296**
Sublease income	**(16)**
Balance	**280**

The Company incurs lease payments related to vehicles, head office facilities, surface leases and gas plant facility rental. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018 at an incremental borrowing rate of 10.0%.

Short-term leases are leases with a lease term of twelve months or less while low-value assets comprised of information technology and miscellaneous equipment. Such items are charged to operating expenses and general and administrative expenses in the condensed consolidated statements of operations.

The following table details the undiscounted cash flows of PPR's lease obligations, as at March 31, 2019:

($000s) As at March 31, 2019	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	3,803	6,997	2,109	73	12,982	10,864

11. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2018	148,460
Settlements	(2,996)
Accretion	838
Total Balance – March 31, 2019	146,302
Comprised of:	
Current portion – March 31, 2019	1,700
Long-term portion – March 31, 2019	144,602
Current portion – December 31, 2018	4,700
Long-term portion – December 31, 2018	143,760

12. SHARE CAPITAL

(a) Authorized

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

(b) Units Outstanding

	Number of Shares *(000s)*	Amount *($000s)*
Common shares:		
PPR Shares, December 31, 2018	171,860	136,145
Share issuance costs	—	(9)
Issued for RSU settlements	217	232
Withholding taxes on RSU settlements	—	(54)
Share repurchase under NCIB	(643)	(510)
Share repurchase for RSU settlements	(121)	(26)
PPR Shares, March 31, 2019	171,313	135,778

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
Warrants, December 31, 2018	7,950	1,440
Expired March 19, 2019	(3,155)	(337)
Warrants, March 31, 2019	4,795	1,103

(c) Loss per Share

Period Ended *($000s)*	March 31, 2019	March 31, 2018
Net loss for the period	(21,260)	(11,742)
Weighted average number of common shares		
Basic	171,444	115,888
Diluted	171,444	115,888
Basic net earnings (loss) per share	(0.12)	(0.10)
Diluted net earnings (loss) per share	(0.12)	(0.10)

The weighted average diluted common shares at March 31, 2019 excludes the impact of outstanding equity settled awards issued under the Company's long-term incentive plans and warrants that were anti-dilutive.

13. 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, 2018	2,156,839	0.81
Granted	2,373,633	0.21
Forfeited or expired	(70,000)	0.76
Balance, March 31, 2019	4,460,472	0.49
Exercisable at March 31, 2019	1,578,792	0.83

The fair value of options granted in was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values for the grants made:

Fair value of options	$0.09
Risk free interest rate	1.8%
Expected life of options (years)	3.5
Expected volatility	68%
Estimated forfeiture rate	1.8%
Dividend per share	—

(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, 2018, there were 292,070 units outstanding and no additional unit were granted during the first three months of 2019.

(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, 2018	635,712
Granted	**185,685**
Balance, March 31, 2019	**821,397**

The fair value of DSUs issued is determined at the date of the grant using the closing price of common shares. The weighted average fair value of units granted in 2019 is $0.17/unit.

(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, 2018	1,635,807
Granted	**2,373,633**
Settled	**(545,264)**
Outstanding – March 31, 2019	**3,464,176**

The weighted average fair value of units granted in 2019 is $0.21/unit.

(e) Share-based compensation expense

Three Months Ended *($000s)*	**March 31, 2019**	March 31, 2018
Shared-based compensation expense		
Included in G&A	**223**	213
Included in operating expense	**—**	8
Share-based compensation expense before capitalization	**223**	221
Capitalized during the period	**(111)**	(57)
Share-based compensation expense after capitalization	**112**	164

14. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Three Months Ended *($000s)*	**March 31, 2019**	March 31, 2018
Source (use) of cash:		
Accounts receivable	**(5,395)**	300
Prepaid expenses and other current assets	**(361)**	(159)
Accounts payable and accrued liabilities	**(8,521)**	7,753
Less: reclassification to long-term liabilities	**5,551**	—
	(8,726)	7,894
Related to operating activities	**(7,704)**	391
Related to investing activities	**(1,022)**	7,503
	(8,726)	7,894
Other:		
Interest paid during the period	**2,098**	1,192

Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance as of December 31, 2018	63,363	37,781
Changes in cash flows	**9,911**	**—**
Deferred interest	**—**	**493**
Debt issuance costs	**(231)**	**—**
Non-cash changes		
Unrealized foreign exchange gain	**(420)**	**(821)**
Amortization of debt issuance costs	**289**	**158**
Balance as of March 31, 2019	**72,912**	**37,611**

15. REVENUE

Three Months Ended *($000s)*	**March 31, 2019**	March 31, 2018
Crude oil	**19,861**	17,116
Natural gas	**2,541**	1,578
Natural gas liquid	**493**	589
Oil and natural gas revenue	**22,895**	19,283

Included in accounts receivable at March 31, 2019 is $7.6 million of accrued oil and natural gas sales related to March 2019 production (December 31, 2018 – $1.5 million related to December 2018 production).

16. OPERATING EXPENSE

Three Months Ended ($000s)	March 31, 2019	March 31, 2018
Lease operating expense	9,289	6,089
Transportation and processing	1,551	1,134
Production and property taxes	1,755	1,117
	12,595	8,340

17. GENERAL AND ADMINISTRATIVE EXPENSE

Three Months Ended ($000s)	March 31, 2019	March 31, 2018
Salaries and benefits	1,674	1,516
Share-based compensation	224	213
Office rents and leases	133	397
Professional fees	299	647
Other – office and administration	362	195
	2,692	2,968
Amounts capitalized to property and equipment and E&E assets	(579)	(632)
	2,113	2,336

18. FINANCE COST

Three Months Ended ($000s)	March 31, 2019	March 31, 2018
Interest expense	3,067	1,577
Interest expense, finance lease (Note 10)	284	—
Accretion – decommissioning liabilities (Note 11)	838	534
Accretion – other liabilities	31	30
Non-cash interest on warrant liabilities	81	23
Finance cost	4,301	2,164

19. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Value

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

(b) Risk Management

(i) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity, equity issuance along with its planned capital expenditure program. As outlined in Note 8, at March 31, 2019, the Company has US$3.5 million borrowing capacity under the Revolving Facility.

PPR anticipates its future development to be funded primarily with cash flows from operations, while maintaining a balanced leverage ratio. 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. PPR's decrease in the working capital deficit from December 31, 2018 was primarily the result of paying down accounts payable and accrued liabilities, combined with increase in accrued revenue from higher oil prices. Management of debt levels is a priority for PPR and its 2019 capital program was designed with this key objective in mind. 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.

The Company has determined that its current financial obligations, including current commitments, are adequately funded from the available borrowing capacity and from working capital derived from operations. Except for the long-term portion of derivative financial instruments and long-term debt, all of the Company's financial liabilities are due within one year.

(ii) Commodity Price Risk

PPR enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following table summarizes commodity derivative transactions as at March 31, 2019:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Swaps				
April 1, 2019 - March 31, 2019	US$ WTI	900		$55.68
April 1, 2019 - December 31, 2019	CDN$ WTI	150		$64.39
April 1, 2019 - June 30, 2019	US$ WTI	325		$52.75
April 1, 2019 - May 31, 2019	US$ WTI	250		$52.65
July 1, 2019 - September 31, 2019	US$ WTI	500		$52.50
October 1, 2019 -December 1, 2019	US$ 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		$50.75
October 1, 2020 - December 1, 2020	US$ WTI	400		$50.50
July 1, 2020 - December 31, 2020	US$ WTI	500		$55.00
Crude Oil Sold Call Options				
April 1, 2019 – December 31, 2019	CDN$ WTI	400		$85.00
January 1, 2020 – December 31, 2020	US$ WTI	400		$60.50
Crude Oil Put Options				
April 1, 2019 - June 30, 2019	US$ WTI	400	$4.95	$45.00
July 1, 2019 - December 31, 2019	US$ WTI	450	$6.29	$55.00
April 1, 2019 -June 30, 2019	CDN$ WTI	100	$2.75	$73.42
January 1, 2020 - March 31, 2020	CDN$ WTI	400	$3.65	$56.05
April 1, 2020 - June 30, 2020	CDN$ WTI	300	$6.00	$71.30

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
January 1, 2020 - March 31, 2020	US$ WTI	400		$42.50
January 1, 2020 - March 31, 2020	US$ WTI	300		$45.00
January 1, 2021 - March 31, 2021	US$ WTI	200		$42.50
January 1, 2021 - December 31, 2021	US$ WTI	650		$40.00
Crude Oil Collars				
April 1, 2019 – December 31, 2019	US$ WTI	400		$52.50/60.00
April 1, 2019 – December 31, 2019	US$ WTI	275		$50.00/57.00
January 1, 2020 – December 31, 2020	US$ WTI	175		$49.00/ 54.75
April 1, 2019 – December 31, 2019	US$ WTI	300		$50.00/60.00
April 1, 2019 – December 31, 2019	US$ WTI	150		$52.50/63.10
January 1, 2020 – March 31, 2020	US$ WTI	400		$52.50/65.00
January 1, 2020 – March 31, 2020	US$ WTI	300		$55.00/66.15
July 1, 2020 - December 31, 2020	US$ WTI	500		$50.00/59.00
January 1, 2021 – March 31, 2021	US$ WTI	200		$52.50/65.00
January 1, 2021 – December 31, 2021	US$ WTI	650		$50.00/64.25
Crude Oil Differential Swaps				
April 1, 2019 - June 30, 2019	CDN$ WCS - WTI Diff @ Hardisty	500		$17.85
April 1, 2019 - June 30, 2019	CDN$ SW - WTI Diff @ Edmonton	1500		$8.25

Remaining Term	Reference	Total Daily Volume (GJ)	Premium/ GJ	Weighted Average Price/GJ
Natural Gas Swaps				
April 1, 2019 - March 31, 2019	AECO 7A Monthly Index	3,000		$2.73
July 1, 2019 - December 31, 2019	US$ NYMEX	3,000		$3.15
April 1, 2019 - October 31, 2019	US$ NYMEX	1,800		$2.70
July 1, 2019 - December 31, 2019	US$ NYMEX	1,420		$2.70
Natural Gas Put Options				
April 1, 2019 - March 31, 2019	AECO 7A Monthly Index	1700	$0.13	$1.05
April 1, 2019 - June 30, 2019	AECO 7A Monthly Index	1200	$0.25	$1.11
January 1, 20120 - March 30, 2020	AECO 7A Monthly Index	4000	$0.15	$1.16
April 1, 2020 - June 30, 2020	AECO 7A Monthly Index	4600	$0.25	$1.11
Natural Gas Collars				
April 1, 2019 - March 31, 2019	AECO 7A Monthly Index	3000		$2.92/2.40
April 1, 2019 - June 30, 2019	AECO 7A Monthly Index	3000		$2.14/1.90

The fair value of the Company's commodity price contracts described below is based on forward prices of commodities available in the market place and are classified as Level 2 financial instruments. The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

March 31, 2019	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current liabilities	**(4,902)**	**(242)**	**(5,144)**
Derivative instruments – Long-term assets	**—**	**49**	**49**
Derivative instruments – long-term liabilities	**(2,779)**	**—**	**(2,779)**
Total assets (liabilities)	**(7,681)**	**(193)**	**(7,874)**

December 31, 2018	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current assets	5,087	681	5,768
Derivative instruments – long-term assets	708	159	867
Total assets (liabilities)	5,795	840	6,635

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2019 and 2018:

Three months ended March 31, 2019	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized (loss) gain on derivative instruments	**(497)**	**370**	**(127)**
Unrealized loss on derivative instruments	**(13,476)**	**(1,033)**	**(14,509)**
Total loss	**(13,973)**	**(663)**	**(14,636)**

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

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at March 31, 2019 and December 31, 2018. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2019 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments liabilities	(6,502)	1,358	(5,144)
Long-term:			
Derivative instruments assets – long-term	49	—	49
Derivative instruments liabilities – long-term	(5,323)	2,544	(2,779)

December 31, 2018 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	6,888	(1,120)	5,768
Derivative instruments liabilities	—	—	—
Long-term:			
Derivative instruments assets – long-term	1,870	(1,003)	867
Derivative instruments liabilities – long-term	—	—	—

20. COMMITMENTS

Lease Acquisition Capital Commitment

On March 29, 2019, the Company's remaining $17.3 million of capital commitment in the Wheatland area was eliminated by mutual agreement of the Company and the lessor for an immaterial cash consideration.

Flow-through Share Commitment

Pursuant to the bought deal financing which closed on October 11, 2018 and the related over-allotment option, the Company issued 3,750,150 flow-through common shares with respect to CEE at $0.46 per share. As defined by the Income Tax Act, the Company has until December 31, 2019 to incur $1.8 million of CEE costs related to this flow-through common share issuance. As at March 31,2019, PPR incurred a total of $0.2 million towards this commitment.