



Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Six Months Ended
June 30, 2019

Dated: August 8, 2019

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

<i>As at</i> <i>(\$000s)</i>	Note	June 30, 2019	December 31, 2018
ASSETS			
Cash		1,398	1,867
Restricted cash	8	4,917	7,083
Accounts receivable	15,19	9,286	5,767
Inventory		934	887
Prepaid expenses and other assets		3,159	3,462
Derivative instruments – current	19	363	5,768
Total current assets		20,057	24,834
Exploration and evaluation	5	9,803	9,682
Property and equipment	6	285,562	302,161
Right-of-use assets	3,7	8,684	—
Derivative instruments	19	—	867
Other assets		176	189
Total assets		324,282	337,733
LIABILITIES			
Accounts payable and accrued liabilities		20,192	35,205
Flow-through share premium		207	332
Lease liabilities – current portion	3,10	2,917	—
Derivative instruments – current	19	2,044	—
Current portion of decommissioning liability	11	1,700	4,700
Warrant liability	9	204	810
Total current liabilities		27,264	41,047
Long-term debt	8	112,902	101,144
Lease liabilities – non-current portion	3,10	7,262	—
Derivative instruments	19	877	—
Decommissioning liabilities	11	141,516	143,760
Other liabilities		6,166	4,731
Total Liabilities		295,987	290,682
SHAREHOLDERS' EQUITY			
Share capital	12	135,718	136,145
Warrants	12	1,103	1,440
Contributed surplus		2,745	1,859
Accumulated deficit	3	(111,739)	(92,861)
Accumulated other comprehensive income (“AOCI”)		468	468
Total Equity		28,295	47,051
Total liabilities and shareholders' equity		324,282	337,733

See accompanying notes to the condensed interim consolidated financial statements.

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

(\$000s)	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
REVENUE					
Oil and natural gas revenue	15	27,331	24,187	50,226	43,470
Royalties		(3,148)	(3,815)	(4,949)	(6,352)
Oil and natural gas revenue, net of royalties		24,183	20,372	45,277	37,118
Unrealized gain (loss) on derivative instruments	19	5,316	(9,316)	(9,193)	(14,515)
Realized loss on derivative instruments	19	(1,427)	(2,943)	(1,554)	(4,155)
		28,072	8,113	34,530	18,448
EXPENSES					
Operating	16	11,829	9,199	24,424	17,539
General and administrative	17	2,235	2,200	4,348	4,536
Depletion and depreciation	6	10,486	8,259	19,780	15,675
Exploration and evaluation	5	217	99	313	246
Depreciation on right-of-use assets	7	686	—	1,372	—
Gain on property dispositions		(18)	(47)	(88)	(47)
Gain on warrant liability	9	(309)	(69)	(606)	(139)
Impairment recovery	6	—	(162)	—	(162)
(Gain) loss on foreign exchange		(1,799)	1,463	(3,200)	3,016
Change in other liabilities		(3,283)	—	(3,283)	—
Finance costs	18	4,487	2,330	8,788	4,494
Transaction, restructuring and other costs		374	46	826	265
Total expenses – net		24,905	23,318	52,674	45,423
Net earnings (loss) before taxes		3,167	(15,205)	(18,144)	(26,975)
Income tax recovery		(68)	(141)	(119)	(169)
Net earnings (loss) and comprehensive loss		3,235	(15,064)	(18,025)	(26,806)
Net earnings (loss) per share					
Basic	12	0.02	(0.13)	(0.11)	(0.23)
Diluted	12	0.01	(0.13)	(0.11)	(0.23)

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		(69)	—	—	—	—	(69)
Normal course issuer bid ("NCIB")	12	(510)	—	377	—	—	(133)
Share-based compensation	13	—	—	417	—	—	417
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		—	—	—	(18,025)	—	(18,025)
Balance at June 30, 2019		135,718	1,103	2,745	(111,739)	468	28,295

(\$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		(60)	—	35	—	—	(25)
Share-based compensation		—	—	477	—	—	477
Settlement of deferred share units		20	—	(20)	—	—	—
Withholding taxes on settlement of deferred share units		(10)	—	—	—	—	(10)
Net loss		—	—	—	(26,806)	—	(26,806)
Balance at June 30, 2018		121,496	337	1,420	(87,874)	425	35,804

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(\$000s)	Note	Three Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
OPERATING ACTIVITIES					
Net earnings (loss)		3,235	(15,064)	(18,025)	(26,806)
Adjustments for non-cash items:					
Unrealized (gain) loss on derivative instruments	19	(5,316)	9,316	9,193	14,515
Depletion and depreciation	6	10,486	8,259	19,780	15,675
Depreciation on right-of-use asset	7	686	—	1,372	—
Exploration and evaluation expense	5	217	99	313	246
Accretion and financing charges	18	1,617	813	3,218	1,616
Unrealized foreign exchange (gain) loss		(1,721)	1,279	(3,042)	2,631
Change in other liabilities		(3,283)	—	(3,283)	—
Gain on sale of properties		(18)	(47)	(88)	(47)
Gain on warrant liability	9	(309)	(69)	(606)	(139)
Impairment recovery	6	—	(162)	—	(162)
Deferred tax recovery		(73)	(141)	(124)	(169)
Share-based compensation	13	231	199	343	363
Settlements of decommissioning liabilities	11	(305)	(167)	(3,301)	(827)
Deferred interest on Senior Notes	8	500	264	993	686
Other, net		13	(18)	28	(37)
Change in non-cash working capital	14	(4,136)	(534)	(11,840)	(143)
Net cash from (used in) operating activities		1,824	4,027	(5,069)	7,402
FINANCING ACTIVITIES					
Debt issuance costs		(58)	(54)	(289)	(57)
Share issuance costs		(60)	—	(69)	—
Purchase of common share under NCIB	12	—	(17)	(133)	(24)
Purchase of common share for RSU settlement		—	—	(26)	—
Withholding taxes on settlement of share-based compensations	12	—	—	(54)	(10)
Finance lease payments	10	(951)	—	(1,902)	—
Change in Revolving Facility borrowings	8	3,066	5,820	12,977	9,092
Net cash from financing activities		1,997	5,749	10,504	9,001
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	5	(562)	(129)	(731)	(641)
Property and equipment expenditures	6	(2,676)	(4,615)	(6,150)	(18,111)
Business combination	4	—	—	—	(887)
Asset acquisition (net of dispositions)		8	47	78	47
Change in non-cash working capital	14	(245)	(6,224)	(1,267)	1,279
Net cash used in investing activities		(3,475)	(10,921)	(8,070)	(18,313)
Change in cash and restricted cash		346	(1,145)	(2,635)	(1,910)
Cash and restricted cash beginning of period		5,969	7,680	8,950	8,445
Cash and restricted cash end of period		6,315	6,535	6,315	6,535

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and six months ended June 30, 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 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 August 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.

(a) 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.

(b) 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).

(c) Adoption impact

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

<i>(\$000s)</i>	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, PPR 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:

<i>(\$000s)</i>	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). The following table summarizes the fair value of consideration paid and the preliminary purchase price allocation:

<i>(\$000s)</i>	
Allocation:	
Property and equipment	55,347
Exploration and evaluation assets	4,232
Derivative assets	1,394
Cash	1,394
Accounts receivable	4,696
Prepaid expenses and other current assets	1,395
Accounts payable and accrued liabilities	(9,916)
Provision	(640)
Bank debt	(7,300)
Term loan	(30,000)
Decommissioning obligations	(9,984)
Net assets acquired	10,618
Consideration:	
Shares exchanged (38,609,416 common shares at \$0.275/share)	10,618

The recognized amounts of identifiable assets, liabilities and consideration issued are preliminary estimates and are subject to change. During the six months ended June 30, 2019, PPR reduced its estimate of decommissioning obligations acquired by \$0.3 million and increased accrued liabilities by \$0.3 million.

Transaction costs incurred to effect the Arrangement in the six months ended June 30, 2019 of \$0.8 million (2018 – \$nil) were recognized as expense in the consolidated statement of earnings (loss). Transaction costs included primarily legal fees, professional fees, and change of control settlements.

During the six months ended June 30, 2018, PPR acquired oil and natural gas properties in the Princess area for cash consideration of \$0.9 million. The transaction resulted in \$0.9 million addition to property and equipment assets and a nominal amount of addition to decommissioning liabilities.

5. EXPLORATION AND EVALUATION ASSETS

(\$000s)

Cost Balance – December 31, 2018	65,642
Additions	731
Transfers to oil and gas property and equipment (Note 6)	(297)
Exploration and evaluation expense	(313)
Cost Balance – June 30, 2019	65,763
Provision for impairment – June 30, 2019 and December 31, 2018	(55,960)
Net book value – December 31, 2018	9,682
Net book value – June 30, 2019	9,803

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.

PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets for the six months ended June 30, 2018 and 2019.

6. PROPERTY AND EQUIPMENT

(\$000s)	Production and Development	Office Equipment	Total
Cost:			
Balance – December 31, 2018	645,891	4,618	650,509
Additions	6,324	17	6,341
Acquisitions – business combination (Note 4)	(27)	—	(27)
Adjustments due to change in estimates in decommissioning liabilities (Note 11)	(3,424)	—	(3,424)
Transfers from exploration and evaluation assets (Note 5)	297	—	297
Balance – June 30, 2019	649,061	4,635	653,696
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2018	(344,830)	(3,518)	(348,348)
Depletion and depreciation	(19,632)	(154)	(19,786)
Balance – June 30, 2019	(364,462)	(3,672)	(368,134)
Net book value – December 31, 2018	301,061	1,100	302,161
Net book value – June 30, 2019	284,599	963	285,562

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

During the six months ended June 30, 2019, \$0.8 million (2018 – \$1.1 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

As at June 30, 2019, 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 recovery reported for the three and six months ended June 30, 2018 resulted from changes in estimated decommissioning liabilities of certain assets with zero carrying value.

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 – June 30, 2019	3,056	6,687	313	10,056
Accumulated depreciation:				
Balance – January 1, 2019 (Note 3)	—	—	—	—
Depreciation	(496)	(802)	(74)	(1,372)
Balance – June 30, 2019	(496)	(802)	(74)	(1,372)
Net book value – January 1, 2019	3,056	6,687	313	10,056
Net book value – June 30, 2019	2,560	5,885	239	8,684

8. LONG-TERM DEBT

(\$000s)	June 30, 2019	December 31, 2018
Revolving Facility (including USD \$28.0 million and CAD \$40.5 million of borrowings)	77,174	65,398
Senior Notes (USD \$28.5 million of principal plus USD \$1.8 million of deferred interest)	39,611	40,275
Unamortized deferred financing fees	(2,766)	(3,245)
Unamortized value allocated to Warrant Liability	(1,117)	(1,284)
Balance	112,902	101,144

(a) Revolving Facility

The Company can make further draws on its senior secured revolving note facility (“Revolving Facility”) on or before October 31, 2019, with a maturity date of October 31, 2020. The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAD\$54 million or US\$30 million. As at June 30, 2019, the Company had US\$58.0 million (CAD\$77.2 million equivalent) drawn under the facility, comprised of US\$28.0 million of USD denominated notes (CAD\$36.6 million equivalent using the June 30, 2019 month end exchange rate of \$1.00 USD to \$1.3087 CAD) and CAD\$40.5 million of CAD denominated notes (US\$30.0 million equivalent using exchange rate at the time of borrowing) under the Revolving Facility. As at June 30, 2019, the Company has US\$2.0 million (CAD\$2.6 million equivalent) borrowing capacity 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 2019. During the second quarter of 2019, the Company's US\$60 million (CAD\$77.2 million equivalent) borrowing base was confirmed.

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 June 30, 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 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.

As at June 30, 2019, \$1.7 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2018 – \$2.0 million).

(b) Subordinated Senior Notes

As of June 30, 2018, PPR had USD\$28.5 million (CAD\$ 37.3 million equivalent using the June 30, 2019 exchange rate of \$1.00 USD to \$1.3087 CAD). 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 terms of the Revolving Facility require that PPR Canada make the maximum deferred payment election. The amount of any such deferred payment will become additional principal owing in respect of the Senior Notes payable at maturity on October 31, 2021.

As at June 30, 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

During the first quarter of 2019, PPR 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 trailing 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 Company was in compliance with all covenants as at June 30, 2019:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at June 30, 2019
Total Leverage – adjusted indebtedness to EBITDAX	Cannot Exceed 4.75 to 1.0	Cannot Exceed 5.00 to 1.00	4.3 to 1.0
Senior Leverage – senior adjusted indebtedness to EBITDAX	Cannot Exceed 3.25 to 1.0	Cannot Exceed 3.50 to 1.0	2.8 to 1.0
Asset Coverage – adjusted net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) to adjusted indebtedness as of the date of any reserves report	Cannot be less than 1.3 to 1.0	Cannot be less than 1.3 to 1.0	1.3 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	1.1 to 1.0

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	—	(126)	—	(480)
PPR Warrant Liability, June 30, 2019	2,318	24	6,000	180

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 earnings (loss). The fair value of these warrants is determined using the Black-Scholes option pricing model. The value of the warrant liability as at June 30, 2019 was \$0.2 million (December 31, 2018 - \$0.8 million).

10. LEASE LIABILITIES

(\$000s)	June 30, 2019
Opening balance – January 1, 2019	11,531
Finance expense	550
Lease payments	(1,902)
Ending balance – June 30, 2019	10,179
Less: current portion	2,917
Ending balance – long-term portion	7,262

(\$000s)	Three months ended June 30, 2019	Six months ended June 30, 2019
Variable lease payments	297	593
Sublease income	(214)	(429)
Balance	83	164

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 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 June 30, 2019:

(\$000s)	Under 1 Year	1-3 Years	4-5 years	Beyond 5 years	Total Contractual Cash Flows	Carrying Amount
Lease obligations	3,803	6,654	1,537	72	12,066	10,179

11. DECOMMISSIONING LIABILITIES

(\$000s)

Total Balance – December 31, 2018	148,460
Liabilities incurred	116
Liabilities acquired – business combination (Note 4)	(299)
Settlements	(3,301)
Change in estimates	(3,424)
Accretion	1,664
Total Balance – June 30, 2019	143,216

Comprised of:

Current portion – June 30, 2019	1,700
Long-term portion – June 30, 2019	141,516

Current portion – December 31, 2018	4,700
Long-term portion – December 31, 2018	143,760

The Company has estimated the undiscounted and inflated total future liabilities to be approximately \$249.9 million, based on an inflation rate of 1.7% (December 31, 2018 – \$263.9 million). Liability payments are estimated over the next 52 years with the majority of costs expected to be incurred over the next 26 years.

Decommissioning liabilities at June 30, 2019 were determined using risk-free rates of 2.0% - 2.3% (December 31, 2018 – 2.0% - 2.3%) and an inflation rate of 1.7% (December 31, 2018 – 1.7%).

12. 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, 2018	171,860	136,145
Share issuance costs	—	(69)
Issued for RSU settlement	217	232
Withholding taxes on RSU settlement	—	(54)
Share repurchase for RSU settlement	(121)	(26)
Share repurchase under normal course issuer bid	(643)	(510)
PPR Shares, June 30, 2018	171,313	135,718
	Number of Warrants (000s)	Amount (\$000s)
Warrants:		
Warrants, December 31, 2018	7,950	1,440
Expired March 19, 2019	(3,155)	(337)
Warrants, June 30, 2019	4,795	1,103

(c) Earnings (loss) per Share

(000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Net earnings (loss) for the period	3,235	(15,064)	(18,025)	(26,806)
Weighted average number of common shares				
Basic	170,901	115,881	171,378	115,882
Diluted	176,532	115,881	171,378	115,882
Basic net earnings (loss) per share	0.02	(0.13)	(0.11)	(0.23)
Diluted net earnings (loss) per share	0.01	(0.13)	(0.11)	(0.23)

The weighted average diluted common shares for the six month ended June 30, 2019 exclude 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	(205,619)	0.52
Balance, June 30, 2019	4,324,853	0.49
Exercisable at June 30, 2019	1,578,792	0.83

The fair value of options granted in 2019 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions and resulting fair value:

Fair value of options per unit	\$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 June 30, 2019 and December 31, 2018, there were 292,070 units outstanding. No units were granted during the first six 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	528,557
Balance, June 30, 2019	1,164,269

The weighted average fair value at the grant date of the DSUs awarded during the first six months of 2019 was \$0.12 per 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)
Forfeited or expired	(134,395)
Outstanding – June 30, 2019	3,329,781

The fair value at grant date for the RSUs awarded in 2019 was \$0.17 per unit.

(e) Share-based compensation expense

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Shared based compensation expense:				
Included in G&A	195	248	418	461
Included in operating expense	—	8	—	16
Share-based compensation expense before capitalization	195	256	418	477
Capitalized during the period	36	(57)	(75)	(113)
Share-based compensation expense after capitalization	231	199	343	364

14. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

(\$000s)	Three Months Ended		Six Months Ended	
	June 30, 2019	2018	June 30, 2019	2018
Source (use) of cash:				
Accounts receivable	1,876	(1,536)	(3,519)	(1,236)
Prepaid expenses and other current assets	617	(851)	256	(1,010)
Accounts payable and accrued liabilities	(6,492)	(4,371)	(15,013)	3,382
Non-cash working capital acquired	(271)	—	(271)	—
Less: reclassification to long-term liabilities	(111)	—	5,440	—
	(4,381)	(6,758)	(13,107)	1,136
Related to operating activities	(4,136)	(534)	(11,840)	(143)
Related to investing activities	(245)	(6,224)	(1,267)	1,279
	(4,381)	(6,758)	(13,107)	1,136
Other:				
Interest paid during the period	2,354	1,223	4,452	2,415

(b) 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	12,977	—
Deferred interest	—	993
Debt issuance costs	(289)	—
Non-cash changes		
Unrealized foreign exchange gain	(1,202)	(1,657)
Amortization of debt issuance costs	610	326
Balance as of June 30, 2019	75,459	37,443

15. REVENUE

(\$000s)	Three Months Ended		Six Months Ended	
	June 30, 2019	2018	June 30, 2019	2018
Crude oil	25,574	22,686	45,435	39,802
Natural gas	1,226	999	3,767	2,577
Natural gas liquid	531	502	1,024	1,091
Oil and natural gas revenue	27,331	24,187	50,226	43,470

Included in accounts receivable at June 30, 2019 is \$6.3 million (December 31, 2018 – \$1.5 million related to December 2018 production) of accrued oil and natural gas sales related to June 2019 production.

16. OPERATING EXPENSE

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Lease operating expense	9,287	7,202	18,576	13,291
Transportation and processing	1,129	1,555	2,680	2,689
Production and property taxes	1,413	442	3,168	1,559
Operating expense	11,829	9,199	24,424	17,539

17. GENERAL AND ADMINISTRATIVE COSTS

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Salaries and benefits	1,416	1,458	3,090	2,974
Share-based compensation	194	248	418	461
Office rents and leases	119	372	252	769
Professional fees	365	293	664	940
Other – office	404	272	766	467
	2,498	2,643	5,190	5,611
Amounts capitalized to PP&E and E&E assets	(263)	(443)	(842)	(1,075)
General and administrative expense	2,235	2,200	4,348	4,536

18. FINANCE COSTS

(\$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Interest expense	2,872	1,517	5,574	2,878
Amortization of financing costs	403	221	768	437
Non-cash interest on financing lease (Note 10)	266	—	550	—
Non-cash interest on warrant liabilities	86	24	167	47
Accretion – decommissioning liabilities (Note 11)	826	536	1,664	1,070
Accretion – other liabilities	34	32	65	62
Finance cost	4,487	2,330	8,788	4,494

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 June 30, 2019, the Company has US\$2.0 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, long-term lease liabilities, long-term other liabilities 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 June 30, 2019:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/bbl	Weighted Average Price/bbl
Crude Oil Swaps				
July 1, 2019 - December 31, 2019	CDN\$ WTI	150		\$64.39
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				
July 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				
July 1, 2019 - December 31, 2019	US\$ WTI	450	\$6.29	\$55.00
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
Crude Oil Collars				
July 1, 2019 – December 31, 2019	US\$ WTI	400		\$52.50/60.00
July 1, 2019 – December 31, 2019	US\$ WTI	275		\$50.00/57.00
July 1, 2019 – December 31, 2019	US\$ WTI	300		\$50.00/60.00
July 1, 2019 – December 31, 2019	US\$ WTI	150		\$52.50/63.10

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
January 1, 2020 – December 31, 2020	US\$ WTI	175		\$49.00/ 54.75
July 1, 2020 - December 31, 2020	US\$ WTI	500		\$50.00/59.00
Crude Oil Three-way Collars				
January 1, 2020 – March 31, 2020	US\$ WTI	400		\$42.50/52.50/65.00
January 1, 2020 – March 31, 2020	US\$ WTI	300		\$45.00/55.00/66.15
January 1, 2021 – March 31, 2021	US\$ WTI	200		\$45.50/52.50/65.00
January 1, 2021 – December 31, 2021	US\$ WTI	650		\$40.00/50.00/64.25

Remaining Term	Reference	Total Daily Volume (GJ)	Premium/ GJ	Weighted Average Price/GJ
Natural Gas Swaps				
July 1, 2019 - December 31, 2019	US\$ NYMEX	3,000		\$3.15
July 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				
January 1, 20120 - March 30, 2020	AECO 7A Monthly Index	4,000	\$0.15	\$1.16
April 1, 2020 - June 30, 2020	AECO 7A Monthly Index	4,600	\$0.25	\$1.11

The following table summarizes commodity derivative contracts entered subsequent to June 30, 2019:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Swaps				
August 1, 2019 - December 31, 2019	US\$ WTI	600		\$60.05
January 1, 2020 - June 30, 2020	US\$ WTI	800		\$55.10

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

June 30, 2019	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Derivative instruments – current asset	—	363	363
Derivative instruments – current liabilities	(2,044)	—	(2,044)
Derivative instruments – long-term liabilities	(877)	—	(877)
Total liabilities	(2,921)	363	(2,558)

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

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three and six months ended June 30, 2019 and 2018:

Three Months Ended June 30, 2019	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Realized (loss) gain on derivative instruments	(1,674)	247	(1,427)
Unrealized gain on derivative instruments	4,760	556	5,316
Total gain	3,086	803	3,889

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

Six Months Ended June 30, 2019	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Realized (loss) gain on derivative instruments	(2,172)	618	(1,554)
Unrealized loss on derivative instruments	(8,717)	(476)	(9,193)
Total (loss) gain	(10,889)	142	(10,747)

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

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at June 30, 2019 and December 31, 2018. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

June 30, 2019 (\$000s)	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	363	—	363
Derivative instruments liabilities	(3,322)	1,278	(2,044)
Long-term:			
Derivative instruments assets – long-term	—	—	—
Derivative instruments liabilities – long-term	(3,344)	2,467	(877)

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

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 June 30, 2019, PPR incurred a total of \$0.5 million towards this commitment.