# Prairie Provident Resources Inc.

## Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three Months Ended March 31, 2020

Dated: May 14, 2020

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

| *As at*<br>*($000s)* | Note | March 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | 1,103 | 2,873 |
| Restricted cash | 7 | 4,917 | 4,917 |
| Accounts receivable | 18 | 7,596 | 8,667 |
| Inventory | | 482 | 958 |
| Prepaid expenses and other assets | | 2,828 | 3,282 |
| Derivative instruments – current | 18 | 22,038 | 11 |
| **Total current assets** | | 38,964 | 20,708 |
| Exploration and evaluation | 4 | 9,328 | 10,183 |
| Property and equipment | 5 | 211,339 | 293,549 |
| Right-of-use assets | 6 | 5,519 | 6,119 |
| Derivative instruments | 18 | 1,584 | 332 |
| Other assets | | 634 | 634 |
| **Total assets** | | 267,368 | 331,525 |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | | 20,244 | 18,479 |
| Lease liabilities – current portion | 9 | 2,481 | 2,520 |
| Derivative instruments – current | 18 | — | 4,325 |
| Current portion of decommissioning liability | 10 | 4,000 | 4,000 |
| Warrant liability | 8 | — | 84 |
| **Total current liabilities** | | 26,725 | 29,408 |
| Long-term debt | 7 | 120,651 | 113,595 |
| Lease liabilities – non-current portion | 9 | 4,516 | 5,121 |
| Decommissioning liabilities | 10 | 163,876 | 163,805 |
| Other liabilities | | 6,511 | 6,018 |
| **Total liabilities** | | 322,279 | 317,947 |
| Commitments and contingencies | 19 | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 11 | 136,308 | 135,958 |
| Warrants | 11 | 1,103 | 1,103 |
| Contributed surplus | | 2,645 | 2,919 |
| Accumulated deficit | | (194,940) | (126,872) |
| Accumulated other comprehensive income ("AOCI") | | (27) | 470 |
| **Total equity** | | (54,911) | 13,578 |
| **Total liabilities and shareholders' equity** | | 267,368 | 331,525 |

Going concern (note 2b)
See accompanying notes to the condensed interim consolidated financial statements.

Approved by the Board of Directors,

(signed)
**Patrick McDonald**
Chair of the Board of Directors and Director

(signed)
**Ajay Sabherwal**
Chair of the Audit Committee and Director

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

For the three months ended

| *($000s)* | Note | March 31, 2020 | March 31, 2019 |
|---|---|---|---|
| **REVENUE** | | | |
| Oil and natural gas revenue | 14 | 15,272 | 22,895 |
| Royalties | | (1,285) | (1,801) |
| Oil and natural gas revenue, net of royalties | | 13,987 | 21,094 |
| Unrealized gain (loss) on derivative instruments | 18 | 27,605 | (14,509) |
| Realized gain (loss) on derivative instruments | 18 | 1,996 | (127) |
| | | 43,588 | 6,458 |
| **EXPENSES** | | | |
| Operating | 15 | 10,788 | 12,595 |
| General and administrative | 16 | 2,017 | 2,113 |
| Depletion and depreciation | 5 | 8,969 | 9,294 |
| Exploration and evaluation | 4 | 948 | 96 |
| Depreciation on right-of-use assets | 6 | 600 | 686 |
| Gain on property dispositions | | (75) | (70) |
| Gain on warrant liability | 8 | (84) | (297) |
| Impairment loss | 4,5 | 77,268 | — |
| Loss (Gain) on foreign exchange | | 7,016 | (1,401) |
| Finance costs | 17 | 4,266 | 4,301 |
| Transaction, restructuring and other costs | | 5 | 452 |
| Total expenses – net | | 111,718 | 27,769 |
| Net loss before taxes | | (68,130) | (21,311) |
| Current tax recovery | | (62) | — |
| Deferred tax recovery | | — | (51) |
| Net tax recovery | | (62) | (51) |
| **Net loss** | | (68,068) | (21,260) |
| | | | |
| **Other comprehensive loss** | | | |
| Items that will not be reclassified to net loss: | | | |
| Exchange differences on translation of foreign operations | | (497) | — |
| **Comprehensive loss** | | (68,565) | (21,260) |

| | | | |
|---|---|---|---|
| **Net loss per share** | | | |
| Basic & diluted | 11 | (0.4) | (0.12) |

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, 2019 | | 135,958 | 1,103 | 2,919 | (126,872) | 470 | 13,578 |
| Share-based compensation | 12 | — | — | 101 | — | — | 101 |
| Settlement of restricted share units ("RSU"), net of withholding tax | 12 | 350 | — | (375) | — | — | (25) |
| Exchange differences on translation of foreign operations | | | | | | (497) | (497) |
| Net loss | | — | — | — | (68,068) | — | (68,068) |
| Balance at March 31, 2020 | | 136,308 | 1,103 | 2,645 | (194,940) | (27) | (54,911) |

| *($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 | | — | — | — | (853) | — | (853) |
| Balance at January 1, 2019 | | 136,145 | 1,440 | 1,859 | (93,714) | 468 | 46,198 |
| Share issuance costs | | (9) | — | — | — | — | (9) |
| Share-based compensation | | — | — | 223 | — | — | 223 |
| Purchase of common shares under NCIB | | (510) | — | 377 | — | — | (133) |
| Purchase of common shares for settlement of SBC | | (26) | — | — | — | — | (26) |
| Settlement of RSU, Net of withholding tax | | 178 | — | (245) | — | — | (67) |
| Reclassify of expired warrant | | — | (337) | 337 | — | — | — |
| Net loss | | — | — | — | (21,260) | — | (21,260) |
| Balance at March 31, 2019 | | 135,778 | 1,103 | 2,551 | (114,974) | 468 | 24,926 |

See accompanying notes to the condensed interim consolidated financial statements.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| For the three months ended<br>*($000s)* | Note | March 31, 2020 | March 31, 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net loss | | **(68,068)** | (21,260) |
| Adjustments for non-cash items: | | | |
| Impairment loss | 4,5 | **77,268** | — |
| Unrealized (gain) loss on derivative instruments | 18 | **(27,605)** | 14,509 |
| Depletion and depreciation | 5 | **8,969** | 9,294 |
| Depreciation on right-of-use asset | 6 | **600** | 686 |
| Exploration and evaluation expense | 4 | **948** | 96 |
| Accretion and non-cash finance costs | 17 | **890** | 1,155 |
| Non-cash interest on warrant liability | | **104** | 81 |
| Unrealized foreign exchange loss (gain) | | **7,020** | (1,321) |
| Gain on sale of properties | | **(75)** | (70) |
| Gain on warrant liability | 8 | **(84)** | (297) |
| Deferred tax recovery | | **—** | (51) |
| Share-based compensation | 12 | **86** | 112 |
| Amortization of deferred cost | | **356** | 365 |
| Settlements of decommissioning liabilities | 10 | **(704)** | (2,996) |
| Deferred interest on Senior Notes | 7 | **521** | 493 |
| Other, net | | **(3)** | 15 |
| Change in non-cash working capital | 13 | **2,059** | (7,704) |
| Net cash from (used in) operating activities | | **2,282** | (6,893) |
| **FINANCING ACTIVITIES** | | | |
| Debt issuance costs | | **(133)** | (231) |
| Share issuance costs | | **—** | (9) |
| Purchase of common share under NCIB | 11 | **—** | (133) |
| Purchase of common share for RSU settlement | 11 | **—** | (26) |
| Withholding taxes on settlement of share-based compensations | 12 | **(24)** | (54) |
| Finance lease payments | 9 | **(838)** | (951) |
| Change in Revolving Facility borrowings | 7 | **(781)** | 9,911 |
| Net cash (used in) from financing activities | | **(1,776)** | 8,507 |
| **INVESTING ACTIVITIES** | | | |
| Exploration and evaluation expenditures | 4 | **(93)** | (169) |
| Property and equipment expenditures | 5 | **(3,397)** | (3,474) |
| Proceeds from dispositions (net of acquisitions) | | **157** | 70 |
| Change in non-cash working capital | 13 | **1,057** | (1,022) |
| Net cash used in investing activities | | **(2,276)** | (4,595) |
| Change in cash and restricted cash | | **(1,770)** | (2,981) |
| Cash and restricted cash beginning of period | | **7,790** | 8,950 |
| **Cash and restricted cash end of period** | | **6,020** | 5,969 |

See accompanying notes to the condensed interim consolidated financial statements.

# NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2020 and 2019

## 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, 2019 and 2018 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 14, 2020.

### (b) Going Concern

These Interim Financial Statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that PPR will be able to realize its assets and discharge its liabilities in the normal course of business.

The oil and natural gas commodity price environment has been extremely volatile and depressed over the last few years. PPR has, to the best of its ability, managed through this low commodity price environment by maintaining an active risk management program and by managing a capital program with cash flows, debt and equity capital. However, the recent downfalls in global oil prices resulted in deterioration in the fair value of its reserves and the Company’s projected cash flows over the next 12 months. Such forecasts may change based upon actual revenue received during the year, changes in future oil and natural gas pricing and future business plans.

At March 31, 2020, the amount outstanding on the Revolving Facility aggregated to USD$$57.0 million (Note 7). The maximum amount available on lines of credit at March 31, 2020 was USD$60 million. The Company also had Senior Notes of USD$31.4 million which are due on October 31, 2021. The Revolving Facility is subject to semi-annual reviews of the borrowing base. A lender redetermination of the Revolving Facility borrowing base, originally scheduled for March 31, 2020, has been temporarily deferred. The lenders are, however, entitled to proceed with a redetermination at their discretion. The lenders also have sole discretion on the determination of the borrowing base, which is based predominately on the amount of the Company’s proved developed producing oil and natural gas reserves. The Company agreed to direct excess funds, after payment of all operating, G&A and other costs of conducting our business, to the repayment of borrowings on the Revolving Facility and to not make any requests for further advances under that facility until the borrowing base is determined. The current state of the Canadian energy industry coupled with significant declines in commodity prices since December 31, 2019 have negatively impacted the available amount of credit facilities within the industry. Both the Revolving Facility and Senior Notes have financial covenants as more fully described in Note 7. At current forecasted forward prices for crude oil Management is forecasting a breach in covenants within the next 12 months.

Furthermore, there are no assurances that the lenders will maintain the borrowing base at current levels, which may result in a borrowing base shortfall. If the Company cannot repay a borrowing base shortfall, it would represent an event of default under both the Revolving Facility and the Senior Notes. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both facilities.

Due to these factors, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These Interim Financial Statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying Interim Financial Statements. Such adjustments could be material.

**(c) Basis of measurement**

The Interim Financial Statements have been prepared on the historical cost basis except for derivative instruments and warrant liability that are measured at fair value.

**(d) Functional and Presentation Currency**

The Interim Financial Statements are presented in Canadian dollars (CAD), which is also the Company's functional currency. All references to US$ or USD are to United States dollars.

**(e) Use of Estimates and Judgments**

The preparation of Interim Financial Statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, 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 judgments in applying accounting policies are outlined in the Annual Financial Statements.

On January 30, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern and, on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. These measures have caused, and will continue to cause significant disruption to business operations and a significant increase in economic uncertainty, with reduced demand for commodities leading to volatile prices and currency exchange rates, and a decline in long-term interest rates. The Company's operations are particularly sensitive to a reduction in the demand for, and prices of, crude oil, natural gas and natural gas liquids which are closely linked to PPR's financial performance. In addition to the impact on commodity prices and commodity sales from production amounts, COVID-19 has created many uncertainties in the crude oil and natural gas industry with respect to increased counterparty credit risk and valuation of long-lived petroleum and natural gas assets. The potential direct and indirect impacts of the economic downturn have been considered in management's estimates, and assumptions at period end have been reflected in our results.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for our business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our financial results in 2020.

## 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. 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.

## 4. EXPLORATION AND EVALUATION ASSETS

| *($000s)* | |
|---|---|
| Cost Balance - December 31, 2019 | 66,799 |
| Additions | 93 |
| Exploration and evaluation expense | (948) |
| Cost Balance - March 31, 2020 | 65,944 |
| | |
| Provision for impairment – December 31, 2019 | (56,616) |
| Provision for impairment – March 31, 2020 | (56,616) |
| | |
| Net book value – December 31, 2019 | 10,183 |
| Net book value – March 31, 2020 | 9,328 |

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, 2020, PPR recognized $0.9 million (2019 - $0.1 million) of E&E expense related to surrendered leases in various areas. PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets (2019 - nominal amount).

## 5. PROPERTY AND EQUIPMENT

| *($000s)* | Production and Development | Office Equipment | Total |
|---|---|---|---|
| Cost: | | | |
| Balance - December 31, 2019 | 675,931 | 4,654 | 680,585 |
| Additions | 3,501 | (1) | 3,500 |
| Acquisitions and dispositions | (157) | — | (157) |
| Adjustments due to change in estimates in decommissioning liabilities (Note 10) | 66 | — | 66 |
| Balance - March 31, 2020 | 679,341 | 4,653 | 683,994 |
| Accumulated impairment, depletion and depreciation: | | | |
| Balance – December 31, 2019 | (383,210) | (3,826) | (387,036) |
| Depletion and depreciation | (8,964) | (68) | (9,032) |
| Impairment | (76,587) | — | (76,587) |
| Balance - March 31, 2020 | (468,761) | (3,894) | (472,655) |
| Net book value - December 31, 2019 | 292,721 | 828 | 293,549 |
| Net book value – March 31, 2020 | 210,580 | 759 | 211,339 |

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

During the three months ended March 31, 2020, $0.1 million (2019 – $0.6 million) of directly attributable general and administrative expenses, including a nominal amount (2019 – $0.1 million) of share-based compensation expenses, were capitalized to property and equipment.

### (b) Impairment

At March 31, 2020, the decreases in crude oil and natural gas benchmark prices as compared to December 31, 2019 were considered indicators of impairment for the property and equipment. As a result, the Company completed impairment tests on all of its cash generating units ("CGU's") in accordance with IAS 36 and determined that the carrying amounts of certain the CGUs did exceed their fair value less costs of sale ("FVLCD"). The FVLCD values used to determine the recoverable amounts of the Company's CGUs are classified as Level 3 in the fair value hierarchy (see Note 3(g) of the Annual Financial Statements for information on fair value hierarchy) as certain key assumptions are not based on observable market data but rather the Company's best estimate. The FVLCD was estimated using an after-tax discount rate of 12.5%.

As a result of the impairment test at March 31, 2020, PPR recognized a total of $76.6 million (2019 - $nil) non-cash impairment loss. Under IFRS, impairment losses related to PP&E may be reversed in future periods if commodity price forecasts improve. At March 31, 2020, a one percent point change in the discount rate would result in a $3.3 million impairment expense or recovery and a five percent change in the forecasted cash flows would result in a $2.8 million impairment expense or recovery.

Impairment loss by CGU was as follows:

| Three months ended ($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| EVI CGU | 51,719 | — |
| Princess CGU | 5,790 | — |
| Provost CGU | 12,982 | — |
| Other CGU | 6,096 | — |
| Total impairment loss | 76,587 | — |

The following table outlines benchmark prices and assumptions, based on the forecast provided by our independent reserve evaluator Sproule Associates Limited., used in completing the impairment tests as at March 31, 2020.

| | WTI ($US/bbl) | Edmonton Light ($CAD/bbl) | AECO ($CAD/ MMBtu) | Exchange rate ($US equals, $1CAD) | Inflation rate |
|---|---|---|---|---|---|
| 2020 | 25.00 | 24.29 | 1.43 | 0.70 | — % |
| 2021 | 37.00 | 43.15 | 2.05 | 0.73 | 1 % |
| 2022 | 48.00 | 58.67 | 2.33 | 0.75 | 2 % |
| 2023 | 48.96 | 59.84 | 2.41 | 0.75 | 2 % |
| 2024 | 49.94 | 61.04 | 2.48 | 0.75 | 2 % |
| 2025 | 50.94 | 62.26 | 2.56 | 0.75 | 2 % |
| Thereafter (inflation percentage) | 2% | 2% | 3% | 0.75 | 2 % |

## 6. RIGHT-OF-USE ASSETS

| *($000s)* | Office Leases | Facility Lease | Other Leases | Total |
|---|---|---|---|---|
| Cost: | | | | |
| Balance - December 31, 2019 | 1,862 | 6,687 | 313 | 8,862 |
| Balance – March 31, 2020 | 1,862 | 6,687 | 313 | 8,862 |
| | | | | |
| Accumulated depreciation: | | | | |
| Balance - December 31, 2019 | (990) | (1,605) | (148) | (2,743) |
| Depreciation | (162) | (401) | (37) | (600) |
| Balance – March 31, 2020 | (1,152) | (2,006) | (185) | (3,343) |
| | | | | |
| Net book value - December 31, 2019 | 872 | 5,082 | 165 | 6,119 |
| Net book value – March 31, 2020 | 710 | 4,681 | 128 | 5,519 |

## 7. LONG-TERM DEBT

| *($000s)* | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| Revolving Facility (including US$27.0 million and CAN$40.5 million of borrowings) | **78,835** | 76,377 |
| Senior Notes (US$28.5 million of principal plus US$2.9 million of deferred interest) | **44,571** | 40,300 |
| Unamortized deferred financing fees | **(1,931)** | (2,154) |
| Unamortized value allocated to Warrant Liability | **(824)** | (928) |
| Total | **120,651** | 113,595 |

### (a) Revolving Facility

The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAN$54 million or US$30 million. As at March 31, 2020, the Company had US$57.0 million (CAN$78.8 million equivalent) drawn under the US$60.0 million facility, comprised of US$27.0 million of USD denominated notes (CAN$38.3 million equivalent using the March 31, 2020 month end exchange rate of $1.00 USD to $1.42 CAD) and CAN$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 March 31, 2020, the Company had US$3.0 million (CAN$4.3 million equivalent) borrowing capacity under the Revolving Facility.

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. If a borrowing base deficiency exists because of a re-determination, the lender is required to notify the Company of such shortfall. The Company may repay the shortfall amount by either making one installment within 90 days or six equal consecutive monthly installments beginning within 30 days after the Company's receipt of the borrowing base deficiency notice.

Subsequent to March 31, 2020, a lender redetermination of the Revolving Facility borrowing base, originally scheduled for the Spring of 2020, has been temporarily deferred. The Company agreed to direct excess funds, after payment of all operating, G&A and other costs of conducting our business, to the repayment of borrowings on the Revolving Facility and to not make any requests for further advances under that facility until the borrowing base is determined.

Amounts borrowed under the Revolving Facility bear interest based on reference bank prime lending rates, LIBOR or CDOR rates in effect from time to time, plus an applicable margin. Applicable Margins for the quarter ended March 31, 2020 was set at 500 bps. Subsequent to March 31, 2020, PPR has agreed to a 200 bps margin increase on outstanding advances, bringing the total margin on the secured debt to 700 bps until such time the borrowing base is redetermined. The 200 bps margin increase will be paid-in-kind and added to the outstanding principal of the Revolving Facility.

As at March 31, 2020, 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 March 31, 2020, $1.2 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2019 – $1.3 million).

### (b) Subordinated Senior Notes

Original principal amount Senior Notes outstanding as at March 31, 2020 totaled US$28.5 million (CAN$40.4 million using the March 31, 2020 month end exchange rate of $1.00 USD to $1.42 CAD), bearing interest at 15% per annum. Until March 31, 2020, 10% per annum of interest on the Senior Notes was payable in cash, with the remaining 5% per annum deferred and added to the principal payable at maturity on October 31, 2021. As at March 31, 2020, total deferred interest was US$2.9 million (CAN$4.1 million using the March 31, 2020 month end exchange rate of $1.00 USD to$1.42 CAD) (December 31, 2019 - US$2.5 million), which is payable upon maturity of the Senior Notes. Subsequent to March 31, 2020, the Senior Note holders agreed to payment-in-kind of all interest for the next payment date of April 30, 2020 and thereafter, such that the entire 15% per annum of interest will be deferred and become payable upon the maturity date.

As at March 31, 2020, $0.8 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2019 – $0.9 million).

### (c) Covenants

The lenders under both the Revolving Facility and the Senior Notes agreed to waive application of the total leverage ratio, senior leverage ratio and asset coverage ratio for March 31, 2020. As such, the only financial covenant in effect at March 31, 2020 was the current ratio (whereby the ratio cannot be less than 1.0 to 1.0), with which the Company was in compliance.

## 8. WARRANT LIABILITY

| | Warrant Expiring October 31, 2022 | | Warrant Expiring October 31, 2023 | |
|---|---|---|---|---|
| | **Number of Warrants** | **Amount** | **Number of Warrants** | **Amount** |
| PPR Warrant Liability, December 31, 2019 | 2,318 | 24 | 6,000 | 60 |
| Fair value adjustment | — | (24) | — | (60) |
| **PPR Warrant Liability, March 31, 2020** | **2,318** | **—** | **6,000** | **—** |

## 9. LEASE LIABILITIES

| *($000s)* | |
|---|---|
| Opening balance – December 31, 2019 | 7,641 |
| Finance expense | 194 |
| Lease payments | (838) |
| Ending balance – March 31, 2020 | 6,997 |
| Less: current portion | 2,481 |
| Ending balance – Non-current portion | 4,516 |

| *($000s)* | March 31, 2020 |
|---|---|
| Variable lease payments | 283 |
| Sublease income | (198) |
| Balance | 85 |

The following table details the undiscounted cash flows of PPR's lease obligations, as at March 31, 2020:

| *($000s)* | Under 1 Year | 1-3 Years | 4-5 years | Beyond 5 years | Total Contractual Cash Flows | Carrying Amount |
|---|---|---|---|---|---|---|
| Lease obligations | 3,067 | 4,912 | 12 | 67 | 8,058 | 6,997 |

## 10. DECOMMISSIONING LIABILITIES

| *($000s)* | |
|---|---|
| Total Balance – December 31, 2019 | 167,805 |
| Liabilities incurred | 88 |
| Liabilities acquired net of dispositions | (72) |
| Settlements | (704) |
| Change in estimates | 66 |
| Accretion of decommissioning liabilities | 693 |
| Total Balance – March 31, 2020 | 167,876 |
| | |
| Current portion | 4,000 |
| Long-term portion | 163,876 |

The Company estimated the undiscounted and inflated total future liabilities to be approximately $265.8 million (December 31, 2019 – $266.4 million). Liability payments are estimated over the next 56 years with the majority of costs expected to be incurred over the next 26 years, of which $20.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at March 31, 2020 were determined using risk-free rates of 1.5% - 1.7% (December 31, 2019 – 1.5% - 1.7%) and an inflation rate of 1.7% (December 31, 2019 – 1.7%).

## 11. 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, 2019 | 171,427 | 135,958 |
| Issued for RSU settlement | 638 | 374 |
| Withholding taxes on RSU settlement | — | (24) |
| **PPR Shares, March 31, 2020** | 172,065 | 136,308 |

| | Number of Warrants *(000s)* | Amount *($000s)* |
|---|---|---|
| **Warrants:** | | |
| Warrants, December 31, 2019 | 4,795 | 1,103 |
| **Warrants, March 31, 2020** | 4,795 | 1,103 |

### (c) Loss per Share

| Three months ended<br>*(000s)* | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Net loss for the period | (68,068) | (21,260) |
| Weighted average number of common shares | | |
| Basic | 171,812 | 171,444 |
| Diluted | 171,812 | 171,444 |

| | | |
|---|---|---|
| Basic net loss per share | (0.4) | (0.12) |
| Diluted net loss per share | (0.4) | (0.12) |

The weighted average diluted common shares for the three months ended March 31, 2020 exclude the impact of outstanding equity settled awards issued under the Company's long-term incentive plans and warrants that were anti-dilutive.

## 12. SHARE-BASED COMPENSATION

### (a) Stock Options

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

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2019 | 3,932,319 | 0.48 |
| Granted | 2,633,673 | 0.05 |
| **Balance, March 31, 2020** | 6,565,992 | 0.31 |
| | | |
| **Exercisable at March 31, 2020** | 2,481,999 | 0.63 |

The fair value of options granted in 2020 was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions and resulting fair value:

| | |
|---|---|
| Fair value of options per unit | $0.02 |
| Risk free interest rate | 1.8% |
| Expected life of options (years) | 3.6 |
| Expected volatility | 89.9% |
| Estimated forfeiture rate | 1.5% |
| Dividend per share | — |

### (b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

| | DSUs |
|---|---|
| Balance, December 31, 2019 | 2,337,080 |
| **Balance, March 31, 2020** | 2,337,080 |

### (c) Restricted Share Units

| | RSUs |
|---|---|
| Balance – December 31, 2019 | 3,191,103 |
| Granted | 975,435 |
| Settled | (1,232,967) |
| **Balance – March 31, 2020** | **2,933,571** |

The fair value at grant date for the RSUs awarded during the quarter ended March 31, 2020 was $0.04 per unit.

### (d) Share-based compensation expense

| Three months ended<br>*($000s)* | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Shared based compensation expense: | | |
| Included in G&A | 101 | 223 |
| Share-based compensation expense before capitalization | 101 | 223 |
| Capitalized during the period | (15) | (111) |
| Share-based compensation expense after capitalization | 86 | 112 |

## 13. SUPPLEMENTAL INFORMATION

### (a) Cash Flow Presentation

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

| Three months ended<br>($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Source (use) of cash: | | |
| Accounts receivable | 1,071 | (5,395) |
| Prepaid expenses and other current assets | 315 | (361) |
| Accounts payable and accrued liabilities | 1,765 | (8,521) |
| Foreign exchange on translation | (35) | — |
| Less: reclassification to long-term liabilities | — | 5,551 |
| | 3,116 | (8,726) |
| | | |
| Related to operating activities | 2,059 | (7,704) |
| Related to investing activities | 1,057 | (1,022) |
| | 3,116 | (8,726) |
| | | |
| Other: | | |
| Interest paid during the year | 2,375 | 2,098 |

### (b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

| | Revolving Facility | Senior Notes |
|---|---|---|
| Balance as of December 31, 2019 | 75,094 | 38,501 |
| Changes in cash flows | (781) | — |
| Deferred interest | — | 521 |
| Debt issuance costs | (133) | — |
| Non-cash changes | | |
| Unrealized foreign exchange loss | 3,240 | 3,749 |
| Amortization of debt issuance costs | 258 | 202 |
| Balance as of March 31, 2020 | 77,678 | 42,973 |

## 14. REVENUE

| Three months ended<br>($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Crude oil | 13,004 | 19,861 |
| Natural gas | 1,950 | 2,541 |
| Natural gas liquid | 318 | 493 |
| Oil and natural gas revenue | 15,272 | 22,895 |

Included in accounts receivable at March 31, 2020 was $2.5 million (December 31, 2019 – $6.5 million related to December 2019 production) of accrued oil and natural gas sales related to March 2020 production.

## 15. OPERATING EXPENSE

| Three months ended<br>($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Lease operating expense | 8,597 | 9,289 |
| Transportation and processing | 686 | 1,551 |
| Production and property taxes | 1,505 | 1,755 |
| Operating expense | 10,788 | 12,595 |

## 16. GENERAL AND ADMINISTRATIVE COSTS

| Three months ended<br>($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Salaries and benefits | 1,112 | 1,674 |
| Share-based compensation | 101 | 224 |
| Office rents and leases | 236 | 133 |
| Professional fees | 413 | 299 |
| Other – office | 294 | 362 |
| | 2,156 | 2,692 |
| Amounts capitalized to PP&E, E&E assets and other | (139) | (579) |
| General and administrative expense | 2,017 | 2,113 |

## 17. FINANCE COSTS

| Three months ended<br>($000s) | March 31, 2020 | March 31, 2019 |
|---|---|---|
| Interest expense | **2,916** | 3,067 |
| Amortization of financing costs | **356** | 80 |
| Non-cash interest on financing lease (Note 9) | **194** | 284 |
| Non-cash interest on warrant liabilities | **104** | 1 |
| Accretion – decommissioning liabilities (Note 10) | **693** | 838 |
| Accretion – other liabilities | **3** | 31 |
| Finance cost | **4,266** | 4,301 |

## 18. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

### (a) Fair Values of financial instruments

At March 31, 2020, the fair value of the borrowings under PPR's Revolving Facility and Senior Notes was $76.7 million and $43.2 million, respectively (excluding deferred financing charges and the value assigned to the warrant liability). During the periods ended March 31, 2020 and 2019, there were no transfers among Levels 1, 2 and 3 of fair value hierarchy.

### (b) Risk Management

#### (i) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable from joint operators and oil and natural gas marketers.

**Cash and Restricted Cash**

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of March 31, 2020, restricted cash included $4.9 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2019 – $4.9 million).

**Accounts Receivable**

Credit risk is typically considered to be low for the Company's accounts receivables pertaining to oil and natural gas marketing sales and derivative receivables due to PPR's processes for selecting credit-worthy counterparties and continuously monitoring its credit exposure. The remaining credit exposures relate primarily to receivables from joint venture partners. Credit risk related to joint venture receivables is mitigated by obtaining partner approval of significant capital expenditures prior to expenditure and in certain circumstances may require cash deposits in advance of incurring expenses on behalf of joint venture partners. PPR has the ability to withhold production from joint venture partners in the event of non-payment or may be able to register security on the assets of joint venture partners.

During the three months ended March 31, 2020, global events have had, and are expected to continue to have a significant impact on companies and their credit risk, refer to Note 2(b). PPR has incorporated these factors into its assessment of expected credit loss at March 31, 2020.

As at December 31, the maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

| *($000s)* | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Oil and natural gas marketing companies | 2,632 | 6,601 |
| Joint venture partners | 1,076 | 1,091 |
| Government agencies | 66 | 484 |
| Counterparties – derivative instruments | 2,095 | 33 |
| Other | 1,727 | 458 |
| Total accounts receivable | 7,596 | 8,667 |

As at December 31, the Company's accounts receivable are aged as follows:

| ($000s) | March 31, 2020 | December 31, 2019 |
|---|---|---|
| Current (less than 90 days) | 7,231 | 7,972 |
| Past due (more than 90 days) | 365 | 695 |
| Total | 7,596 | 8,667 |

PPR's allowance for doubtful accounts was $0.1 million as at March 31, 2020 (December 31, 2019 – $0.05 million). When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount.

**Derivatives**

PPR executes its derivative contracts with credit-worthy counterparties with low credit risks. As of March 31, 2020, all of the derivative counterparties have entered inter-creditor agreements with the Company's lender to eliminate the need to post any collateral.

The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at March 31, 2020 and December 31, 2019. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

| March 31, 2020<br>*($000s)* | Gross Assets (Liabilities) | Amount Offset Gross Assets (Liabilities) | Net Amount Presented |
|---|---|---|---|
| Current: | | | |
| Derivative instruments assets | 23,154 | (1,116) | 22,038 |
| Long-term: | | | |
| Derivative instruments assets – long-term | 3,777 | (2,193) | 1,584 |

| December 31, 2019<br>*($000s)* | Gross Assets (Liabilities) | Amount Offset Gross Assets | Net Amount Presented |
|---|---|---|---|
| Current: | | | |
| Derivative instruments assets | 11 | — | 11 |
| Derivative instruments liabilities | (4,793) | 468 | (4,325) |
| Long-term: | | | |
| Derivative instruments assets – long-term | 1,368 | (1,036) | 332 |

**(ii) Liquidity Risk & Capital Management**

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity, equity issuance along with its planned capital expenditure program. As outlined in Note 7, at March 31, 2020, the Company had US$3.0 million borrowing capacity under the Revolving Facility. Subsequent to March 31, 2020, the Company agreed to not make any requests for further advances under that facility.

PPR's objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its business plans. The Company considers its capital structure to include shareholders' equity, long-term debt and working capital. The Company monitors its current and forecasted capital structure in response to changes in economic conditions and the risk characteristics of its oil and gas properties. Adjustments are made on an ongoing basis in order to meet its capital management objectives. Modifications to PPR's capital structure can be accomplished through issuing common shares, issuing new debt or replacing existing debt, adjusting capital spending and acquiring or disposing of assets, though there is no certainty that any of these additional sources of capital would be available if required, especially in the current economic environment.

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 from March 31, 2020. At March 31, 2020, PPR's total current assets exceeded total current liabilities. The Company believes that our derivative contracts, combined with our initiatives to reduce our capital, operating and G&A expenses, will provide the necessary liquidity to meet our short-term operational needs. However, further or prolonged deterioration in commodity prices, credit and equity markets due to COVID-19 will negatively impact the Company's liquidity. As such, the Company continues to pursue additional opportunities to access additional credit, credit support from recently announced programs from the Federal Government of Canada and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

**(iii) 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 lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

| March 31, 2020 | **Crude Oil** | **Natural Gas** | **Total** |
|---|---|---|---|
| *($000s)* | | | |
| Derivative instruments – current asset | **22,029** | **9** | **22,038** |
| Derivative instruments – long-term assets | **1,584** | **—** | **1,584** |
| Total liabilities | **23,613** | **9** | **23,622** |

| December 31, 2019 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Derivative instruments – current asset | — | 11 | 11 |
| Derivative instruments – current liabilities | (4,325) | — | (4,325) |
| Derivative instruments – long-term assets | 332 | — | 332 |
| Total assets | (3,993) | 11 | (3,982) |

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2020 and 2019:

| Three Months Ended March 31, 2020 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain (loss) on derivative instruments | 2,051 | (55) | 1,996 |
| Unrealized gain (loss) on derivative instruments | 27,607 | (2) | 27,605 |
| Total gain (loss) | 29,658 | (57) | 29,601 |

| 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) |

The following table summarizes commodity derivative transactions as at March 31, 2020:

| **Remaining Term** | **Reference** | **Total Daily Volume (bbl)** | **Premium/ bbl** | **Weighted Average Price/bbl** |
|---|---|---|---|---|
| ***Crude Oil Swaps*** | | | | |
| April 1, 2020 - June 30, 2020 | US$ WTI | 800 | | $55.10 |
| April 1, 2020 - June 30, 2020 | US$ WTI | 200 | | $57.00 |
| April 1, 2020 - June 30, 2020 | US$ WTI | 425 | | $51.00 |
| April 1, 2020 - June 30, 2020 | US$ WTI | 600 | | $57.30 |
| July 1, 2020 - September 30, 2020 | US$ WTI | 400 | | $50.75 |
| October 1, 2020 - December 1, 2020 | US$ WTI | 400 | | $50.50 |
| July 1, 2020 - December 31, 2020 | US$ WTI | 500 | | $55.00 |
| ***Crude Oil Sold Call Options*** | | | | |
| April 1, 2020 – December 31, 2020 | US$ WTI | 400 | | $60.50 |
| ***Crude Oil Put Options*** | | | | |
| April 1, 2020 - June 30, 2020 | CDN$ WTI | 300 | $6.00 | $71.30 |
| ***Crude Oil Collars*** | | | | |
| April 1, 2020 – December 31, 2020 | US$ WTI | 175 | | $49.00/54.75 |
| July 1, 2020 - December 31, 2020 | US$ WTI | 500 | | $50.00/59.00 |
| July 1, 2020 – December 31, 2020 | US$ WTI | 700 | | $50.00/65.00 |
| **Crude Oil Three-way Collars** | | | | |
| January 1, 2021 – March 31, 2021 | US$ 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 Put Options*** | | | | |
| April 1, 2020 - June 30, 2020 | AECO 7A Monthly Index | 4,600 | $0.25 | $1.11 |

## 19. COMMITMENTS AND CONTINGENCIES

For the three months ended March 31, 2020, there was no material change to the Company's commitments or contingencies as disclosed in the Annual Financial Statements.