Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2020

Dated: November 12, 2020

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2020	December 31, 2019
ASSETS			
Cash		1,781	2,873
Restricted cash	7	4,332	4,917
Accounts receivable	18	6,812	8,667
Inventory		624	958
Prepaid expenses and other assets		3,348	3,282
Derivative instruments – current	18	4,362	11
Total current assets		21,259	20,708
Exploration and evaluation	4	8,522	10,183
Property and equipment	5	198,842	293,549
Right-of-use assets	6	4,466	6,119
Derivative instruments	18	352	332
Other assets		634	634
Total assets		234,075	331,525
LIABILITIES			
Accounts payable and accrued liabilities		13,499	18,479
Current portion of bank debt	7	76,317	—
Current portion of lease liabilities	9	2,516	2,520
Derivative instruments – current	18	—	4,325
Current portion of decommissioning liability	10	2,000	4,000
Warrant liability	8	—	84
Total current liabilities		94,332	29,408
Bank debt - non-current portion	7	44,668	113,595
Lease liabilities - non-current portion	9	3,267	5,121
Decommissioning liabilities	10	166,261	163,805
Other liabilities		5,773	6,018
Total liabilities		314,301	317,947
Commitments	19		
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	11	136,308	135,958
Warrants	11	1,103	1,103
Contributed surplus		2,813	2,919
Accumulated deficit		(220,775)	(126,872)
Accumulated other comprehensive income ("AOCI")		325	470
Total (deficit) equity		(80,226)	13,578
Total liabilities and shareholders' (deficit) equity		234,075	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)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	2020	2019	2020	2019
REVENUE					
Oil and natural gas revenue	14	13,904	24,589	37,509	74,815
Royalties		(1,404)	(2,770)	(3,722)	(7,719)
Oil and natural gas revenue, net of royalties		12,500	21,819	33,787	67,096
Unrealized (loss) gain on derivative instruments	18	(3,879)	5,194	8,697	(3,999)
Realized gain (loss) on derivative instruments	18	2,847	(167)	12,928	(1,721)
		11,468	26,846	55,412	61,376
EXPENSES					
Operating	15	9,054	10,817	27,872	35,241
General and administrative	16	1,328	1,954	4,818	6,302
Depletion and depreciation	5	6,150	10,224	21,650	30,004
Exploration and evaluation	4	255	223	1,811	536
Depreciation on right-of-use assets	6	526	686	1,652	2,058
Gain on property dispositions		(126)	(12)	(203)	(100)
Gain on warrant liability	8	—	(60)	(84)	(666)
Impairment loss	5	—	—	76,587	—
(Gain) loss on foreign exchange		(1,431)	990	2,224	(2,210)
Change in other liabilities		(480)	—	(480)	(3,283)
Finance costs	17	4,490	4,456	13,439	13,244
Transaction, restructuring and other costs		(6)	82	107	908
Total expenses – net		19,760	29,360	149,393	82,034
Net loss before taxes		(8,292)	(2,514)	(93,981)	(20,658)
Current tax (recovery) expense		(16)	14	(78)	19
Deferred tax recovery		—	(208)	—	(332)
Net tax recovery		(16)	(194)	(78)	(313)
Net loss		(8,276)	(2,320)	(93,903)	(20,345)
Other comprehensive (loss) income					
Items that may be reclassified to net (loss) earnings:					
Foreign currency translation adjustment		120	—	(145)	—
Comprehensive loss		(8,156)	(2,320)	(94,048)	(20,345)

Net loss per share					
Basic & diluted	11	(0.05)	(0.01)	(0.55)	(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 (Deficit)
Balance at December 31, 2019		135,958	1,103	2,919	(126,872)	470	13,578
Share-based compensation	12	—	—	268	—	—	268
Settlement of restricted share units (“RSU”), net of withholding tax	11	350	—	(374)	—	—	(24)
Foreign currency translation adjustment		—	—	—	—	(145)	(145)
Net loss		—	—	—	(93,903)	—	(93,903)
Balance at September 30, 2020		136,308	1,103	2,813	(220,775)	325	(80,226)

($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		(69)	—	—	—	—	(69)
Normal course issuer bid (“NCIB”)		(510)	—	377	—		(133)
Share-based compensation		—	—	580	—	—	580
Settlement of RSU, net of withholding tax		178	—	(245)	—	—	(67)
Purchase of common shares for RSU settlement		(26)	—	—	—	—	(26)
Warrant expiries		—	(337)	337	—	—	—
Net loss		—	—	—	(20,345)	—	(20,345)
Balance at September 30, 2019		135,718	1,103	2,908	(114,059)	468	26,138

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	**2020**	2019	**2020**	2019
OPERATING ACTIVITIES					
Net loss		**(8,276)**	(2,320)	**(93,903)**	(20,345)
Adjustments for non-cash items:					
Impairment loss	5	**—**	—	**76,587**	—
Unrealized loss (gain) on derivative instruments	18	**3,879**	(5,194)	**(8,697)**	3,999
Depletion and depreciation	5	**6,150**	10,224	**21,650**	30,004
Depreciation on right-of-use asset	6	**526**	686	**1,652**	2,058
Exploration and evaluation expense	4	**255**	223	**1,811**	536
Accretion and non-cash financing charges	17	**1,348**	1,560	**4,027**	4,778
Unrealized foreign exchange (gain) loss		**(1,493)**	932	**2,021**	(2,110)
Change in other liabilities		**(480)**	—	**(480)**	(3,283)
Gain on sale of properties		**(126)**	(12)	**(203)**	(100)
Gain on warrant liability	8	**—**	(60)	**(84)**	(666)
Deferred tax recovery		**—**	(208)	**—**	(332)
Share-based compensation	12	**89**	157	**253**	500
Settlements of decommissioning liabilities	10	**(94)**	(374)	**(1,449)**	(3,675)
Deferred interest on Senior Notes and Revolving Facility	7	**2,046**	500	**5,327**	1,493
Other, net		**11**	(108)	**(16)**	(80)
Change in non-cash working capital	13	**(3,644)**	(2,707)	**(2,272)**	(14,547)
Net cash from (used in) operating activities		**191**	3,299	**6,224**	(1,770)
FINANCING ACTIVITIES					
Debt issuance costs		**(78)**	—	**(211)**	(289)
Share issuance costs		**—**	—	**—**	(69)
Purchase of common shares under NCIB		**—**	—	**—**	(133)
Purchase of common shares for RSU settlement		**—**	—	**—**	(26)
Withholding taxes on settlement of share-based compensations	11	**—**	—	**(24)**	(54)
Lease payments	9	**(749)**	(950)	**(2,376)**	(2,852)
Change in Revolving Facility borrowings	7	**—**	—	**(1,094)**	12,977
Change in non-cash working capital	13	**721**	—	**721**	—
Net cash (used in) from financing activities		**(106)**	(950)	**(2,984)**	9,554
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	4	**(33)**	(1,503)	**(150)**	(2,234)
Property and equipment recovery (expenditures)	5	**102**	(356)	**(3,638)**	(6,506)
Asset disposition (net of acquisition)		**25**	14	**184**	92
Change in non-cash working capital	13	**(219)**	(757)	**(1,313)**	(2,024)
Net cash used in investing activities		**(125)**	(2,602)	**(4,917)**	(10,672)
Change in cash and restricted cash		**(40)**	(253)	**(1,677)**	(2,888)
Cash and restricted cash, beginning of period		**6,153**	6,315	**7,790**	8,950
Cash and restricted cash, end of period		**6,113**	6,062	**6,113**	6,062

See accompanying notes to condensed interim consolidated financial statements.

1. REPORTING ENTITY

Prairie Provident Resources Inc. ("PPR" or the "Company") was incorporated under the laws of the province of Alberta on July 29, 2016. Its principal office is located at 640 – 5th Avenue S.W., Calgary, Alberta. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PPR".

PPR is an independent oil and natural gas exploration, development and production company. PPR's reserves, producing properties and exploration prospects are located primarily in the province of Alberta. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these condensed interim 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 November 12, 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 September 30, 2020, the amount outstanding on the senior secured revolving note facility ("Revolving Facility"), which matures on April 30, 2021, aggregated to US$57.3 million. Though the Revolving Facility provides a borrowing base of US$60.0 million, PPR agreed to not make further advance under the Revolving Facility effective April 2020. As the maturity date is within 12 months from September 30, 2020, the total amount outstanding under the Revolving Facility has been reclassified to current liabilities as at September 30, 2020 (Note 7). While PPR and its lenders continue to work towards a long-term solution on the credit facilities, there is no assurance that PPR will be able to further renew, extend or replace the credit facilities on terms that are favorable to the Company. 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. 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 the Annual Financial Statements. At current forecasted forward prices for crude oil, Management is forecasting a breach in certain 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	**150**
Exploration and evaluation expense	**(1,811)**
Cost Balance – September 30, 2020	**65,138**
Provision for impairment – September 30, 2020 and December 31, 2019	**(56,616)**
Net book value – December 31, 2019	10,183
Net book value – September 30, 2020	**8,522**

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

During the nine months ended September 30, 2020, PPR recognized $1.8 million (September 30, 2019 - $0.5 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 during the nine months ended September 30, 2020 (September 30, 2019 - $nil).

As at September 30, 2020, the Company assessed its E&E assets for indicators of impairment and did not note any indicators of impairment that resulted in the need to perform impairment tests as at September 30, 2020.

5. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance – December 31, 2019	675,931	4,654	680,585
Additions	**3,743**	**(2)**	**3,741**
Acquisitions and dispositions	**(319)**	**(1)**	**(320)**
Adjustments due to change in estimates in decommissioning liabilities (Note 10)	**76**	**—**	**76**
Balance – September 30, 2020	**679,431**	**4,651**	**684,082**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2019	(383,210)	(3,826)	(387,036)
Depletion and depreciation	**(21,416)**	**(201)**	**(21,617)**
Impairment loss	**(76,587)**	**—**	**(76,587)**
Balance – September 30, 2020	**(481,213)**	**(4,027)**	**(485,240)**
Net book value – December 31, 2019	292,721	828	293,549
Net book value – September 30, 2020	**198,218**	**624**	**198,842**

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

During the nine months ended September 30, 2020, $0.2 million (September 30, 2019 - $1.2 million) of directly attributable general and administrative expenses, including a nominal amount (September 30, 2019 - $0.1 million) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment

As at September 30, 2020, the Company assessed its production and development assets for indicators of impairment or impairment recovery and did not note any indicators.

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:

Nine months ended ($000s)	September 30, 2020	December 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
Additions and adjustments	—	—	20	20
Derecognition	—	—	(21)	(21)
Balance – September 30, 2020	1,862	6,687	312	8,861
Accumulated depreciation:				
Balance – December 31, 2019	(990)	(1,605)	(148)	(2,743)
Depreciation	(354)	(1,204)	(94)	(1,652)
Balance – September 30, 2020	(1,344)	(2,809)	(242)	(4,395)
Net book value – December 31, 2019	872	5,082	165	6,119
Net book value – September 30, 2020	518	3,878	70	4,466

7. BANK DEBT

($000s)	**September 30, 2020**	December 31, 2019
Revolving Facility		
USD Advances (US$26.8 million (December 31, 2019 - US$27.6 million))[1]	35,696	35,847
USD Deferred Interest (US$0.3 million (December 31, 2019 - US$nil)[1]	365	—
CAD Advances (US$30.0 million (December 31, 2019 - US$30.0 million))[2]	40,530	40,530
CAD Deferred Interest (US$0.3 million (December 31, 2019 - US$nil))[1]	413	—
Senior Notes (US$28.5 million of principal (December 31, 2019 - US$28.5 million) plus US$5.9 million of deferred interest (December 31, 2019 - US$2.5 million))	45,854	40,300
Unamortized deferred financing fees	(1,261)	(2,154)
Unamortized value allocated to Warrant Liability	(612)	(928)
Total bank debt outstanding	120,985	113,595
Bank debt due within one year	76,317	—
Bank debt due beyond one year	44,668	113,595

[1] Converted using the month end exchange rate of $1.00 USD to $1.33 CAD as at September 30, 2020 and $1.00 USD to $1.30 as at December 31, 2019.
[2] Converted using the exchange rate at the time of borrowing of $1.00 USD to $1.335 CAD.

(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. The maturity date of the Revolving Facility is April 30, 2021. As the maturity date is within 12 months from September 30, 2020, the total outstanding amount under the facility is classified under current liabilities as at September 30, 2020. 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 three and nine months ended September 30, 2020 were set at 500 bps. Effective April 1, 2020, PPR 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 is paid-in-kind and added to the outstanding principal of 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, at 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.

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.

As at September 30, 2020, PPR had outstanding letters of credit of $4.2 million (December 31, 2019 – $4.9 million). The letters of credit are issued by a financial institution at which PPR posted a 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 instruments with maturity dates of one year or less when purchased.

As at September 30, 2020, $0.7 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

The original principal amount of Senior Notes outstanding as at September 30, 2020 totaled US$28.5 million (CAN$38.0 million using the September 30, 2020 month end exchange rate of $1.00 USD to $1.33 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. In April 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 is deferred and becomes payable upon the maturity date. As at September 30, 2020, total deferred interest was US$5.9 million (CAN$7.8 million using the September 30, 2020 month end exchange rate) (December 31, 2019 - US$2.5 million), which is payable upon maturity of the Senior Notes.

As at September 30, 2020, $0.6 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 the application of all financial covenants for September 30, 2020.

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, September 30, 2020	**2,318**	**—**	**6,000**	**—**

The fair value of the warrant liability as at September 30, 2020 was $nil (December 31, 2019 - $0.1 million).

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2019	7,641
Additions and adjustments	**27**
Finance expense	**519**
Lease payments	**(2,404)**
Ending balance – September 30, 2020	**5,783**
Less: current portion	**2,516**
Ending balance – long-term portion	**3,267**

The following table details the variable lease payments made by PPR which are not included in lease payments presented above in accordance with IFRS 16 *Leases* and variable sublease income received related to finance leases:

($000s)	**September 30, 2020**	December 31, 2019
Variable lease payments	**771**	1,189
Sublease income	**(645)**	(758)
Balance	**126**	431

The following table details the undiscounted cash flows of PPR's lease obligations, as at September 30, 2020:

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	**2,981**	**3,468**	**12**	**64**	**6,525**	**5,783**

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2019	167,805
Liabilities incurred	**88**
Liabilities disposed - net	**(340)**
Settlements	**(1,449)**
Change in estimates	**76**
Accretion of decommissioning liabilities	**2,081**
Total Balance – September 30, 2020	**168,261**
Comprised of:	
Current portion – September 30, 2020	**2,000**
Long-term portion – September 30, 2020	**166,261**
Current portion – December 31, 2019	4,000
Long-term portion – December 31, 2019	163,805

The Company estimated the undiscounted and inflated total future liabilities to be approximately $264.7 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 $15.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at September 30, 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 settlements	638	374
Withholding taxes on RSU settlements	—	(24)
PPR Shares, September 30, 2020	**172,065**	**136,308**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
Warrants, December 31, 2019 and September 30, 2020	**4,795**	**1,103**

The warrants outstanding as at September 30, 2020 expired on October 11, 2020.

(c) Loss per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	2020	2019	2020	2019
Net loss for the period	(8,276)	(2,320)	(93,903)	(20,345)
Weighted average number of common shares				
Basic & diluted	172,065	171,313	171,981	171,356
Basic & diluted net loss per share	(0.05)	(0.01)	(0.55)	(0.12)

The weighted average diluted common shares for the three and nine months ended September 30, 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

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, 2019	3,932,319	0.48
Granted	**2,633,673**	0.05
Balance, September 30, 2020	**6,565,992**	0.31
Exercisable at September 30, 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-pricing 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	**—**
Exercise price of option	**$0.05**

(b) 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, 2019 and September 30, 2020	**2,337,081**

No units were granted during the first nine months of 2020.

(c) 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
Balance – December 31, 2019	3,191,103
Granted	**975,435**
Settled	**(1,232,967)**
Balance – September 30, 2020	**2,933,571**

The fair value at grant date for the RSUs awarded in 2020 was $0.04 per unit.

Share-based Compensation Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2020**	2019	**2020**	2019
Shared based compensation expense:				
Included in G&A	**89**	192	**268**	610
Capitalized during the period	**—**	(35)	**(15)**	(110)
Share-based compensation net of capitalization	**89**	157	**253**	500

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2020**	2019	**2020**	2019
Source (use) of cash:				
Accounts receivable	**1,198**	(486)	**1,855**	(4,005)
Prepaid expenses and other current assets	**(966)**	177	**268**	433
Accounts payable and accrued liabilities	**(3,386)**	(3,124)	**(4,980)**	(18,137)
Foreign exchange on translation	**12**	—	**(7)**	—
Non-cash working capital acquired	**—**	—	**—**	(271)
Less: reclassification to long-term liabilities	**—**	(31)	**—**	5,409
	(3,142)	(3,464)	**(2,864)**	(16,571)
Related to operating activities	**(3,644)**	(2,707)	**(2,272)**	(14,547)
Related to financing activities	**721**	—	**721**	—
Related to investing activities	**(219)**	(757)	**(1,313)**	(2,024)
	(3,142)	(3,464)	**(2,864)**	(16,571)
Other:				
Interest paid during the period	**1,138**	2,341	**4,826**	6,794

(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	(1,094)	—
Deferred interest	785	4,542
Debt issuance costs	(211)	—
Non-cash changes		
Unrealized foreign exchange loss	935	1,012
Amortization of debt issuance costs	806	615
Balance as of September 30, 2020	76,315	44,670

14. REVENUE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2020	2019	2020	2019
Crude oil	11,785	22,919	31,283	68,354
Natural gas	1,809	1,273	5,401	5,040
Natural gas liquid	310	397	825	1,421
Oil and natural gas revenue	13,904	24,589	37,509	74,815

Included in accounts receivable at September 30, 2020 was $3.5 million (December 31, 2019 – $6.5 million related to December 2019 production) of accrued oil and natural gas sales related to September 2020 production.

15. OPERATING EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2020	2019	2020	2019
Lease operating expense	7,252	8,335	21,896	26,911
Transportation and processing	489	970	1,738	3,650
Production and property taxes	1,313	1,512	4,238	4,680
Operating expense	9,054	10,817	27,872	35,241

16. GENERAL AND ADMINISTRATIVE COSTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2020	2019	2020	2019
Salaries and benefits	848	1,327	2,807	4,417
Share-based compensation	89	192	268	610
Office rents and leases	249	135	682	387
Professional fees	171	421	998	1,085
Other – office	(27)	271	247	1,037
	1,330	2,346	5,002	7,536
Amounts capitalized to PP&E and E&E assets and Other	(2)	(392)	(184)	(1,234)
General and administrative expense	1,328	1,954	4,818	6,302

17. FINANCE COSTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2020	2019	2020	2019
Interest expense	3,142	2,892	9,411	8,466
Amortization of financing costs	386	408	1,104	1,176
Non-cash interest on lease liabilities (Note 9)	155	247	519	797
Non-cash interest on warrant liabilities	111	92	316	259
Accretion – decommissioning liabilities (Note 10)	694	809	2,081	2,473
Accretion – other liabilities	2	8	8	73
Finance cost	4,490	4,456	13,439	13,244

18. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Value of Financial Instruments

During the periods ended September 30, 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 September 30, 2020, restricted cash included $4.3 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 nine months ended September 30, 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(e). PPR has incorporated these factors into its assessment of expected credit loss at September 30, 2020.

The maximum exposure to credit risk for loans and receivables at the reporting date by type of customer was:

($000s)	September 30, 2020	December 31, 2019
Oil and natural gas marketing companies	3,505	6,601
Joint venture partners	1,308	1,091
Government agencies	—	484
Counterparties – derivative instruments	1,049	33
Other	950	458
Total accounts receivable	6,812	8,667

The Company's accounts receivable are aged as follows:

($000s)	September 30, 2020	December 31, 2019
Current (less than 90 days)	6,208	6,574
Past due (more than 90 days)	604	2,093
Total	6,812	8,667

PPR's allowance for doubtful accounts was $0.1 million as at September 30, 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 believed to have low credit risk. As of September 30, 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 September 30, 2020 and December 31, 2019. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

September 30, 2020 *($000s)*	Gross Assets	Amount Offset Gross Liabilities	Net Amount Presented
Current:			
Derivative instruments assets	5,510	(1,148)	4,362
Long-term:			
Derivative instruments assets – long-term	820	(468)	352

December 31, 2019 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	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, debt issuance and equity issuances along with its planned capital expenditure program.

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, bank 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 non-current portion of lease liabilities, long-term other liabilities and non-current portion of bank debt, all of the Company's financial liabilities are due within one year from September 30, 2020. 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, the Revolving Facility matures on April 30, 2021 and if not extended, the facility will cease to revolve and all outstanding advances will be repayable on the maturity date. Additionally, the Senior Notes mature on October 31, 2021. There is no assurance that the Company will be able to further renew, extend or replace the Revolving Facility or Senior Notes on terms that are favorable to the Company. The Company and its lenders continue to work towards a long-term solution on the Company's debt financing.

In addition, 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. 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.

Further or prolonged deterioration in commodity prices, credit and equity markets due to COVID-19 will negatively impact the Company's liquidity and its ability to refinance its credit facilities. 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:

September 30, 2020	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	4,362	—	4,362
Derivative instruments – long-term assets	352	—	352
Total assets	4,714	—	4,714

December 31, 2019	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current assets	—	11	11
Derivative instruments – current liabilities	(4,325)	—	(4,325)
Derivative instruments – long-term assets	332	—	332
Total (liabilities) 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 and nine months ended September 30, 2020 and 2019:

Three Months Ended September 30, 2020	Crude Oil	Natural Gas	Total
($000s)			
Realized gain on derivative instruments	2,847	—	2,847
Unrealized loss on derivative instruments	(3,879)	—	(3,879)
Total loss	(1,032)	—	(1,032)

Three Months Ended September 30, 2019	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(525)	358	(167)
Unrealized gain (loss) on derivative instruments	5,482	(288)	5,194
Total gain	4,957	70	5,027

Nine months ended September 30, 2020	Crude Oil	Natural Gas	Total
($000s)			
Realized gain (loss) on derivative instruments	13,087	(159)	12,928
Unrealized gain (loss) on derivative instruments	8,708	(11)	8,697
Total gain (loss)	21,795	(170)	21,625

Nine months ended September 30, 2019	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(2,696)	975	(1,721)
Unrealized loss on derivative instruments	(3,235)	(764)	(3,999)
Total (loss) gain	(5,931)	211	(5,720)

The following table summarizes commodity derivative transactions as at September 30, 2020:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price/bbl
Crude Oil Swaps			
October 1, 2020 - December 31, 2020	US$ WTI	400	$50.50
October 1, 2020 - December 31, 2020	US$ WTI	500	$55.00
Crude Oil Sold Call Options			
October 1, 2020 – December 31, 2020	US$ WTI	400	$60.50
Crude Oil Collars			
October 1, 2020 – December 31, 2020	US$ WTI	175	$49.00/54.75
October 1, 2020 – December 31, 2020	US$ WTI	500	$50.00/59.00
October 1, 2020 – December 31, 2020	US$ 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

19. COMMITMENTS

For the nine months ended September 30, 2020, there was no material change to the Company's commitments or contingencies as disclosed in the Annual Financial Statements.