Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Year Ended
December 31, 2020

Dated: March 25, 2021

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of Prairie Provident Resources Inc.

**Opinion**

We have audited the consolidated financial statements of Prairie Provident Resources Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity (deficit) and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

**Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

| **Key audit matter** | **How our audit addressed the key audit matter** |
|---|---|
| *Impairment of property and equipment.*<br><br>As at December 31, 2020, the carrying amount of property and equipment was $189.1 million. For the year ended December 31, 2020, an impairment loss of $78.3 million was recorded with respect to property and equipment. The Company's disclosures related to property and equipment and related impairment are included in Note 2(d) *Use of Estimates and Judgments*, Note 3 *Significant Accounting Policies and Changes in Accounting Policies* and Note 7 *Property and Equipment*. Property and equipment is tested for impairment only when circumstances indicate that the carrying amount of a cash generating unit ('CGU') may exceed its recoverable amount. The recoverable amounts of all CGUs were determined at March 31, 2020 using the fair value less cost of disposal method.<br><br>Auditing the Company's estimated recoverable amounts for all CGUs was complex due to the subjective nature of the underlying inputs and assumptions. The primary inputs noted in the fair value less cost of disposal model were | To test the Company's estimated recoverable amount, we performed the following procedures, among others:<br><br>• Evaluated the Company's independent reserve evaluator's competence, capability and objectivity as well as obtained an understanding of the work they performed. The appropriateness of their work as audit evidence was evaluated by considering the relevance and reasonableness of the methods and assumptions utilized.<br>• Involved our internal valuation specialists to assess the methodology applied, and the various inputs utilized in determining the after-tax discount rate by referencing current industry, economic, and comparable company information, as well as company and cash-flow specific risk premiums.<br>• Compared forecasted benchmark commodity pricing against historical realized prices and to other third-party price forecasts. |

| | |
|---|---|
| forecasted production, pricing, royalties, operating costs, future development costs and an after-tax discount rate. | • Assessed forecasted production, royalties, operating costs, and future development costs by comparing them to historical results.<br>• Evaluated the adequacy of the impairment note disclosure included in Note 7 of the accompanying consolidated financial statements in relation to this matter. |

**Other Information**

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant

doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kim Wiggins.

Ernst & Young LLP

Calgary, Alberta
March 25, 2021

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *As at* *($000s)* | Note | **December 31, 2020** | December 31, 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash | | **4,544** | 2,873 |
| Restricted cash | 9 | **4,332** | 4,917 |
| Accounts receivable | 21 | **7,875** | 8,667 |
| Inventory | | **604** | 958 |
| Prepaid expenses and other assets | | **2,654** | 3,282 |
| Derivative instruments – current | 21 | **798** | 11 |
| **Total current assets** | | **20,807** | 20,708 |
| Exploration and evaluation | 6 | **5,785** | 10,183 |
| Property and equipment | 7 | **189,142** | 293,549 |
| Right-of-use assets | 8 | **3,948** | 6,119 |
| Derivative instruments | 21 | **—** | 332 |
| Other assets | | **634** | 634 |
| **Total assets** | | **220,316** | 331,525 |
| **LIABILITIES** | | | |
| Accounts payable and accrued liabilities | | **14,683** | 18,479 |
| Lease liabilities – current portion | 11 | **2,548** | 2,520 |
| Derivative instruments – current | 21 | **—** | 4,325 |
| Current portion of decommissioning liability | 12 | **3,500** | 4,000 |
| Warrant liability | 10 | **686** | 84 |
| **Total current liabilities** | | **21,417** | 29,408 |
| Long-term debt | 9 | **103,071** | 113,595 |
| Lease liabilities – non-current portion | 11 | **2,606** | 5,121 |
| Decommissioning liabilities | 12 | **162,726** | 163,805 |
| Other liabilities | | **7,406** | 6,018 |
| **Total liabilities** | | **297,226** | 317,947 |
| Commitments and contingencies | 23 | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 13 | **136,534** | 135,958 |
| Warrants | 13 | **—** | 1,103 |
| Contributed surplus | | **3,662** | 2,919 |
| Accumulated deficit | | **(217,645)** | (126,872) |
| Accumulated other comprehensive income ("AOCI") | | **539** | 470 |
| **Total equity** | | **(76,910)** | 13,578 |
| **Total liabilities and shareholders' equity** | | **220,316** | 331,525 |

See accompanying notes to the 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

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

| For the years ended | | | |
|---|---|---|---|
| *($000s)* | Note | December 31, 2020 | December 31, 2019 |
| **REVENUE** | | | |
| Oil and natural gas revenue | 17 | 51,720 | 97,891 |
| Royalties | | (5,027) | (10,086) |
| Oil and natural gas revenue, net of royalties | | 46,693 | 87,805 |
| Unrealized gain (loss) on derivative instruments | 21 | 4,780 | (10,618) |
| Realized gain (loss) on derivative instruments | 21 | 15,241 | (2,169) |
| | | 66,714 | 75,018 |
| **Other income** | | 327 | — |
| **EXPENSES** | | | |
| Operating | 18 | 37,271 | 46,626 |
| General and administrative | 19 | 5,742 | 8,277 |
| Depletion and depreciation | 7 | 27,887 | 39,826 |
| Exploration and evaluation | 6 | 4,183 | 996 |
| Depreciation on right-of-use assets | 8 | 2,170 | 2,743 |
| Gain on property dispositions | 5 | (375) | (263) |
| Loss (gain) on warrant liability | 10 | 260 | (726) |
| Gain on modification of financial liabilities | 9 | (15,874) | — |
| Impairment loss (recovery) | 6,7 | 78,459 | (436) |
| Gain on foreign exchange | | (1,425) | (3,826) |
| Change in other liabilities | | 1,361 | (3,283) |
| Finance costs | 20 | 17,995 | 17,588 |
| Transaction, restructuring and other costs | | 238 | 888 |
| Total expenses – net | | 157,892 | 108,410 |
| Net loss before taxes | | (90,851) | (33,392) |
| Current tax (recovery) expense | | (78) | 19 |
| Deferred tax recovery | | — | (332) |
| Net tax recovery | 15 | (78) | (313) |
| **Net loss** | | (90,773) | (33,079) |
| | | | |
| **Other comprehensive income (loss)** | | | |
| Items that may be reclassified to net loss: | | | |
| Foreign currency translation adjustment | | 160 | — |
| Items that will not be reclassified to net loss: | | | |
| Actuarial (loss) gain on employee post-retirement benefit plan | | (91) | 2 |
| Total other comprehensive income (loss) | | 69 | 2 |
| **Comprehensive loss** | | (90,704) | (33,077) |
| | | | |
| **Net loss per share** | | | |
| Basic & Diluted | 13 | (0.53) | (0.19) |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

| *($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 issuance costs | 13 | 4 | — | — | — | — | 4 |
| Share-based compensation | 14 | — | — | 240 | — | — | 240 |
| Settlement of restricted share units ("RSU"), net of withholding tax | 13 | 572 | — | (600) | — | — | (28) |
| Actuarial loss on post-retirement benefit plan | | — | — | — | — | (91) | (91) |
| Warrant expiries | 13 | — | (1,103) | 1,103 | — | — | — |
| Exchange differences on translation of foreign operations | | — | — | — | — | 160 | 160 |
| Net loss | | — | — | — | (90,773) | — | (90,773) |
| Balance at December 31, 2020 | | 136,534 | — | 3,662 | (217,645) | 539 | (76,910) |

| *($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 | | (57) | — | — | — | — | (57) |
| Normal course issuer bid ("NCIB") | | (509) | — | 377 | — | | (132) |
| Share-based compensation | | — | — | 825 | — | — | 825 |
| Settlement of restricted share units ("RSU") and performance share units ("PSU"), net of withholding tax | | 405 | — | (479) | — | — | (74) |
| Purchase of common shares for RSU settlement | | (26) | — | — | — | — | (26) |
| Actuarial gain on post-retirment benefit plan | | — | — | — | — | 2 | 2 |
| Warrant expiries | | — | (337) | 337 | — | — | — |
| IFRS 16 impact | | — | — | — | (79) | — | (79) |
| Net loss | | — | — | — | (33,079) | — | (33,079) |
| Balance at December 31, 2019 | | 135,958 | 1,103 | 2,919 | (126,872) | 470 | 13,578 |

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended<br>*($000s)* | Note | December 31, 2020 | December 31, 2019 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Net loss | | (90,773) | (33,079) |
| Adjustments for non-cash items: | | | |
| Impairment loss (recovery) | 6, 7 | 78,459 | (436) |
| Gain on modification of financial liabilities - net | 9 | (15,874) | — |
| Unrealized (gain) loss on derivative instruments | 21 | (4,780) | 10,618 |
| Depletion and depreciation | 7 | 27,887 | 39,826 |
| Depreciation on right-of-use asset | 8 | 2,170 | 2,743 |
| Exploration and evaluation expense | 6 | 4,183 | 996 |
| Accretion and non-cash finance costs | 20 | 5,520 | 6,244 |
| Unrealized foreign exchange gain | | (1,512) | (3,624) |
| Change in other liabilities | | (480) | (3,283) |
| Gain on sale of properties | 5 | (375) | (263) |
| Loss (gain) on warrant liability | 10 | 260 | (726) |
| Deferred tax recovery | 15 | — | (332) |
| Share-based compensation | 14 | 225 | 679 |
| Settlements of decommissioning liabilities | 12 | (1,869) | (3,801) |
| Deferred interest on Senior Notes & Revolving Facility | 9, 20 | 7,193 | 1,999 |
| Other, net | | 1,727 | (528) |
| Change in non-cash working capital | 16 | (1,779) | (12,653) |
| Net cash from operating activities | | 10,182 | 4,380 |
| **FINANCING ACTIVITIES** | | | |
| Debt issuance costs | | (980) | (408) |
| Share issuance costs | | 4 | (57) |
| Purchase of common share under NCIB | | — | (133) |
| Purchase of common share for RSU settlement | | — | (26) |
| Withholding taxes on settlement of share-based compensations | 13 | (28) | (60) |
| Repayment of principal related to lease obligations | 11 | (3,144) | (3,803) |
| Change in Senior Note borrowings | | 14,632 | — |
| Change in Revolving Facility borrowings | 9 | (15,619) | 12,456 |
| Change in non-cash working capital | 16 | 1,021 | — |
| Net cash from financing activities | | (4,114) | 7,969 |
| **INVESTING ACTIVITIES** | | | |
| Exploration and evaluation expenditures | 6 | (271) | (2,678) |
| Property and equipment expenditures | 7 | (3,758) | (9,317) |
| Proceeds from dispositions (net of acquisitions) | | 249 | 285 |
| Change in non-cash working capital | 16 | (1,202) | (1,799) |
| Net cash used in investing activities | | (4,982) | (13,509) |
| Change in cash and restricted cash | | 1,086 | (1,160) |
| Cash and restricted cash beginning of period | | 7,790 | 8,950 |
| **Cash and restricted cash end of period** | | 8,876 | 7,790 |

See accompanying notes to consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 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 province of Alberta. 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 annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies under IFRS are presented in Note 3. The annual financial statements were approved and authorized for issue by the Board of Directors of PPR on March 25, 2021 (the "Financial Statements").

Certain comparative figures have been reclassified to confirm with the presentation adopted in the current period.

**(b) Basis of measurement**

The Financial Statements have been prepared on the historical cost basis except for those presented at fair value as detailed in the accounting policies disclosed in Note 3 - Significant Accounting Policies and Changes in Accounting Policies.

**(c) Functional and Presentation Currency**

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

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

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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. In addition to the impact on commodity prices 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 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 future periods.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are as follows:

- PPR's oil and gas assets are grouped into cash generating units ("CGUs"). A CGU is the lowest level of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, geological formation, geographical proximity, the existence of common sales points and shared infrastructures and the way in which management monitors its operations. The recoverability of PPR's oil and gas assets is assessed at the CGU level, and therefore, the determination of a costs could have a significant impact on impairment losses or impairment reversals;

- Reserves engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering, economic and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgement of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results, reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; (iii) the determination of net recoverable amount of oil and gas properties for impairment assessment and measurement, (iv) purchase price allocation for business combinations, and (v) the determination of reserve lives which affect the timing of decommissioning activities, all of which could have a material impact on earnings and financial positions;

- Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs, royalties, and operating costs. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgement is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a change in: market value of assets, asset performance, estimate of future prices, royalties and costs, estimated quantity of reserves and appropriate discount rates;

- Amounts recorded for decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning expenditures, inflation rates and discount rates. Actual costs and cash outflows can differ from estimates because of changes in law and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Decommissioning liabilities are recognized in the period when it becomes probable that there will be a future cash outflow;

- Compensation costs recorded pursuant to share-based compensation plans are subject to the estimated fair values of the awards on the grant date and the estimated number of units that will ultimately vest. The Company uses the Black-Scholes option valuation model to estimate the fair value of options, which requires the Company to determine the most appropriate inputs including the expected life of the options, volatility, forfeiture rates and future dividends, which by nature are subject to measurement uncertainty;

- Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include Black-Scholes option valuation model and forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, volatilities of commodity prices and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income;

- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions. PPR recognizes net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted;

- The determination of fair value requires judgement and is based on market information, where available and appropriate. Fair value is best evidenced by an independent quoted market price for the same asset or liability in an active market. However, quoted market prices and active markets do not always exist. In those instances, fair valuation techniques are used. The Company applies judgement in determining the most appropriate inputs and the weighting ascribed to each such input as well as its selection of valuation methodologies. The calculation of fair value is based on market conditions as at each reporting date, and may not be reflective of ultimate realizable value;

- Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events; and

- Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing CGU properties requires the use of estimates and judgments and is by its nature subject to measurement uncertainty;

- Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew by considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to PPR's company-specific incremental borrowing rate. This rate represents the rate that PPR would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment; and

- Management applies judgement in reviewing modifications of financial liabilities to determine if the modifications are considered substantial under the requirements of IFRS 9, including the consideration of qualitative and quantitative factors. The classification of a modification as non-substantial or substantial impacts the accounting treatment for the financial liability as to the implementation of modification accounting or extinguishment accounting and as such, may have material implications on the financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

### (a) Basis of Consolidation

At December 31, 2020, the Financial Statements included the accounts of PPR and its wholly owned subsidiaries, including Prairie Provident Resources Canada Ltd. (“PPR Canada”), Lone Pine Resources, Lone Pine Resources (Holdings) Inc., Arsenal Energy USA Inc., and Arsenal Energy Holdings Ltd. Subsidiaries are consolidated from the date the Company obtains control and continues to be consolidated until the date such control ceases. Control is achieved when PPR is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-entity transactions have been eliminated upon consolidation between PPR and its subsidiaries in these consolidated financial statements. PPR's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

### (b) Joint Arrangements

PPR conducts some of its oil and gas activities through joint operations. Joint operation is a type of joint arrangement over which two or more parties have joint control and rights to the assets and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require unanimous consent of the parties sharing control. PPR does not have any joint arrangements that are material to the Company, or that are structured using separate vehicles. In relation to its interests in joint operations, PPR recognizes in the Financial Statements its share of assets, liabilities, revenues and expenses of the arrangements.

**(c) Business Combinations**

Business combinations are accounted for using the acquisition method of accounting. The fair value of the assets acquired, the liabilities assumed and the consideration transferred is measured at the acquisition date. Transaction costs related to business combinations are expensed when incurred.

If the fair value of the consideration exceeds the net identifiable assets acquired, it is recorded as goodwill. If the consideration is less than the fair value of the net identifiable assets acquired, the difference is recognized as a gain in the consolidated statement of loss and comprehensive loss.

**(d) Revenue**

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The Company satisfies performance obligations and the customer obtains control upon the delivery of crude oil, natural gas and natural gas liquids, which is generally at a point in time. While the transaction price is variable under the terms of the contract, at the time of delivery, there is only a minimal risk of a change in the transaction price to be allocated to the volume sold. Accordingly, at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognized, and there is no need to constrain any variable consideration. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs.

The Company does not have contracts with customers where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

**(e) Exploration and Evaluation Assets and Property and Equipment**

**(i) Recognition and Measurement**

***Exploration and Evaluation ("E&E") Assets***

Pre-license costs are recognized in the consolidated statements of loss and comprehensive loss as incurred.

E&E costs, including the costs of acquiring licenses, obtaining geological and geophysical data, drilling and completing E&E wells, and building associated facilities are initially capitalized as E&E assets according to the nature of the expenditure. E&E assets may include estimated decommissioning costs associated with E&E decommissioning obligations. The costs are accumulated by well, field or exploration area pending determination of technical feasibility and commercial viability. E&E assets are not amortized.

The technical feasibility and commercial viability of extracting a hydrocarbon resource are considered to be determinable when proved and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, E&E assets attributable to those reserves are tested for impairment and if estimated recoverable amounts exceed carrying values the E&E assets, are transferred to petroleum and natural gas properties, within property and equipment assets. The cost of undeveloped land that expires and E&E expenditures determined to be unsuccessful are derecognized by recording exploration and evaluation expense.

***Production and Development ("P&D") Assets***

P&D assets generally represent costs incurred in acquiring and developing proved and/or probable reserves, and bringing in or enhancing production from such reserves. Development costs include the initial purchase price and directly attributable costs relating to land and mineral leases, geological and seismic studies, property acquisitions, development drilling, construction of gathering systems and infrastructure facilities, decommissioning costs, transfers from E&E assets, and for qualifying assets, borrowing costs. These costs are accumulated on a field or an area basis (major components). The costs of the day-to-day servicing of property and equipment are recognized in operating expenses as incurred.

The production and development items of property and equipment, which includes oil and natural gas development, properties and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses, net of impairment reversals. Development assets include certain stock equipment that is expected to be used in the normal course of P&D field development.

Gains and losses on disposal of an item of property and equipment, including petroleum and natural gas properties, are determined by comparing the net proceeds from disposal with the carrying amount of property and equipment and are recognized on a net basis on the consolidated statements of loss and comprehensive loss.

**(ii) Depletion and Depreciation**

The net carrying value of P&D assets is depleted using the unit-of-production method by reference to the ratio of production in the year to the related proved plus probable reserves, taking into account estimated future development costs necessary to convert those reserves into production. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are prepared by independent reserve engineers at least annually.

Proved plus probable reserves are estimated annually by independent and qualified reserve evaluators and represent the estimated quantities of petroleum and natural gas which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

Reserves are the remaining quantities of, petroleum and natural gas from known accumulations estimated to be recoverable from a given date forward. The estimates of reserves are determined from drilling, geological, geophysical and engineering data based on established technology and specified economic conditions. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

For other assets, depreciation is recognized in profit or loss on a straight-line or declining-balance basis over the estimated useful life of each part of an item of property and equipment. Leasehold improvements are depreciated over the term of the lease. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Computer equipment is depreciated using the declining-balance basis at a rate of 30 percent per year. Office furniture is depreciated on a straight line basis over five years.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

**(iii) Impairment**

***E&E Assets***

E&E assets are assessed for impairment if: (i) sufficient data exists to determine technical feasibility and commercial viability; and (ii) at such time that facts and circumstances indicate that the carrying amount exceeds the recoverable amount. If the recoverable amount does not exceed the carrying amount, an impairment adjustment is recognized in net loss and comprehensive loss.

For the purposes of impairment testing, E&E assets are allocated to CGUs based on geographical proximity. E&E assets that are not related to established CGUs with reserves, such as undeveloped land holdings, seismic, equipment, and exploration drilling in Quebec, the Northwest Territories and other exploratory properties, are subject to impairment testing based on the nature and estimated recoverable amount of the respective cost components.

***P&D Assets***

PPR assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less cost of disposal ("FVLCD") and its value-in-use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGU level. A CGU is a group of assets that PPR aggregates based on their ability to generate largely independent cash flows. As at December 31, 2020, the Company has five principal operating CGUs – Evi, Michichi (previously known as Wheatland), Princess, Provost and Other.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods.

## (f) Financial Instruments

### (i) Recognition and Measurement

PPR recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. The Company initially measures all financial instruments at fair value. Subsequent measurement of the financial instrument is based on its classification. Financial assets and financial liabilities are classified into the following categories: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVPL").

Financial assets and financial liabilities classified as FVPL are measured at fair value with subsequent changes recognized through net income (loss). Financial assets and liabilities classified as amortized cost are measured at amortized cost using the effective interest method of amortization. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial instruments are recognized in comprehensive loss over the expected life of the instrument. Financial assets classified as FVOCI are measured at fair values with changes in those fair values recognized in other comprehensive loss.

### (ii) Liabilities and Equity

Financial instruments are classified as a liability or equity based on the substance of the contractual arrangement. An instrument is classified as a liability if it is a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavorable terms. A contract is also classified as a liability if it is a non-derivative and could obligate the Company to deliver a variable number of its own shares or it is a derivative other than one that can be settled by the delivery of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments. An instrument is classified as equity if it evidences a residual interest in the Company's assets after deducting all liabilities.

### (iii) Derivative Financial Instruments

Derivative financial instruments are used by the Company to manage its exposure to market risks relating to commodity prices. The Company's policy is not to use derivative financial instruments for speculative purposes. The estimate of fair value of all derivative instruments is based on quoted market prices, or in their absence, third party market indications and forecasts and includes an estimate of the credit quality of counterparties to the derivative instruments. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

The Company has not designated its financial derivative contracts as effective accounting hedges, and therefore has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are measured at fair value, with any gains and losses recorded in the consolidated statement of loss.

**(iv) Derecognition of Financial Instruments**

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying value of the liability and the ultimate consideration paid is recognized in the consolidated statement of loss and comprehensive loss. If equity instruments are issued to extinguish a financial liability, the equity instruments are treated as consideration paid and measured at their fair value at the date of extinguishment. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss and other comprehensive income.

**(v) Impairment**

The Company recognizes allowances for losses on its financial assets measured at amortized costs based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of financial asset. To calculate the expected credit loss, PPR applies the simplified approach applying a provision matrix whereby financial assets are grouped into categories based on counterparty characteristics and aging categories. The Company considers past experience and forward-looking information if such information is reasonable and supportable, available without undue costs and effort, and can have a significant impact on the loss estimate.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in profit and loss. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, PPR derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated statement of financial position.

**(vi) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

**(g) Fair Value Measurement**

PPR measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCD to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 21. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

- the principal market for the asset or liability, or
- in the absence of a principal market, the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. PPR uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorized within the fair value hierarchy; described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, PPR determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

**(h) Provisions**

**(i) Provisions and Contingencies**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expenses relating to provisions are generally presented in the consolidated statements of loss net of any reimbursement except for decommissioning liabilities. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A contingency is disclosed where the existence of an obligation will only be confirmed by future events, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable.

**(ii) Decommissioning Liabilities**

PPR recognizes decommissioning liabilities related to its obligations to dismantle, retire and reclaim its oil and gas properties. Decommissioning obligations are measured at the present value of management's best estimate of expenditures required to settle the present obligation at the balance sheet date. The present value of the estimated obligation is recorded as a liability with a corresponding increase in the carrying amount of the related asset. The obligation is subsequently adjusted at the end period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as accretion costs whereas increases or decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement or towards the settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

**(i) Share-Based Compensation**

PPR has not offered any awards that are classified as cash-settled awards. For equity settled share-based awards granted to officers, directors and employees, the grant date fair value of such awards is recognized as compensation costs within operating and general and administrative expenses, with a corresponding increase in contributed surplus over the vesting period. The Company also capitalizes a portion of the share-based compensation that is directly attributable to capital projects, with a corresponding decrease to compensation expense.

The fair value of option-based awards is measured using Black-Scholes option valuation model. Non-option based awards are valued based on the fair value of PPR's underlying shares at grant date. A forfeiture rate is estimated on the grant date and is adjusted to reflect the actual number of awards that vest. Upon the exercise of the share-based awards, any consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested awards expire, previously recognized compensation expense associated with such awards is not reversed. In the event that awards are forfeited, previously recognized compensation expense associated with the unvested portion of such awards is reversed.

**(j) Post-Retirement Obligation**

The Company sponsors an unfunded post-retirement benefits plan to certain retirees, which is closed to new entrants. Expense for the post-retirement benefits plan includes the interest cost on post-retirement benefits obligations.

The liability of the post-retirement benefits plan is actuarially determined using the projected unit credit actuarial cost method prorated on service and reflects the Company's best estimate of future health care costs and retiree longevity. The accrued benefit obligation is discounted using the market interest rate on high-quality corporate debt instruments as at the measurement date. The Company accounts for its post-retirement benefits plan by recognizing the underfunded status of the plan as a liability in its consolidated statements of financial position. Interest costs on the unfunded obligation are recorded in Finance Costs. Any actuarial gains or losses are recognized in the year in which the changes occur through other comprehensive income.

**(k) Flow-through Shares**

Pursuant to the terms of the flow-through share agreements, the resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through shares are renounced to investors in accordance with tax legislation. Share capital is stated at the market value of shares without the flow-through feature at the time of issue, with a liability recognized representing the difference between cash received and market value. The premium paid for flow-through shares in excess of that market value of the shares is drawn down and deferred tax is recognized at the time the qualifying exploration and development expenditures are renounced and incurred.

**(l) Income Tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to do so, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(m) Inventory**

Inventories are stated at the lower of cost and net realizable value. The cost of materials is the purchase cost, determined on first-in, first-out basis. The net realizable value is based on the estimated selling price in the ordinary course of business, less estimated costs necessary to sell.

**(n) Foreign Currency**

Transactions in foreign currencies are translated to Canadian dollars at exchange rates in effect to the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are not subsequently re-translated. Foreign currency differences arising on translation are recognized in the consolidated statement of loss.

**(o) Government Grants**

Government grants are recognized when there is reasonable assurance that PPR will comply with the conditions attached to them and the grants will be received. If a grant is received before it is certain whether compliance with all conditions will be achieved, the grant is recognized as a deferred liability until such conditions are met. When the conditions of a grant relate to income or expense, it is recognized in the consolidated statement of loss. When conditions of a grant relate to an underlying asset, it is recognized as a reduction to the carrying amount of the related asset.

### (p) Leases

When PPR is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("ROU asset") and a corresponding lease obligation on the consolidated statements of financial position on the date that a leased asset becomes available for use.

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

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

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

## 4. ADOPTION OF NEW ACCOUNTING STANDARDS AND NEW ACCOUNTING PRONOUNCEMENTS

**New Accounting Pronouncements**

**<u>IBOR Reform and its Effects on Financial Reporting - Phase 2</u>**

In August 2020, the IASB issued Interest Rate Benchmark Reform - Phase 2 which amended requirements in IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, and IFRS 16 Leases, relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities. This will be effective January 1, 2021. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

## 5. ASSET ACQUISITIONS AND DISPOSITIONS

During 2020, PPR disposed of certain non-core properties and undeveloped land for the total proceeds of $0.2 million (2019 — $0.3 million). The associated property and equipment, exploration and evaluation asset and decommissioning liabilities were derecognized, resulting in a net gain of $0.4 million (2019 — $0.3 million) on disposition.

## 6. EXPLORATION AND EVALUATION ASSETS

| ($000s) | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cost Balance – beginning of year | 66,799 | 65,642 |
| Additions | 271 | 2,678 |
| Acquisitions | — | (59) |
| Transfers to oil and gas property and equipment | — | (1,122) |
| Adjustments due to change in estimates in decommissioning liabilities (Note 12) | (343) | 656 |
| Exploration and evaluation expense | (4,183) | (996) |
| Cost Balance – end of year | 62,544 | 66,799 |
| | | |
| Provision for impairment – beginning of year | (56,616) | (55,960) |
| Impairment loss | (143) | (656) |
| Provision for impairment – end of year | (56,759) | (56,616) |
| | | |
| Net book value – beginning of year | 10,183 | 9,682 |
| Net book value – end of year | 5,785 | 10,183 |

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.

As at December 31, 2020, the Company recognized an impairment loss of $0.5 million against undeveloped land leases in the Princess area that were due to expire in the first quarter of 2021. The FVLCD was determined to be zero, using a market approach based on the estimated selling price of land in the related area with similar terms to expiry. Key assumptions included estimated selling prices of assets with similar geographic location, remaining term and related risk profile. The fair value measurement was non-recurring and was classified as level 3 in the fair value hierarchy (see Note 3(g) for information on the fair value hierarchy). The impairment loss was partially offset by $0.3 million of impairment recovery for changes in estimates of decommissioning liabilities related to E&E properties with zero carrying value.

During 2019, PPR recognized $0.7 million of non-cash E&E impairment related to changes in estimates used in decommissioning liabilities.

For the year ended December 31, 2020, PPR recognized $4.2 million (2019 - $1.0 million) of E&E expense related to expired and surrendered leases in various areas.

During the year ended December 31, 2020, PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets (December 31, 2019 - nil).

## 7. PROPERTY AND EQUIPMENT

| ($000s) | Production and Development | Office Equipment | Year Ended December 31, 2020 |
|---|---|---|---|
| Cost: | | | |
| Balance – beginning of year | 675,931 | 4,654 | 680,585 |
| Additions | 3,863 | 7 | 3,870 |
| Disposition, net of acquisitions (Note 5) | (320) | (11) | (331) |
| Adjustments due to change in estimates in decommissioning liabilities (Note 12) | (1,785) | — | (1,785) |
| Balance – end of year | 677,689 | 4,650 | 682,339 |
| Accumulated impairment, depletion and depreciation: | | | |
| Balance – beginning of year | (383,210) | (3,826) | (387,036) |
| Depletion and depreciation | (27,578) | (267) | (27,845) |
| Impairment loss | (78,316) | — | (78,316) |
| Balance – end of year | (489,104) | (4,093) | (493,197) |
| Net book value – beginning of year | 292,721 | 828 | 293,549 |
| Net book value – end of year | 188,585 | 557 | 189,142 |

| ($000s) | Production and Development | Office Equipment | Year Ended December 31, 2019 |
|---|---|---|---|
| Cost: | | | |
| Balance – beginning of year | 645,891 | 4,618 | 650,509 |
| Additions | 9,654 | 36 | 9,690 |
| Disposals | (7) | — | (7) |
| Adjustments due to change in estimates in decommissioning liabilities | 19,271 | — | 19,271 |
| Transfers from exploration and evaluation assets | 1,122 | — | 1,122 |
| Balance – end of year | 675,931 | 4,654 | 680,585 |
| Accumulated impairment, depletion and depreciation: | | | |
| Balance – beginning of year | (344,830) | (3,518) | (348,348) |
| Depletion and depreciation | (39,472) | (308) | (39,780) |
| Impairment recovery | 1,092 | — | 1,092 |
| Balance – end of year | (383,210) | (3,826) | (387,036) |
| Net book value – beginning of year | 301,061 | 1,100 | 302,161 |
| Net book value – end of year | 292,721 | 828 | 293,549 |

As at December 31, 2020, an estimated $222.4 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2019 - $304.0 million).

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

During the year ended December 31, 2020, $0.2 million (2019 – $1.6 million) of directly attributable general and administrative expenses, including nominal amount (2019 – $0.1 million) of share-based compensation expenses, were capitalized to property and equipment.

**(b) Impairment**

At December 31, 2020, the Company assessed its production and development assets for indicators of impairment or impairment reversal and none were noted. In addition to the impairment loss recognized as at March 31, 2020 (see discussion below), during the year ended December 31, 2020, PPR recognized a non-cash P&D impairment loss of $1.7 million (2019 — $1.1 million) related to changes in decommissioning liabilities of certain properties that had zero carrying value.

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") and determined that the carrying amounts of certain the CGUs exceeded their fair value less costs of disposal ("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) for information on the 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 the recoverable value of the impaired CGU increases. At March 31, 2020, a one percent change in the discount rate would have resulted in a $3.3 million change in the impairment expense and a five percent change in the forecasted cash flows would resulted in a $2.8 million impairment expense.

Impairment loss by CGU was as follows:

| Years ended ($000s) | December 31, 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 % |

During the year ended December 31, 2019, the decreases in crude oil and natural gas benchmark prices as compared to December 31, 2018 were considered potential indicators of impairment. As a result, the Company completed impairment tests on all of its CGUs in accordance with IAS 36 and determined that the carrying amounts of the CGUs did not exceed their FVLCD.

## 8. RIGHT-OF-USE ASSETS

| *($000s)* | Office Leases | Facility Lease | Other Leases | Total |
|---|---|---|---|---|
| Cost: | | | | |
| Balance – January 1, 2019 | 3,056 | 6,687 | 313 | 10,056 |
| Additions and adjustments | (1,115) | — | — | (1,115) |
| Disposition/Derecognition | (79) | — | — | (79) |
| Balance – December 31, 2019 | 1,862 | 6,687 | 313 | 8,862 |
| Additions and adjustments | — | — | 20 | 20 |
| Disposition/derecognition | — | — | (21) | (21) |
| Balance – December 31, 2020 | 1,862 | 6,687 | 312 | 8,861 |
| | | | | |
| Accumulated depreciation: | | | | |
| Balance – January 1, 2019 | — | — | — | — |
| Depreciation | (990) | (1,605) | (148) | (2,743) |
| Balance – December 31, 2019 | (990) | (1,605) | (148) | (2,743) |
| Depreciation | (459) | (1,605) | (106) | (2,170) |
| Balance – December 31, 2020 | (1,449) | (3,210) | (254) | (4,913) |
| | | | | |
| Net book value – December 31, 2019 | 872 | 5,082 | 165 | 6,119 |
| Net book value – December 31, 2020 | 413 | 3,477 | 58 | 3,948 |

## 9. LONG-TERM DEBT

| ($000s) | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Revolving Facility | | |
| USD Advances (US$16.0 million (December 31, 2019 - US$27.6 million))[1] | 20,371 | 35,847 |
| CAD Advances (US$30.0 million (December 31, 2019 - US$30.0 million))[2] | 40,530 | 40,530 |
| CAD Deferred Interest (US$0.5 million (December 31, 2019 - US$nil))[1] | 590 | — |
| Total principal - Revolving Facility | 61,491 | 76,377 |
| Senior Notes Issued October 31, 2017 | | |
| Principal (US$16.0 million)[1] | 20,371 | 20,780 |
| Deferred interest (US$4.4 million (December 31, 2019 - US$1.8 million))[1] | 5,611 | 2,363 |
| Total Principal and Deferred Interest - October 31, 2017 Senior Notes | 25,982 | 23,143 |
| Senior Notes Issued November 21, 2018 | | |
| Principal (US$12.5 million)[1] | 15,915 | 16,235 |
| Deferred interest (US$2.6 million (December 31, 2019 - US$0.7 million))[1] | 3,338 | 922 |
| Total Principal and Deferred Interest - November 21, 2018 Senior Notes | 19,253 | 17,157 |
| Senior Notes Issued December 21, 2020 | | |
| Principal (US$11.4 million (December 31, 2019 - US$ nil))[1] | 14,500 | — |
| Deferred interest (US$0.04 million (December 31, 2019 - US$ nil))[1] | 48 | — |
| Total Principal and Deferred Interest - December 21, 2020 Senior Notes | 14,548 | — |
| Total Principal and Deferred Interest - Senior Notes | 59,783 | 40,300 |
| Unamortized deferred financing fees | (691) | (2,154) |
| Unamortized value allocated to Warrant Liability | (343) | (928) |
| Unamortized value allocated to fair value adjustment | (17,169) | — |
| Long-term debt | 103,071 | 113,595 |

[1] Converted using the month end exchange rate of $1.00 USD to $1.27 CAD as at December 31, 2020 and $1.00 USD to $1.30 CAD as at December 31, 2019.
[2] Converted using the exchange rate at the time of borrowing of $1.00 USD to $1.35 CAD.

### (a) Revolving Facility

On December 21, 2020, PPR renewed and amended its senior secured revolving note facility ("Revolving Facility") with a borrowing base of US$57.7 million (December 31, 2020 — US$60.0 million) and extended the maturity date of the Revolving Facility from April 30, 2021 to December 31, 2022. The borrowing base is subject to a reduction to US$53.8 million on December 31, 2021 and to semi-annual redeterminations thereafter, without limiting the lenders' right to require a redetermination at any time. The next borrowing base re-determination date will be around April 2022 based on year-end 2021 reserve evaluations.

Borrowings under the Revolving Facility are repayable at the Company's election at par plus accrued interest and any applicable breakage costs. Repayments generally will not affect the aggregate commitment or borrowing base under the Revolving Facility, except in certain extraordinary circumstances where a repayment will reduce the borrowing base. The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAN$54 million or US$30 million. 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. As at December 31, 2020, the Company had US$11.2 million (CAN$14.3 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.

Amounts borrowed under the Revolving Facility can be drawn in the form of USD or CAD prime advances bearing interest based on reference bank USD and CAD prime lending rates announced from time to time, or LIBOR advances (in the case of USD amounts) or CDOR advances (in the case of CAD amounts) bearing interest based on LIBOR and CDOR rates in effect from time to time, plus an applicable margin. Applicable Margins per annum for CDOR, CAD prime, LIBOR and USD prime advances are 650 basis points and standby fees on any undrawn borrowing capacity are 87.5 basis points per annum.

As at December 31, 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 has posted cash deposits collateral. The related deposits are 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 December 31, 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**

On December 21, 2020, PPR amended its agreements for senior notes originally issued on October 31, 2017 and November 21, 2018 with total principal outstanding of US$28.5 million (the "Senior Notes due 2023"). Under the amendments, the maturity date was extended from October 21, 2021 to June 30, 2023. The annual interest rate on the Senior Notes due 2023 was reduced from 15% per annum to nil until June 30, 2021, and will thereafter rise to 4% at the earlier of 15 months after closing (March 2022) and the last day of the fiscal quarter for which the Company's trailing 12-month senior leverage ratio is 2.5 or less, and to 8% at the earlier of 20 months after closing (August 2022) and the last day of the fiscal quarter for which the Company's trailing 12-month senior leverage ratio is 2.0 or less.

Additionally, on December 21, 2020 PPR purchased additional US$11.4 million senior notes ("Senior Notes due 2026", collectively with the Senior Notes due 2023, "Senior Notes") (CAN$14.5 million using the December 31, 2020 month-end exchange rate of $1.00 USD to $1.27 CAD) bearing interest at 12% per annum. Net proceeds from the issuance of Senior Notes due 2026 were applied against borrowings under the Revolving Facility upon issuance.

Interest on Senior Notes is payable quarterly. The Senior Note agreements provide that, until certain criteria are met, including compliance with original financial covenant ratios on the Revolving Facility as at October 31, 2017 (when the facility was first implemented), the absence of any borrowing base deficiency, and a projected ability to meet any scheduled payment obligations under the Revolving Facility for the next 12-month period, PPR may elect to defer all interests due on the Senior Notes. The terms of the Revolving Facility require that the Company make this election and not pay cash interest on the Senior Notes until these criteria are satisfied. PPR will thereafter be permitted to elect to defer up to 4.00% per annum of interest on the Senior Notes.

In conjunction with the issuances of the Senior Notes due 2026, the Company issued a total of 34,292,360 warrants with an exercise price of $0.0192 per share for an eight-year term expiring on December 21, 2028 (see Note 10).

In accordance with IFRS 9, PPR accounted for the changes to terms of the Senior Notes due 2023 as an extinguishment and as such, the previously recorded liabilities were derecognized and new liabilities for the Senior Notes were recorded at their fair value as at December 21, 2020. In addition, the Senior Notes due 2026 were initially recognized at fair value which was lower than the face value of the notes. The fair value was calculated using the present value of expected future cash flows, discounted at 17.5%. The fair value measurement was non-recurring and was classified as level 3 in the fair value hierarchy (see Note 3(g) for information on the fair value hierarchy). Collectively, the modification of Senior Notes due 2023 and the initial recognition of Senior Notes due 2026 resulted in the recognition of a gain of $15.9 million in the fourth quarter of 2020. The gain is net of $1.4 million of financing costs. A one-percentage point increase in the discount rate would result in a increase of $1.4 million to the gain on the modification of financial liabilities.

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

**(c) Covenants**

The note purchase agreement for the Revolving Facility, the Senior Note agreement and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, capital expenditures, hedging activities, investments, dividends and mergers and acquisitions. In addition, capital expenditures and acquisitions are generally limited to consistency with the Company's annual development plan, as created and updated by the Company from time to time and approved by the lenders.

The note purchase agreement for the Revolving Facility and the subordinated Senior Note purchase agreement include the same financial covenants, with 15% less restrictive thresholds under the Senior Note agreements. Financial covenants are not applicable for the quarter ended December 31, 2020. Future thresholds for financial covenants under the Revolving Facility for the quarters ended from March 31, 2021 to September 30, 2022 vary by quarter and are as follows:

a. senior leverage, pursuant to which the ratio of senior adjusted indebtedness[1] to EBITDAX[2] for the four quarters most recently ended cannot exceed between 3.61 to 1.00 and 6.36 to 1.00;
b. asset coverage, pursuant to which the ratio of adjusted net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) to adjusted indebtedness[3] as of the date of any reserves report cannot be less than from 0.34 to 1.00 to 0.47 to 1.00; and
c. current ratio, pursuant to which the ratio of consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities at the end of any fiscal quarter cannot be less than from 0.9 to 1.0 to 1.0 to 1.0. Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, lease liabilities, decommissioning obligations, derivative liabilities and non-cash liabilities.

[1] Under the debt agreements, senior adjusted indebtedness is defined as Adjusted Indebtedness (as defined below) less subordinated borrowings.

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

[3] Under the debt agreements, Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral.

The Company was in compliance with all applicable covenants as at December 31, 2020.

## 10. WARRANT LIABILITY

| | Warrant Expiring October 31, 2022 | | Warrant Expiring October 31, 2023 | | Warrant Expiring December 21, 2028 | |
|---|---|---|---|---|---|---|
| | Number of Warrants | Amount | Number of Warrants | Amount | Number of Warrants | Amount |
| PPR Warrant Liability, December 31, 2019 | 2,318 | 24 | 6,000 | 60 | — | — |
| Cancelled | (2,318) | — | (6,000) | — | — | — |
| Issued | — | — | — | — | 34,292 | 342 |
| Fair value adjustment | — | (24) | — | (60) | — | 344 |
| **PPR Warrant Liability, December 31, 2020** | — | — | — | — | 34,292 | 686 |

In conjunction with the modification of Senior Notes due 2023 and the issuance of Senior Notes due 2026 (see Note 9), PPR issued a total of 34,292,360 warrants with an exercise price of $0.0192 per share for an eight-year term expiring on December 21, 2028. Warrants issued concurrent with the issuance of Senior Notes on October 31, 2017 and November 21, 2018 totaling 2,318,000, with an exercise price of $0.549 and 6,000,000, with an exercise price of $0.282, respectively, were cancelled in full.

The warrants issued were classified as financial liabilities due to a cashless exercise provision and are measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the consolidated statement of loss and comprehensive loss. The fair value of these warrants is determined using the Black-Scholes option valuation model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position. The value of the warrant liability as at December 31, 2020 was $0.7 million (December 31, 2019 - $0.1 million). For the year of 2020, PPR recorded a loss in fair value of $0.3 million (2019 — $0.7 million gain) against warrant liabilities.

The fair value of the warrants as at December 31, 2020 of $0.02 per warrant was estimated using the following assumptions:

| December 31, 2020 | Warrants Expiring December 21, 2028 |
|---|---|
| Risk free interest rate | 0.46 % |
| Expected life of options (years) | 7.92 |
| Expected volatility | 151 % |
| Stock price | $0.02 |
| Dividends per share | — |

## 11. LEASE LIABILITIES

| *($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Opening balance | 7,641 | 11,531 |
| Additions and adjustments | 27 | (1,115) |
| Finance expense | 658 | 1,028 |
| Lease payments | (3,172) | (3,803) |
| Ending balance | 5,154 | 7,641 |
| Less: current portion | 2,548 | 2,520 |
| Ending balance – long-term portion | 2,606 | 5,121 |

| *($000s)* | December 31, 2020 |
|---|---|
| Variable lease payments | 1,029 |
| Sublease income | (829) |
| Balance recognized in general and administrative expense | 200 |

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

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

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

| *($000s)* | Under 1 Year | 1-3 Years | 4-5 years | Beyond 5 years | Total Contractual Cash Flows | Carrying Amount |
|---|---|---|---|---|---|---|
| Lease obligations | 2,950 | 2,733 | 12 | 63 | 5,758 | 5,154 |

## 12. DECOMMISSIONING LIABILITIES

| *($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Total Balance – beginning of year | 167,805 | 148,460 |
| Liabilities incurred | 88 | 883 |
| Liabilities acquired (disposed) - Net | (446) | (292) |
| Settlements | (1,869) | (3,801) |
| Change in estimates | (2,128) | 19,271 |
| Accretion of decommissioning liabilities | 2,776 | 3,284 |
| Total Balance – end of year | 166,226 | 167,805 |
| | | |
| Current portion – end of year | 3,500 | 4,000 |
| Long-term portion – end of year | 162,726 | 163,805 |

The Company estimated the undiscounted and inflated total future liabilities to be approximately $221.2 million (December 31, 2019 – $266.4 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 26 years, of which $18.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at December 31, 2020 were determined using risk-free rates of 0.52% - 1.19% (December 31, 2019 – 1.5% - 1.7%) and an inflation rate of 1.1% (December 31, 2019 – 1.7%).

In 2020, the change in estimates of $2.1 million comprised of a $22.6 million decrease resulted from lower inflation rate which was offset by a $20.5 million increase resulted from lower risk-free rates applied as at December 31, 2020. In 2019, change in estimates was comprised of a $22.6 million increase resulted from lower risk-free rates applied as at December 31, 2019 and a $3.4 million decrease in cost estimates.

## 13. SHARE CAPITAL

### (a) Authorized

The Company is authorized to issue an unlimited number of common shares.

### (b) Units Outstanding

| | Number of Shares *(000s)* | Amount *($000s)* |
|---|---|---|
| **Common shares:** | | |
| PPR Shares, December 31, 2018 | 171,860 | 136,145 |
| Share issuance costs | — | (57) |
| Issued for RSU settlement | 217 | 231 |
| Issued for PSU settlement | 114 | 234 |
| Withholding taxes on RSU settlement | — | (54) |
| Withholding taxes on PSU settlement | — | (6) |
| Share repurchase for RSU settlement | (121) | (26) |
| Share repurchase under normal course issuer bid | (643) | (509) |
| PPR Shares, December 31, 2019 | 171,427 | 135,958 |
| Share issuance costs | — | 4 |
| Issued for RSU settlement | 897 | 600 |
| Withholding taxes on RSU settlement | — | (28) |
| **PPR Shares, December 31, 2020** | **172,324** | **136,534** |

| | Number of Warrants *(000s)* | Amount *($000s)* |
|---|---|---|
| **Warrants:** | | |
| Warrants, December 31, 2018 | 7,950 | 1,440 |
| Expired March 16, 2019 | (3,155) | (337) |
| Warrants, December 31, 2019 | 4,795 | 1,103 |
| Expired October 11, 2020 | **(4,795)** | **(1,103)** |
| **Warrants, December 31, 2020** | **—** | **—** |

On November 29, 2018, the Toronto Stock Exchange ("TSX") accepted the Company's notice to make a normal course issuer bid ("NCIB") to purchase its outstanding common shares on the open market. The NCIB effectively renewed the previous NCIB, which was scheduled to end on November 30, 2018. Under the renewed bid, the TSX authorized the Company to purchase up to 5,000,000 common shares during the period from December 4, 2018 to December 3, 2019. During 2019, the Company purchased and cancelled 643,130 of common shares under the NCIB at a weighted average cost of $0.21 per share. The Company has not renewed the NCIB since its expiry in December 2019.

Subsequent to December 31, 2020, PPR cancelled 44,711,330 common shares that were surrendered by a shareholder to the Company for nominal consideration. As at March 25, 2021, there were 128,014,081 common shares outstanding.

### (c) Loss per Share

| Years Ended *(000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Net loss for the year | **(90,773)** | (33,079) |
| Weighted average number of common shares | | |
| Basic & diluted | **172,013** | 171,356 |
| Basic & diluted net loss per share | **(0.53)** | (0.19) |

In calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2020, all equity-settleable share-based instruments (see Notes 10 and 14) are excluded from the diluted weighted average shares calculation as they were anti-dilutive (December 31, 2019 – all anti-dilutive instruments excluded).

## 14. 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 tables summarize the stock options outstanding and exercisable under the plan:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, January 1, 2019 | 2,156,839 | 0.81 |
| Granted | 2,373,633 | 0.21 |
| Forfeited or expired | (598,153) | 0.61 |
| Balance, December 31, 2019 | 3,932,319 | 0.48 |
| Granted | **2,633,673** | 0.05 |
| Forfeited or expired | **(1,051,115)** | 0.11 |
| **Balance, December 31, 2020** | **5,514,877** | 0.34 |
| | | |
| **Exercisable at December 31, 2020** | **2,481,999** | 0.63 |

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| **Year of Grant** | **Number Outstanding** | **Weighted Average Exercise Price** | **Weighted Average Remaining Contractual Life (years)** | **Number Exercisable** | **Weighted Average Exercise Price** |
| **2016** | **462,709** | **$0.96** | **0.8** | **462,709** | **$0.96** |
| **2017** | **1,294,130** | **$0.75** | **1.1** | **1,294,130** | **$0.75** |
| **2019** | **1,807,912** | **$0.21** | **3.1** | **725,160** | **$0.21** |
| **2020** | **1,950,126** | **$0.05** | **4.1** | **—** | **$0.05** |
| **Total** | **5,514,877** | **$0.34** | **2.7** | **2,481,999** | **$0.63** |

The weighted average remaining contractual life of options outstanding as at December 31, 2020 was 2.7 years (December 31, 2019 – 3.2 years). The fair value of options granted in 2020 of $0.02 per option was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions and resulting fair value:

| | |
|---|---|
| Exercise price of option | **$0.05** |
| Risk free interest rate | **1.4%** |
| Expected life of options (years) | **3.6** |
| Expected volatility | **89.9%** |
| Estimated forfeiture rate | **1.5%** |
| Dividend per share | **—** |

### (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, January 1, 2019 | 635,712 |
| Granted | 1,701,369 |
| Settled | — |
| **Balance, December 31, 2019 and December 31, 2020** | **2,337,081** |

No units were granted during the year ended December 31, 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, January 1, 2019 | 1,635,807 |
| Granted | 2,373,633 |
| Settled | (545,264) |
| Forfeited or expired | (273,073) |
| Balance – December 31, 2019 | 3,191,103 |
| Granted | **975,435** |
| Settled | **(1,734,181)** |
| Forfeited or expired | **(627,336)** |
| **Balance – December 31, 2020** | **1,805,021** |

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

### (d) Share-based compensation expense

| Years Ended<br>*($000s)* | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| Shared based compensation expense: | | |
| Included in G&A | **240** | 825 |
| Share-based compensation expense before capitalization | **240** | 825 |
| Capitalized during the period | **(15)** | (146) |
| Share-based compensation expense after capitalization | **225** | 679 |

## 15. INCOME TAX

The tax provision differs from the amount computed by applying the combined Canadian federal and provincial statutory income tax rates to net loss before income tax expense as follows:

| *Years ended* *($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Net loss before taxes | (90,851) | (33,392) |
| Statutory income tax rate [1] | 24.02 % | 26.50 % |
| Expected income tax recovery | (21,822) | (8,849) |
| Add (deduct): | | |
| Change in unrecognized deferred tax asset | 20,513 | (20,536) |
| Foreign currency translation gains | (171) | (442) |
| Alberta Income Tax Rate Adjustment | 845 | 30,486 |
| Non-deductible share-based compensation | 54 | 219 |
| Flow-through share renouncements | — | 457 |
| Flow-through share premium adjustments | — | (332) |
| Other | 503 | (1,316) |
| Tax expenses | (78) | (313) |

1. The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2020 and 2019. The combined federal and provincial rate decrease to 24.0 per cent in 2020 from 26.5 per cent in 2019 reflects the Alberta corporate income tax rate decrease from 11 per cent to 10 per cent effective January 1, 2020 and to 8 per cent effective July 1, 2020.

The movements in deferred tax balances during the year ended December 31, 2020 are as follows:

| *($000s)* | Balance December 31, 2019 | Recognized in Net Loss | Balance December 31, 2020 |
|---|---|---|---|
| Deferred tax liabilities: | | | |
| Financing fee | (34) | (142) | (176) |
| Debt valuation adjustment | — | (3,949) | (3,949) |
| Unrealized gains on financial instruments | — | (183) | (183) |
| Total deferred tax liabilities | (34) | (4,274) | (4,308) |
| Deferred tax assets: | | | |
| Petroleum and natural gas assets | 40,306 | 26,965 | 67,271 |
| Decommissioning liabilities | 38,662 | (430) | 38,232 |
| Net operating loss carry forwards | 1,310 | (18) | 1,292 |
| Unrealized losses/gains on financial instrument | 916 | (916) | — |
| Financing and restructuring fees | 1,240 | 219 | 1,459 |
| Non-capital losses | 88,889 | (710) | 88,179 |
| Accruals and other items, net | 988 | (323) | 665 |
| Total deferred tax assets | 172,311 | 24,787 | 197,098 |
| Net deferred tax asset | 172,277 | 20,513 | 192,790 |
| Less: Unrecognized deferred tax asset | (172,277) | (20,513) | (192,790) |
| Deferred taxes | — | — | — |

The movements in deferred tax balances during the year ended December 31, 2019 are as follows:

| *($000s)* | Balance December 31, 2018 | Recognized in Net Loss | Recognized in Equity | Recognized in Other | Balance December 31, 2019 |
|---|---|---|---|---|---|
| Deferred tax liabilities: | | | | | |
| Financing fee | — | (34) | — | — | (34) |
| Unrealized gains on financial instruments | (1,792) | 1,792 | — | — | — |
| Total deferred tax liabilities | (1,792) | 1,758 | — | — | (34) |
| Deferred tax assets: | | | | | |
| Petroleum and natural gas assets | 53,777 | (13,471) | — | — | 40,306 |
| Decommissioning liabilities | 40,084 | (1,422) | — | — | 38,662 |
| Net operating loss carry forwards | 1,367 | (57) | — | — | 1,310 |
| Unrealized losses/gains on financial instrument | — | 916 | — | — | 916 |
| Unrealized translation gains | 411 | (411) | — | — | — |
| Flow-through share premium | — | (332) | — | 332 | — |
| Financing and restructuring fees | 1,458 | (218) | — | — | 1,240 |
| Non-capital losses | 96,145 | (7,256) | — | — | 88,889 |
| Accruals and other items, net | 1,368 | (395) | 15 | — | 988 |
| Total deferred tax assets | 194,610 | (22,646) | 15 | 332 | 172,311 |
| Net deferred tax asset | 192,818 | (20,888) | 15 | 332 | 172,277 |
| Less: Unrecognized deferred tax asset | (192,818) | 20,556 | (15) | — | (172,277) |
| Deferred taxes | — | (332) | — | 332 | — |

At December 31, 2020, the Company had $474.8 million (December 31, 2019 – $467.6 million) of federal tax pools in Canada related to the exploration, development and production of oil and gas available for deduction against future Canadian taxable income. In addition, the Company had Canadian tax loss carry-forwards in the amount of $383.1 million (December 31, 2019 – $382.8 million), scheduled to expire in the years 2021 to 2040.

As of December 31, 2020 and 2019, the Company did not recognize any deferred tax assets in excess of taxable temporary differences as there was insufficient evidence to indicate that it was probable that future taxable profits in excess of profits arising from the reversal of existing temporary difference would be generated to utilize the existing deferred tax assets.

## 16. SUPPLEMENTAL INFORMATION

### (a) Cash Flow Presentation

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

| *Years Ended* <br> *($000s)* | **December 31, 2020** | December 31, 2019 |
|---|---|---|
| Source (use) of cash: | | |
| Accounts receivable | **792** | (2,900) |
| Prepaid expenses and other current assets | **982** | 109 |
| Accounts payable and accrued liabilities | **(3,796)** | (16,726) |
| Less: Foreign exchange on translation | **62** | — |
| Non-cash working capital acquired | **—** | (247) |
| Less: reclassification to long-term liabilities | **—** | 5,312 |
| | **(1,960)** | (14,452) |
| | | |
| Related to operating activities | **(1,779)** | (12,653) |
| Related to financing activities | **1,021** | — |
| Related to investing activities | **(1,202)** | (1,799) |
| | **(1,960)** | (14,452) |
| | | |
| Other: | | |
| Interest paid during the year | **5,578** | 9,150 |

**(b) Financial Liabilities Reconciliation**

Changes in liabilities arising from financing activities:

| | Revolving Facility | Senior Notes |
|---|---|---|
| Balance as of December 31, 2018 | 63,363 | 37,781 |
| Changes in cash flows | 12,456 | — |
| Deferred interest | — | 1,999 |
| Debt issuance costs | (408) | — |
| Non-cash changes | | |
| Unrealized foreign exchange gain | (1,479) | (1,973) |
| Amortization of debt issuance costs | 1,162 | 694 |
| Balance as of December 31, 2019 | 75,094 | 38,501 |
| Changes in cash flows | **(15,619)** | **14,632** |
| Deferred interest | **1,097** | **6,096** |
| Debt issuance costs | **(511)** | **(811)** |
| Non-cash changes | | |
| Unrealized foreign exchange gain | **(362)** | **(1,248)** |
| Amortization of debt issuance costs | **1,099** | **823** |
| Derecognition of issuance costs on debt modification | **—** | **1,449** |
| Fair valuation of debt | **—** | **(17,322)** |
| Amortization of fair value adjustment | **—** | **153** |
| Balance as of December 31, 2020 | **60,798** | **42,273** |

### 17. REVENUE

| Years Ended<br>*($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Light & medium crude oil | 40,119 | 83,853 |
| Heavy crude oil | 2,710 | 4,879 |
| Conventional natural gas | 7,667 | 7,312 |
| Natural gas liquid | 1,224 | 1,847 |
| Oil and natural gas revenue | 51,720 | 97,891 |

Included in accounts receivable at December 31, 2020 was $4.3 million (December 31, 2019 – $6.5 million related to December 2019 production) of accrued oil and natural gas revenue related to December 2020 production.

### 18. OPERATING EXPENSES

| Years Ended<br>*($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Lease operating expense | 29,458 | 35,716 |
| Transportation and processing | 2,474 | 4,735 |
| Production and property taxes | 5,339 | 6,175 |
| Operating expense | 37,271 | 46,626 |

### 19. GENERAL AND ADMINISTRATIVE COSTS

| Years Ended<br>*($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Salaries and benefits | 3,640 | 5,694 |
| Share-based compensation (Note 14) | 240 | 825 |
| Office rents and leases | 975 | 609 |
| Professional fees | 1,250 | 1,525 |
| Other – office | (178) | 1,246 |
| Gross general and administrative expense | 5,927 | 9,899 |
| Amounts capitalized to P&E, E&E assets and other | (185) | (1,622) |
| General and administrative expense | 5,742 | 8,277 |

During the year ended December 31, 2020, PPR qualified for $0.9 million (December 31, 2019 – $nil) of government grants under the Canada Emergency Wage Subsidy program, which were recognized as reductions in general and administrative expenses in the "Other - office" category.

### 20. FINANCE COSTS

| Years Ended<br>($000s) | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Cash interest expense | 5,282 | 9,345 |
| Deferred interest expense | 7,193 | 1,999 |
| Non-cash interest on debt modification | 153 | — |
| Amortization of financing costs | 1,499 | 1,499 |
| Non-cash interest on lease obligations (Note 11) | 658 | 1,028 |
| Non-cash interest on warrant liabilities | 424 | 357 |
| Accretion – decommissioning liabilities (Note 12) | 2,776 | 3,284 |
| Accretion – other liabilities | 10 | 76 |
| Finance cost | 17,995 | 17,588 |

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

### (a) Fair Values of financial instruments

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

Cash, derivative instruments and warranty liability are measured and recorded on PPR's statement of financial position at FVPL. Cash, restricted cash, derivative contracts and the warrant liability have been assessed on the fair value hierarchy described in Note 3(g). Cash is classified as Level 1, while restricted cash, derivative contracts and warrant liability are classified as Level 2. During the years ended December 31, 2020 and 2019, there were no transfers among Levels 1, 2 and 3.

Derivative contracts are valued using valuation techniques with observable market inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations and third-party option valuation models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, and forward rate curves and volatilities of the underlying commodity. The fair values of the derivative contracts are net of a credit valuation adjustment attributable to derivative counterparty default risk or the Company's own default risk.

### (b) Risk Management

The Company's activities expose it to a variety of financial risks that arise as result of its exploration, development production and financing activities such as:

- Credit risk;
- Liquidity risk; and
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital. The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented, and monitors compliance with, risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

#### (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 December 31, 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**

All of the Company's operations are conducted in Canada. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. All of the Company's petroleum and natural gas production is marketed under standard industry terms. Accounts receivable from oil and natural gas marketers are normally collected on the 25$^{th}$ day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a number of large purchasers and by entering into sales contracts with only established, credit-worthy counterparties. The Company historically has not experienced any collection issues with its oil and natural gas marketers.

PPR executes its derivative contracts with credit-worthy counterparties believed to have low credit risk. The Company historically has not experienced any collection issues with its derivative instruments counterparties.

Receivable from joint operators are typically collected within one to three months of the joint venture bill being issued. The Company attempts to mitigate the risk from joint venture receivables by obtaining the partners' pre-approval of significant capital expenditures. However, the receivables are from participants in the oil and natural gas sector, and collection of the balances is dependent on industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. In addition, further risks exist with joint operators as disagreements occasionally arise that may increase the potential for non-collection. The Company does not typically obtain collateral from oil and natural gas marketers or joint operators; however, the Company can withhold production from joint operators in the event of non-payment or may be able to register security on the assets of joint operators.

During the year ended December 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(d). PPR has incorporated these factors into its assessment of expected credit loss at December 31, 2020.

For the year ended December 31, 2020, PPR had five external customer that constituted more than 10 per cent of oil and natural gas revenue with combined revenues of $46.3 million. At December 31, 2019, PPR had three external customer that constituted more than 10 per cent of commodity sales from production, with sales of $63.5 million.

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

| *($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Oil and natural gas marketing companies | 4,412 | 6,601 |
| Joint operators | 1,486 | 1,091 |
| Government agencies | 534 | 484 |
| Counterparties – derivative instruments | 363 | 33 |
| Other | 1,080 | 458 |
| Total accounts receivable | 7,875 | 8,667 |

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

| ($000s) | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Current (less than 90 days) | 7,115 | 6,574 |
| Past due (more than 90 days) | 760 | 2,093 |
| Total | 7,875 | 8,667 |

PPR's allowance for doubtful accounts was $0.07 million as at December 31, 2020 (December 31, 2019 – $0.05 million). Based on industry experience, the Company considers its joint interest accounts receivable to be in default when the receivable is more than 90 days past due. 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 with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. As of December 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. PPR does not require the posting of collateral for its benefit under its derivative agreements. However, PPR's ISDA Master Agreements generally contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions generally apply to all derivative transactions, or all derivative transactions of the same type (e.g., commodity, interest rate, etc.), with the particular counterparty.

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at December 31, 2020 and December 31, 2019. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

| December 31, 2020<br>*($000s)* | Gross Assets (Liabilities) | Amount Offset Gross Assets (Liabilities) | Net Amount Presented |
|---|---|---|---|
| Current: | | | |
| Derivative instruments assets | 1,930 | (1,132) | 798 |

| December 31, 2019<br>*($000s)* | Gross Assets (Liabilities) | 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**

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 9, at December 31, 2020, the Company had US$11.2 million borrowing capacity under the Revolving Facility.

During the fourth quarter of 2020, PPR renewed its credit facilities with its lender. The renewal included terms to reduce cash interest cost and extend the maturity dates of borrowings. Overall, the amendments increased liquidity and the financial flexibility of the Company.

PPR anticipates its future development to be funded primarily with cash flows from operations. The Company has determined that its current financial obligations, including current commitments (Note 23), will be adequately funded from the available borrowing capacity, cash flows from operating activities and working capital derived from operations. 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.

**(iii) Market Risk**

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimizing the return.

The Company may use financial derivative contracts to manage market risks as disclosed below. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors.

**(iv) Currency Risk**

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars. The Company is exposed to currency risk in relation to its US dollar denominated long-term debt. For the year ended December 31, 2020, a 10% strengthening or weakening of the US dollar would have resulted in a $8.0 million increase or decrease to the Company's net loss before tax (2019 – $7.6 million). The exposure to fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt. Therefore, the Company has entered into commodity hedges in US dollars to maintain such natural economic hedges.

**(v) Interest Rate Risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The interest charged on the Revolving Facility fluctuates with the interest rates posted by the lenders. The Company is exposed to interest rate risk related to borrowings are drawn under the Revolving Facility.

A change in prime interest rates by 1% would have changed net loss by approximately $0.6 million in 2020 (2019 – $0.7 million) assuming all other variables remain constant.

**(vi) Commodity Price Risk**

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted not only by the relationship between the Canadian and United States dollars but also worldwide economic events that influence supply and demand.

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:

| December 31, 2020 | **Crude Oil** | **Natural Gas** | **Total** |
|---|---|---|---|
| *($000s)* | | | |
| Derivative instruments – current asset | **779** | **19** | **798** |

| 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 (liabilities) | (3,993) | 11 | (3,982) |

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

| **Remaining Term** | **Reference** | **Total Daily Volume (bbl)** | **Weighted Average Price/ bbl** |
|---|---|---|---|
| ***Crude Oil Swaps*** | | | |
| January 01, 2021 - June 30, 2021 | US$ WTI | 500 | $47.60 |
| ***Crude Oil Three-way Collars*** | | | |
| January 01, 2021 - December 31, 2021 | US$ WTI | 650 | $40.00/50.00/64.25 |
| January 01, 2021 - March 31, 2021 | US$ WTI | 200 | $42.50/52.50/65.00 |
| July 01, 2021 - December 31, 2021 | US$ WTI | 300 | $30.00/40.00/55.00 |

| Remaining Term | Reference | Total Daily Volume (MMBtu) | Weighted Average Price/ MMBtu |
|---|---|---|---|
| ***Natural Gas Swaps*** | | | |
| January 01, 2021 - June 30, 2021 | US$ AECO | 2000 | $1.95 |

Subsequent to December 31, 2020, the Company entered into the following commodity derivative contracts:

| Remaining Term | Reference | Total Daily Volume (bbl) | Weighted Average Price/bbl |
|---|---|---|---|
| ***Crude Oil Three-way Collars*** | | | |
| July 01, 2021 - December 31, 2021 | US$ WTI | 725 | $35.00/42.50/60.10 |
| January 01, 2022 - June 30, 2022 | US$ WTI | 300 | $30.00/40.00/58.50 |
| January 01, 2022 - June 30, 2022 | US$ WTI | 1,150 | $35.00/45.00/64.00 |
| July 01, 2022 - December 31, 2022 | US$ WTI | 1,250 | $32.00/42.00/64.00 |
| ***Crude Oil Swaps*** | | | |
| February 01, 2021 - June 30, 2021 | US$ WTI | 575 | $52.25 |

| Remaining Term | Reference | Total Daily Volume (MMBtu) | Weighted Average Price/ MMBtu |
|---|---|---|---|
| ***Natural Gas Three-way Collars*** | | | |
| April 01, 2022 - December 31, 2022 | US$ NYMEX | 3,600 | $1.75/2.00/3.32 |
| ***Natural Gas Collars*** | | | |
| July 01, 2021 - September 30, 2021 | US$ NYMEX | 1,500 | $2.50/3.42 |
| October 01, 2021 - December 31, 2021 | US$ NYMEX | 2,100 | $2.25/3.90 |
| January 01, 2022 - March 31, 2022 | US$ NYMEX | 2,350 | $2.75/3.90 |
| November 01, 2021 - March 31, 2022 | US$ NYMEX | 2,200 | $2.50/3.99 |
| ***Natural Gas Swaps*** | | | |
| March 01, 2021 - October 31, 2021 | US$ AECO | 3,500 | $2.15 |
| ***Natural Gas Basis Swaps*** | | | |
| November 01, 2021 - March 31, 2022 | US$ NYMEX/AECO | 2,200 | ($0.67) |

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

| Year ended December 31, 2020 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized gain (loss) on derivative instruments | 15,400 | (159) | 15,241 |
| Unrealized gain on derivative instruments | 4,772 | 8 | 4,780 |
| Total gain (loss) | 20,172 | (151) | 20,021 |

| Year ended December 31, 2019 | Crude Oil | Natural Gas | Total |
|---|---|---|---|
| *($000s)* | | | |
| Realized (loss) gain on derivative instruments | (3,249) | 1,080 | (2,169) |
| Unrealized loss on derivative instruments | (9,789) | (829) | (10,618) |
| Total (loss) gain | (13,038) | 251 | (12,787) |

The Company's operational results and financial condition are largely dependent on the commodity price received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors.

PPR manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts. The Company assesses the effects of movement in commodity prices on income before tax. When assessing the potential impact of these commodity price changes, the Company believes a ten percent volatility is a reasonable measure. A ten percent increase or decrease in commodity prices would have resulted in the following impact to unrealized gains (losses) on risk management contracts and net income before tax, assuming all other variables, including the Canadian/United States dollar exchange rate, remain constant:

| | | December 31, 2020 |
|---|---|---|
| *($000s)* | Increase 10% | Decrease 10% |
| Crude oil | (1,435) | 1,472 |
| Natural gas | (88) | 88 |

**(c) Capital Management**

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, borrowing under its credit facilities 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.

In light of continued uncertainty in the macroeconomic environment, PPR's short-term capital management objective is to fund its capital expenditures necessary for the replacement of production declines using primarily cash flow from operating activities. Value-creating activities may be financed with a combination of cash flow from operating activities and other sources of capital. The Company has determined that its current financial obligations, including current commitments are adequately funded from the available borrowing capacity, cash flows from operating activities and working capital derived from operations.

PPR monitors its capital structure using the ratio of senior debt to trailing twelve months' Bank Adjusted EBITDAX (as defined in Note 9). Senior debt to Bank Adjusted EBITDAX provides a measure of the Company's ability to manage its debt levels under current operating conditions. The Company's goal is to manage this ratio within the financial covenants imposed on it under its outstanding debt agreements.

## 22. KEY MANAGEMENT COMPENSATION

The aggregate compensation of directors and executive management is summarized as follows:

| Years Ended<br>*($000s)* | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Salary, bonus and fees | 1,701 | 2,332 |
| Share based compensation | 137 | 502 |
| Total remuneration | 1,838 | 2,834 |

Share based compensation included in key management compensation is non-cash compensation.

## 23. COMMITMENTS AND CONTINGENCIES

The Company has non-cancellable contractual obligations summarized as follows:

| | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Debt (interest and principal) | 4,714 | 66,205 | 49,232 | — | — | 29,486 | 149,637 |
| Leases - variable | 822 | 69 | — | — | — | — | 891 |
| Firm transportation agreements | 360 | 202 | 113 | 41 | 36 | — | 752 |
| Other agreements | 100 | 48 | 47 | 32 | 28 | 269 | 524 |
| Total | 5,996 | 66,524 | 49,392 | 73 | 64 | 29,755 | 151,804 |

The table above excludes contractual obligations for lease payments which are recorded as lease liabilities on the consolidated statement of financial position in accordance with IFRS 16 (see Note 11).

**Contingencies**

PPR is involved in litigation and claims arising in the normal course of operations. Such claims are not expected to have a material impact on the Company’s results of operations or cash flows.