Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three Months Ended March 31, 2021

Dated: May 11, 2021

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	March 31, 2021	December 31, 2020
ASSETS			
Cash		**2,706**	4,544
Restricted cash	7	**4,332**	4,332
Accounts receivable	18	**8,386**	7,875
Inventory		**628**	604
Prepaid expenses and other assets		**2,428**	2,654
Derivative instruments – current	18	**56**	798
Total current assets		**18,536**	20,807
Exploration and evaluation	4	**5,975**	5,785
Property and equipment	5	**187,664**	189,142
Right-of-use assets	6	**3,456**	3,948
Other assets		**580**	634
Total assets		**216,211**	220,316
LIABILITIES			
Accounts payable and accrued liabilities		**18,901**	14,683
Lease liabilities – current portion	9	**2,510**	2,548
Derivative instruments – current	18	**2,699**	—
Current portion of decommissioning liability	10	**3,500**	3,500
Warrant liability	8	**2,058**	686
Total current liabilities		**29,668**	21,417
Long-term debt	7	**101,519**	103,071
Lease liabilities – non-current portion	9	**2,063**	2,606
Derivative instruments	18	**863**	—
Decommissioning liabilities	10	**163,095**	162,726
Other liabilities		**7,317**	7,406
Total liabilities		**304,525**	297,226
SHAREHOLDERS’ EQUITY			
Share capital	11	**101,274**	136,534
Contributed surplus		**38,939**	3,662
Accumulated deficit		**(229,151)**	(217,645)
Accumulated other comprehensive income (“AOCI”)		**624**	539
Total equity		**(88,314)**	(76,910)
Total liabilities and shareholders’ equity		**216,211**	220,316

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (UNAUDITED)

For the three months ended *($000s)*	Note	March 31, 2021	March 31, 2020
REVENUE			
Oil and natural gas revenue	14	**16,967**	15,272
Royalties		**(1,225)**	(1,285)
Oil and natural gas revenue, net of royalties		**15,742**	13,987
Unrealized (loss) gain on derivative instruments	18	**(4,304)**	27,605
Realized (loss) gain on derivative instruments	18	**(1,076)**	1,996
		10,362	43,588
Other income		**53**	—
EXPENSES			
Operating	15	**9,819**	10,788
General and administrative	16	**1,628**	2,017
Depletion and depreciation	5	**5,809**	8,969
Exploration and evaluation	4	**131**	948
Depreciation on right-of-use assets	6	**511**	600
Gain on property dispositions		**(131)**	(75)
Loss (gain) on warrant liability	8	**1,372**	(84)
Impairment loss	5	**—**	77,268
(Gain) loss on foreign exchange		**(972)**	7,016
Finance costs	17	**3,754**	4,266
Transaction, restructuring and other costs		**—**	5
Total expenses – net		**21,921**	111,718
Net loss before taxes		**(11,506)**	(68,130)
Current tax recovery		**—**	(62)
Net loss		**(11,506)**	(68,068)
Other comprehensive income (loss)			
Items that may be reclassified to net loss:			
Foreign currency translation adjustment		**85**	(497)
Comprehensive loss		**(11,421)**	(68,565)
Net loss per share			
Basic & diluted	11	**(0.07)**	(0.40)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (UNAUDITED)

($000s)	Note	Share Capital Amount	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2020		136,534	3,662	(217,645)	539	(76,910)
Share issuance costs		(1)	—	—	—	(1)
Share cancellation	11	(35,372)	35,372	—	—	—
Share-based compensation	12	—	27	—	—	27
Settlement of restricted share units (“RSU”), net of withholding tax	11	113	(122)	—	—	(9)
Exchange differences on translation of foreign operations		—	—	—	85	85
Net loss		—	—	(11,506)	—	(11,506)
Balance at March 31, 2021		101,274	38,939	(229,151)	624	(88,314)

($000s)	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at December 31, 2019	135,958	1,103	2,919	(126,872)	470	13,578
Share-based compensation	—	—	101	—	—	101
Settlement of RSU, net of withholding tax	350	—	(375)	—	—	(25)
Exchange differences on translation of foreign operations					(497)	(497)
Net loss	—	—	—	(68,068)	—	(68,068)
Balance at March 31, 2020	136,308	1,103	2,645	(194,940)	(27)	(54,911)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

For the three months ended *($000s)*	Note	March 31, 2021	March 31, 2020
OPERATING ACTIVITIES			
Net loss		**(11,506)**	(68,068)
Adjustments for non-cash items:			
Impairment loss	5	**—**	77,268
Unrealized loss (gain) on derivative instruments	18	**4,304**	(27,605)
Depletion and depreciation	5	**5,809**	8,969
Depreciation on right-of-use asset	6	**511**	600
Exploration and evaluation expense	4	**131**	948
Accretion and non-cash finance costs	17	**2,115**	1,350
Unrealized foreign exchange (gain) loss		**(907)**	7,020
Gain on sale of properties		**(131)**	(75)
Loss (Gain) on warrant liability	8	**1,372**	(84)
Share-based compensation	12	**19**	86
Settlements of decommissioning liabilities	10	**(125)**	(704)
Deferred interest on Senior Notes & Revolving Facility	7,17	**387**	521
Other, net		**34**	(3)
Change in non-cash working capital	13	**2,604**	2,059
Net cash from operating activities		**4,617**	2,282
FINANCING ACTIVITIES			
Debt issuance costs		**—**	(133)
Share issuance costs		**(1)**	—
Withholding taxes on settlement of share-based compensations	11	**(9)**	(24)
Principal repayments of lease liabilities	9	**(724)**	(838)
Change in Revolving Facility borrowings	7,13	**(2,604)**	(781)
Change in non-cash working capital	13	**300**	—
Net cash used in financing activities		**(3,038)**	(1,776)
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	4	**(321)**	(93)
Property and equipment expenditures	5	**(4,205)**	(3,397)
Proceeds from dispositions (net of acquisitions)		**102**	157
Change in non-cash working capital	13	**1,007**	1,057
Net cash used in investing activities		**(3,417)**	(2,276)
Change in cash and restricted cash		**(1,838)**	(1,770)
Cash and restricted cash beginning of period		**8,876**	7,790
Cash and restricted cash end of period		**7,038**	6,020

See accompanying notes to the condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended March 31, 2021 and 2020

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 condensed consolidated interim financial statements (the "Interim Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*.

The Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of PPR as at and for the years ended December 31, 2020 and 2019 and the notes thereto (the "Annual Financial Statements"). The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements.

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

The Interim Financial Statements were approved and authorized for issue by the Audit Committee of the Board of Directors of PPR on May 11, 2021.

(b) Basis of measurement

The Interim Financial Statements have been prepared on the historical cost basis except for 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" of the Annual Financial Statements.

(c) Functional and Presentation Currency

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

(d) Use of Estimates and Judgments

The preparation of Interim Financial Statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies are outlined in the Annual Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The Company's significant accounting policies under IFRS are presented in Note 3 to the Annual Financial Statements. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with IFRS have been condensed or omitted in the Interim Financial Statements.

NEW AND AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

IBOR Reform and its Effects on Financial Reporting - Phase 2

Effective January 1, 2021 PPR adopted 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 related to benchmark interest rate reform. PPR's Revolving Facility makes reference to LIBOR (for certain USD borrowing) and CDOR (for certain CAD borrowing) rates for one-month or three-month advances made under the facility. The terms of the Revolving Facility agreement with PPR's lenders allow for the replacement of these rates with economic equivalents in future periods, should current rates cease publication or prior to the cessation of publication, as a result of benchmark replacement. PPR expects to be able to utilize the practical expedient under IFRS 9 *Financial Instruments* in the future when the replacement of rates occurs and therefore, would not be required to recognize gains or losses on the modification of the Revolving Facility agreement related to changes in the benchmark interest rates.

4. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance - December 31, 2020	62,544
Additions	**321**
Exploration and evaluation expense	**(131)**
Cost Balance - March 31, 2021	**62,734**
Provision for impairment – March 31, 2021 and December 31, 2020	**(56,759)**
Net book value – December 31, 2020	5,785
Net book value – March 31, 2021	**5,975**

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

During the three months ended March 31, 2021, PPR recognized $0.1 million (2020 - $0.9 million) of E&E expense related to surrendered or expired leases in various areas. PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets (2020 - $nil).

The Company assessed its E&E assets for indicators of impairment and did not note any indicators of impairment that resulted in the need to perform impairment tests as at March 31, 2021 or March 31, 2020.

5. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Total
Cost:			
Balance - December 31, 2020	677,689	4,650	682,339
Additions	4,292	7	4,299
Acquisitions, net of dispositions	13	—	13
Balance - March 31, 2021	681,994	4,657	686,651
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2020	(489,104)	(4,093)	(493,197)
Depletion and depreciation	(5,732)	(58)	(5,790)
Balance - March 31, 2021	(494,836)	(4,151)	(498,987)
Net book value - December 31, 2020	188,585	557	189,142
Net book value – March 31, 2021	187,158	506	187,664

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

During the three months ended March 31, 2021, $0.2 million (2020 – $0.1 million) of directly attributable general and administrative expenses, including a nominal amount (2020 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment

As at March 31, 2021, the Company assessed its production and development assets for indicators of impairment or impairment reversal and did not note any indicators.

At March 31, 2020, the decreases in crude oil and natural gas benchmark prices as compared to December 31, 2019 were considered indicators of impairment for the property and equipment. As a result, the Company completed impairment tests on all of its cash generating units ("CGU's") in accordance with IAS 36 and determined that the carrying amounts of certain the CGUs exceeded their fair value less cost of disposal ("FVLCD"). As a result of the impairment test at March 31, 2020, PPR recognized a total of $76.6 million non-cash impairment loss related to the Evi, Princess, Provost and Other CGUs. Under IFRS, impairment losses related to PP&E may be reversed in future periods if the FVLCD improves.

6. RIGHT-OF-USE ASSETS

($000s)	Office Leases	Facility Lease	Other Leases	Total
Cost:				
Balance - December 31, 2020	1,862	6,687	312	8,861
Additions and adjustments	—	—	19	19
Balance – March 31, 2021	1,862	6,687	331	8,880
Accumulated depreciation:				
Balance - December 31, 2020	**(1,449)**	**(3,210)**	**(254)**	**(4,913)**
Depreciation	(105)	(401)	(5)	(511)
Balance – March 31, 2021	(1,554)	(3,611)	(259)	(5,424)
Net book value - December 31, 2020	413	3,477	58	3,948
Net book value – March 31, 2021	308	3,076	72	3,456

7. LONG-TERM DEBT

($000s)	March 31, 2021	December 31, 2020
Revolving Facility		
USD Advances (US$14.0 million (December 31, 2020 - US$16.0 million))[1]	**17,605**	20,371
CAD Advances (US$30.0 million (December 31, 2020 - US$30.0 million))[2]	**40,530**	40,530
CAD Deferred Interest (US$0.4 million (December 31, 2020 - US$0.5 million))[1]	**542**	590
Total principal and deferred - Revolving Facility	**58,677**	61,491
Senior Notes Issued October 31, 2017		
Principal (US$16.0 million)[1]	**20,120**	20,371
Deferred interest (US$4.4 million (December 31, 2020 - US$4.4 million))[1]	**5,541**	5,611
Total Principal and Deferred Interest - October 31, 2017 Senior Notes	**25,661**	25,982
Senior Notes Issued November 21, 2018		
Principal (US$12.5 million)[1]	**15,719**	15,915
Deferred interest (US$2.6 million (December 31, 2020 - US$2.6 million))[1]	**3,297**	3,338
Total Principal and Deferred Interest - November 21, 2018 Senior Notes	**19,016**	19,253
Senior Notes Issued December 21, 2020		
Principal (US$11.4 million)[1]	**14,321**	14,500
Deferred interest (US$0.4 million (December 31, 2020 - US$0.04 million))[1]	**479**	48
Total Principal and Deferred Interest - December 21, 2020 Senior Notes	**14,800**	14,548
Total Principal and Deferred Interest - Senior Notes	**59,477**	59,783
Unamortized deferred financing fees	**(604)**	(691)
Unamortized value allocated to Warrant Liability	**(341)**	(343)
Unamortized value allocated to fair value adjustment	**(15,690)**	(17,169)
Long-term debt	**101,519**	103,071

[1] Converted using the month end exchange rate of $1.00 USD to $1.26 CAD as at March 31, 2021 and $1.00 USD to $1.27 CAD as at December 31, 2020

[2] Converted using the exchange rate at the time of borrowing of $1.00 USD to $1.35 CAD.

(a) Revolving Facility

PPR's senior secured revolving note facility ("Revolving Facility") has a borrowing base of US$57.7 million and a maturity date of 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. As at March 31, 2021, the Company had US$13.3 million (CAN$16.7 million equivalent) borrowing capacity under the Revolving Facility.

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 March 31, 2021, PPR had outstanding letters of credit of $4.2 million (December 31, 2020 – $4.2 million) . The letters of credit are issued by a financial institution at which PPR posted cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

As at March 31, 2021, $0.6 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2020 – $0.7 million).

(b) Subordinated Senior Notes

The subordinated senior notes issued on October 31, 2017 and November 21, 2018 with total principal outstanding of US$28.5 million (the "Senior Notes due 2023") have a maturity date of June 30, 2023. The annual interest rate on the Senior Notes due 2023 is nil until June 30, 2021, and will thereafter rise to 4% at the earlier of 15 months after closing of the amendment agreement on December 21, 2021 (March 2022) and the last day of the fiscal quarter for which the Company's trailing 12-month Senior Leverage ratio (as defined in note 7(c) "Covenants") is 2.5 or less, and to 8% at the earlier of 20 months after closing of the amendment (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.

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") with a maturity date of December 21, 2026 bearing interest at 12% per annum.

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.

(c) Covenants

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.

The applicable financial covenants thresholds as at March 31, 2021 are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at March 31, 2021
Senior Leverage[1]	Cannot exceed 3.61 to 1.00	Cannot exceed 4.15 to 1.00	2.79 to 1.00
Asset Coverage[2]	Cannot be less than 0.47 to 1.00	Cannot be less than 0.41 to 1.00	0.67 to 1.00
Current Ratio[3]	Cannot be less than 1.00 to 1.00	Cannot be less than 0.87 to 1.00	1.92 to 1.00

1 Under the debt agreements, the Senior Leverage ratio is the ratio of Senior Adjusted Indebtedness (defined herein) to EBITDAX (defined herein) for the four quarters most recently ended. Senior Adjusted Indebtedness is defined as Adjusted Indebtedness (defined herein) less subordinated borrowings. Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral. 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”).
2 Under the debt agreements, the Asset Coverage ratio is the ratio of the net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) adjusted for hedging transactions to Adjusted Indebtedness (as defined above).
3 Under the debt agreements, the Current Ratio is 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. 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.

The Company was in compliance with all applicable covenants as at March 31, 2021.

8. WARRANT LIABILITY

	Warrant Expiring December 21, 2028	
	Number of Warrants	**Amount**
PPR Warrant Liability, December 31, 2020	34,292	686
Fair value adjustment	—	**1,372**
PPR Warrant Liability, March 31, 2021	**34,292**	**2,058**

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 fair value of the warrants as at March 31, 2021 of $0.06 per warrant was estimated using the following assumptions:

March 31, 2021	**Warrants Expiring December 21, 2028**
Risk free interest rate	**1.26%**
Expected life of options (years)	**7.7**
Expected volatility	**165.31%**
Stock price	**$0.06**
Dividends per share	**—**

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2020	5,154
Additions and adjustments	**33**
Finance expense	**124**
Lease payments	**(738)**
Ending balance – March 31, 2021	**4,573**
Less: current portion	**2,510**
Ending balance – Non-current portion	**2,063**

The expense recognized for variable lease payments (net of variable sublease income) excluded in the measure of lease liabilities during the three months ended March 31, 2021 was $0.04 million (2020 – $0.1 million).

The following table details the undiscounted cash flows of PPR's lease obligations, as at March 31, 2021:

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	**2,850**	**2,133**	**12**	**61**	**5,056**	**4,573**

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2020	166,226
Liabilities incurred	**86**
Liabilities acquired net of dispositions	**(13)**
Settlements	**(125)**
Accretion of decommissioning liabilities	**421**
Total Balance – March 31, 2021	**166,595**
Current portion	**3,500**
Long-term portion	**163,095**

The Company estimated the undiscounted and inflated total future liabilities to be approximately $221.2 million (December 31, 2020 – $221.2 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 March 31, 2021 were determined using risk-free rates of 0.52% - 1.19% (December 31, 2020 – 0.52% - 1.19%) and an inflation rate of 1.1% (December 31, 2020 – 1.1%).

11. SHARE CAPITAL

(a) Authorized

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

(b) Shares Outstanding

	Number of Shares *(000s)*	**Amount *($000s)***
Common shares:		
PPR Shares, December 31, 2020	172,324	136,534
Share issuance costs	**—**	**(1)**
Issued for RSU settlement	**402**	**122**
Withholding taxes on RSU settlement	**—**	**(9)**
Share cancellation	**(44,711)**	**(35,372)**
PPR Shares, March 31, 2021	**128,015**	**101,274**

In the first quarter of 2021, PPR cancelled 44,711,330 common shares, representing approximately 25.9% of the total number of common shares previously outstanding, that were surrendered by a shareholder to the Company for nominal consideration. The difference between the carrying value of the cancelled shares and the consideration received was recorded as contributed surplus.

(c) Loss per Share

Three months ended *(000s)*	**March 31, 2021**	March 31, 2020
Net loss for the period	**(11,506)**	(68,068)
Weighted average number of common shares		
Basic & diluted	**163,126**	171,812
Basic & diluted net loss per share	**(0.07)**	(0.40)

In calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2021, all equity-settleable share-based instruments (see Notes 8 and 12) are excluded from the diluted weighted average shares calculation as they were anti-dilutive (March 31, 2020 – all anti-dilutive instruments excluded).

12. SHARE-BASED COMPENSATION

(a) Stock Options

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2020	5,514,877	0.34
Forfeited or expired	(626,490)	0.61
Balance, March 31, 2021	**4,888,387**	0.31
Exercisable at March 31, 2021	**3,067,805**	0.43

	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	**316,119**	**$0.96**	**0.5**	**316,119**	**$0.96**
2017	**1,032,330**	**$0.75**	**0.8**	**1,032,330**	**$0.75**
2019	**1,612,128**	**$0.21**	**2.9**	**1,076,752**	**$0.21**
2020	**1,927,810**	**$0.05**	**3.9**	**642,604**	**$0.05**
Total	**4,888,387**	**$0.31**	**2.7**	**3,067,805**	**$0.43**

No new options were granted during the three months ended March 31, 2021.

(b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2020 and March 31, 2021	**2,337,081**

No new DSUs were granted during the three months ended March 31, 2021.

(c) Restricted Share Units

	RSUs
Balance – December 31, 2020	1,805,021
Settled	**(773,377)**
Forfeited or expired	**(20,265)**
Balance – March 31, 2021	**1,011,379**

No new RSUs were granted during the three months ended March 31, 2021.

(d) Share-based compensation expense

Three months ended *($000s)*	**March 31, 2021**	March 31, 2020
Shared based compensation expense:		
Included in G&A	**27**	101
Share-based compensation expense before capitalization	**27**	101
Capitalized during the period	**(8)**	(15)
Share-based compensation expense after capitalization	**19**	86

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Three months ended ($000s)	**March 31, 2021**	March 31, 2020
Source (use) of cash:		
Accounts receivable	**(511)**	1,071
Prepaid expenses and other current assets	**202**	315
Accounts payable and accrued liabilities	**4,218**	1,765
Foreign exchange on translation	**2**	(35)
	3,911	3,116
Related to operating activities	**2,604**	2,059
Related to financing activities	**300**	—
Related to investing activities	**1,007**	1,057
	3,911	3,116
Other:		
Interest paid during the period	**1,567**	2,375

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance as of December 31, 2020	60,798	42,273
Changes in cash flows	**(2,604)**	**—**
Deferred interest	**(47)**	**434**
Non-cash changes		
Unrealized foreign exchange gain	**(160)**	**(742)**
Amortization of debt issuance costs	**86**	**2**
Amortization of fair value adjustment	**—**	**1,479**
Balance as of March 31, 2021	**58,073**	**43,446**

14. REVENUE

Three months ended ($000s)	March 31, 2021	March 31, 2020
Light & medium crude oil	**13,322**	11,890
Heavy crude oil	**545**	1,114
Conventional natural gas	**2,580**	1,950
Natural gas liquid	**520**	318
Oil and natural gas revenue	**16,967**	15,272

Included in accounts receivable at March 31, 2021 was $5.6 million (December 31, 2020 – $4.3 million related to December 2020 production) of accrued oil and natural gas sales related to March 2021 production.

15. OPERATING EXPENSE

Three months ended ($000s)	March 31, 2021	March 31, 2020
Lease operating expense	**8,023**	8,597
Transportation and processing	**460**	686
Production and property taxes	**1,336**	1,505
Operating expense	**9,819**	10,788

16. GENERAL AND ADMINISTRATIVE COSTS

Three months ended ($000s)	March 31, 2021	March 31, 2020
Salaries and benefits	**896**	1,112
Share-based compensation	**27**	101
Office rents and leases	**234**	236
Professional fees	**763**	413
Other – office	**(106)**	294
	1,814	2,156
Amounts capitalized to PP&E, E&E assets and other	**(186)**	(139)
General and administrative expense	**1,628**	2,017

During three months ended March 31, 2021, PPR qualified for $0.2 million (2020 – $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.

17. FINANCE COSTS

Three months ended ($000s)	March 31, 2021	March 31, 2020
Interest expense	**1,252**	2,395
Deferred interest expense[1]	**387**	521
Non-cash interest on debt (fair valuation and warrant liability)	**1,481**	104
Amortization of financing costs	**87**	356
Non-cash interest on lease liabilities (Note 9)	**124**	194
Accretion – decommissioning liabilities (Note 10)	**421**	693
Accretion – other liabilities	**2**	3
Finance cost	**3,754**	4,266

1 Deferred interest expense is interest expense which has been added to the principal balance of borrowings outstanding and will be repaid under the terms of principal repayments in accordance to the underlying borrowing agreements.

18. 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. During the periods ended March 31, 2021 and 2020, there were no transfers among Levels 1, 2 and 3 of fair value hierarchy.

(b) Risk Management

(i) Credit Risk

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

Cash and Restricted Cash

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of March 31, 2021, restricted cash included $4.3 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2020 – $4.3 million).

Accounts Receivable

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

PPR has incorporated risk factors related to ongoing global pandemic and its related impact to the economy, companies and their credit risk into its assessment of expected credit loss at March 31, 2021.

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

($000s)	**March 31, 2021**	December 31, 2020
Oil and natural gas marketing companies	**5,986**	4,412
Joint venture partners	**1,366**	1,486
Government agencies	**147**	534
Counterparties – derivative instruments	**—**	363
Other	**887**	1,080
Total accounts receivable	**8,386**	7,875

The Company's accounts receivable are aged as follows:

($000s)	**March 31, 2021**	December 31, 2020
Current (less than 90 days)	**7,614**	7,115
Past due (more than 90 days)	**772**	760
Total	**8,386**	7,875

PPR's allowance for doubtful accounts was $0.1 million as at March 31, 2021 (December 31, 2020 – $0.1 million). When determining whether amounts that are past due are collectible, management assesses the creditworthiness and past payment history of the counterparty, as well as the nature of the past due amount.

Derivatives

PPR executes its derivative contracts with credit-worthy counterparties with low credit risks. As of March 31, 2021, all of the derivative counterparties have entered inter-creditor agreements with the Company's lender to eliminate the need to post any collateral.

The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at March 31, 2021 and December 31, 2020. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2021 *($000s)*	**Gross Assets (Liabilities)**	**Amount Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments assets	**248**	**(192)**	**56**
Derivative instruments liabilities	**(3,928)**	**1,229**	**(2,699)**
Long-term:			
Derivative instruments liabilities – long-term	**(2,619)**	**1,756**	**(863)**

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

(ii) Liquidity Risk & Capital Management

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, working capital, credit facility capacity, equity issuance along with its planned capital expenditure program. As outlined in Note 7, at March 31, 2021, the Company had US$13.3 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.

The Company has determined that its current financial obligations, including current commitments, 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.

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. 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.

PPR monitors its capital structure using the ratio of Senior Leverage (as defined in Note 9) to trailing twelve months' EBITDAX (as defined in Note 9). Senior Leverage to 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.

(iii) Commodity Price Risk

PPR enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

March 31, 2021	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current asset	—	56	56
Derivative instruments – current liabilities	(2,699)	—	(2,699)
Derivative instruments – long-term liabilities	(824)	(39)	(863)
Total (liabilities) asset	(3,523)	17	(3,506)

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

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2021 and 2020:

Three Months Ended March 31, 2021	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(942)	(134)	(1,076)
Unrealized loss on derivative instruments	(4,302)	(2)	(4,304)
Total loss	(5,244)	(136)	(5,380)

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

The following table summarizes commodity derivative transactions as at March 31, 2021:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price/ bbl
Crude Oil Swaps			
April 01, 2021 - June 30, 2021	US$ WTI	500	$47.60
April 01, 2021 - June 30, 2021	US$ WTI	575	$52.25
Crude Oil Three-way Collars			
April 01, 2021 - December 31, 2021	US$ WTI	650	$40.00/50.00/64.25
July 01, 2021 - December 31, 2021	US$ WTI	300	$30.00/40.00/55.00
July 01, 2021 - December 31, 2021	US$ 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

Remaining Term	Reference	Total Daily Volume (MMBtu)	Weighted Average Price/ MMBtu
Natural Gas Swaps			
April 01, 2021 - June 30, 2021	US$ AECO	2,000	$1.95
April 01, 2021 - October 31, 2021	US$ AECO	3,500	$2.15
Natural Gas Three-way Collars			
April 01, 2022 - December 31, 2022	US$ 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	$2.50/3.99
Natural Gas Basis Swaps			
November 01, 2021 - March 31, 2022	US$ NYMEX/AECO	2,200	($0.67)

Subsequent to March 31, 2021, the Company entered into the following commodity derivative contracts:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Collars				
January 1, 2023 - March 31, 2023	US$ WTI	1,100	$3.50	$40.00/50.00