Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements
(Unaudited)

As at and for the Three and Nine Months Ended
September 30, 2021

Dated: November 10, 2021

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	September 30, 2021	December 31, 2020
ASSETS			
Cash		**1,392**	4,544
Restricted cash	7,18	**4,332**	4,332
Accounts receivable	18	**8,859**	7,875
Inventory		**760**	604
Prepaid expenses and other assets		**3,238**	2,654
Derivative instruments – current	18	**—**	798
Total current assets		**18,581**	20,807
Exploration and evaluation	4	**4,893**	5,785
Property and equipment	5	**217,887**	189,142
Right-of-use assets	6	**2,906**	3,948
Other assets		**645**	634
Total assets		**244,912**	220,316
LIABILITIES			
Accounts payable and accrued liabilities		**19,491**	14,683
Current portion of lease liabilities	9	**2,351**	2,548
Derivative instruments – current	18	**10,689**	—
Current portion of decommissioning liability	10	**3,500**	3,500
Warrant liability	8	**3,429**	686
Total current liabilities		**39,460**	21,417
Bank debt	7	**106,782**	103,071
Lease liabilities - non-current portion	9	**1,147**	2,606
Derivative instruments	18	**2,605**	—
Decommissioning liabilities	10	**161,801**	162,726
Other liabilities		**7,557**	7,406
Total liabilities		**319,352**	297,226
SHAREHOLDERS' DEFICIT			
Share capital	11	**101,362**	136,534
Contributed surplus		**38,824**	3,662
Accumulated deficit		**(215,078)**	(217,645)
Accumulated other comprehensive income ("AOCI")		**452**	539
Total deficit		**(74,440)**	(76,910)
Total liabilities and shareholders' deficit		**244,912**	220,316

See accompanying notes to the condensed interim consolidated financial statements.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	2021	2020	2021	2020
REVENUE					
Oil and natural gas revenue	14	22,133	13,904	59,359	37,509
Royalties		(2,708)	(1,404)	(6,257)	(3,722)
Oil and natural gas revenue, net of royalties		19,425	12,500	53,102	33,787
Unrealized (loss) gain on derivative instruments	18	(2,904)	(3,879)	(14,092)	8,697
Realized (loss) gain on derivative instruments	18	(2,276)	2,847	(5,609)	12,928
		14,245	11,468	33,401	55,412
Other income	10	1,666	—	1,799	—
EXPENSES					
Operating	15	10,101	9,054	29,074	27,872
General and administrative	16	1,073	1,328	3,974	4,818
Depletion and depreciation	5	5,821	6,150	17,429	21,650
Exploration and evaluation	4	625	255	864	1,811
Depreciation on right-of-use assets	6	308	526	1,277	1,652
Gain on property dispositions		(163)	(126)	(360)	(203)
Loss (gain) on warrant liability	8	1,029	—	2,743	(84)
Impairment loss (reversal)	4,5	720	—	(34,280)	76,587
Loss (gain) on foreign exchange		2,105	(1,431)	63	2,224
Change in other liabilities		55	(480)	163	(480)
Finance costs	17	3,836	4,490	11,349	13,439
Transaction, restructuring and other costs		323	(6)	323	107
Total expenses – net		25,833	19,760	32,619	149,393
(Loss) earnings before taxes		(9,922)	(8,292)	2,581	(93,981)
Current tax (recovery)		—	(16)	14	(78)
Net (loss) earnings		(9,922)	(8,276)	2,567	(93,903)
Other comprehensive (loss) income					
Items that may be reclassified to net (loss) earnings:					
Foreign currency translation adjustment		(272)	120	(87)	(145)
Comprehensive (loss) earnings		(10,194)	(8,156)	2,480	(94,048)
Net (loss) earnings per share					
Basic & diluted	11	(0.08)	(0.05)	0.02	(0.55)

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 (Deficit)
Balance at December 31, 2020		136,534	3,662	(217,645)	539	(76,910)
Share issuance costs	11	(4)	—	—	—	(4)
Share cancellation	11	(35,372)	35,372	—	—	—
Share-based compensation	12	—	46	—	—	46
Settlement of share-based compensation, net of withholding tax	11	230	(256)	—	—	(26)
Purchase of common shares for deferred share units ("DSUs") settlement	11	(26)	—	—	—	(26)
Foreign currency translation adjustment		—	—	—	(87)	(87)
Net earnings		—	—	2,567	—	2,567
Balance at September 30, 2021		101,362	38,824	(215,078)	452	(74,440)

($000s)	Note	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity (Deficit)
Balance at December 31, 2019		135,958	1,103	2,919	(126,872)	470	13,578
Share-based compensation		—	—	268	—	—	268
Settlement of restricted share units (“RSU”), net of withholding tax		350	—	(374)	—	—	(24)
Foreign currency translation adjustment		—	—	—	—	(145)	(145)
Net loss		—	—	—	(93,903)	—	(93,903)
Balance at September 30, 2020		136,308	1,103	2,813	(220,775)	325	(80,226)

See accompanying notes to the condensed interim consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

		Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	Note	**2021**	2020	**2021**	2020
OPERATING ACTIVITIES					
Net (loss) earnings		**(9,922)**	(8,276)	**2,567**	(93,903)
Adjustments for non-cash items:					
Impairment loss (reversal)	4,5	**720**	—	**(34,280)**	76,587
Unrealized loss (gain) on derivative instruments	18	**2,904**	3,879	**14,092**	(8,697)
Depletion and depreciation	5	**5,821**	6,150	**17,429**	21,650
Depreciation on right-of-use asset	6	**308**	526	**1,277**	1,652
Exploration and evaluation expense	4	**625**	255	**864**	1,811
Accretion and non-cash financing charges	17	**2,213**	1,348	**6,504**	4,027
Unrealized foreign exchange loss (gain)		**2,227**	(1,493)	**264**	2,021
Change in other liabilities		**55**	(480)	**163**	(480)
Gain on sale of properties		**(163)**	(126)	**(360)**	(203)
Loss (gain) on warrant liability	8	**1,029**	—	**2,743**	(84)
Share-based compensation	12	**(3)**	89	**55**	253
Non-cash other income	10	**(1,799)**	—	**(1,799)**	—
Settlements of decommissioning liabilities	10	**(452)**	(94)	**(692)**	(1,449)
Deferred interest on Senior Notes and Revolving Facility	7,17	**458**	2,046	**1,326**	5,327
Other, net		**59**	11	**10**	(16)
Change in non-cash working capital	13	**1,519**	(3,644)	**823**	(2,272)
Net cash from operating activities		**5,599**	191	**10,986**	6,224
FINANCING ACTIVITIES					
Debt issuance costs		**—**	(78)	**2**	(211)
Share issuance costs		**(1)**	—	**(4)**	—
Purchase of common shares for DSU settlement		**(7)**	—	**(26)**	—
Withholding taxes on settlement of share-based compensations	11	**(15)**	—	**(26)**	(24)
Lease payments	9	**(753)**	(749)	**(2,225)**	(2,376)
Change in Revolving Facility borrowings	7,13	**(1,337)**	—	**(2,778)**	(1,094)
Change in non-cash working capital	13	**301**	721	**901**	721
Net cash (used in) financing activities		**(1,812)**	(106)	**(4,156)**	(2,984)
INVESTING ACTIVITIES					
Exploration and evaluation expenditures	4	**(29)**	(33)	**(380)**	(150)
Property and equipment expenditures	5	**(4,729)**	102	**(10,823)**	(3,638)
Asset disposition (net of acquisition)		**31**	25	**(60)**	184
Change in non-cash working capital	13	**780**	(219)	**1,281**	(1,313)
Net cash used in investing activities		**(3,947)**	(125)	**(9,982)**	(4,917)
Change in cash and restricted cash		**(160)**	(40)	**(3,152)**	(1,677)
Cash and restricted cash, beginning of period		**5,884**	6,153	**8,876**	7,790
Cash and restricted cash, end of period		**5,724**	6,113	**5,724**	6,113

See accompanying notes to condensed interim consolidated financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the three and nine months ended September 30, 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 condensed interim consolidated financial statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

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

The Interim Financial Statements should be read in conjunction with the audited annual consolidated financial statements of PPR as at and for the years ended December 31, 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 November 10, 2021.

(b) Basis of measurement

The Interim 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" 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	380
Transfers to oil and gas property and equipment (Note 5)	(347)
Adjustments due to change in estimates in decommissioning liabilities (Note 10)	120
Exploration and evaluation expense	(864)
Disposals	(62)
Cost Balance – September 30, 2021	**61,771**
Provision for impairment – December 31, 2020	(56,759)
Impairment loss	(119)
Provision for impairment – September 30, 2021	(56,878)
Net book value – December 31, 2020	5,785
Net book value – September 30, 2021	**4,893**

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 and nine months ended September 30, 2021, PPR recognized $0.6 million and $0.9 million, respectively, (September 30, 2020 - $0.3 million and $1.8 million, respectively) 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 during the three and nine months ended September 30, 2021 (September 30, 2020 - $nil).

As at September 30, 2021, the Company assessed its E&E assets for indicators of impairment and did not note any indicators of impairment or impairment reversal that resulted in the need to perform impairment tests as at September 30, 2021. During the three and nine months ended September 30, 2021, PPR recognized non-cash E&E impairment loss of $0.1 million (September 30, 2020 - $nil) related to changes in estimates of decommissioning liabilities.

5. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Total
Cost:			
Balance – December 31, 2020	677,689	4,650	682,339
Additions	11,057	86	11,143
Acquisitions, net of dispositions	15	—	15
Adjustments due to change in estimates in decommissioning liabilities (Note 10)	317	—	317
Transfers from exploration and evaluation assets (Note 4)	347	—	347
Balance – September 30, 2021	689,425	4,736	694,161
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2020	(489,104)	(4,093)	(493,197)
Depletion and depreciation	(17,297)	(179)	(17,476)
Impairment reversal	34,399	—	34,399
Balance – September 30, 2021	(472,002)	(4,272)	(476,274)
Net book value – December 31, 2020	188,585	557	189,142
Net book value – September 30, 2021	217,423	464	217,887

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

During the three and nine months ended September 30, 2021, $0.2 million and $0.5 million, respectively, (September 30, 2020 - nominal amount and $0.2 million, respectively) of directly attributable general and administrative expenses, including a nominal amount (September 30, 2020 - nominal) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment (Reversal) Loss

As at September 30, 2021, the Company assessed its production and development assets for indicators of impairment or impairment recovery and did not note any indicators.

During the three and nine months ended September 30, 2021, PPR recognized non-cash impairment loss of $0.6 million (September 30, 2020 - $nil) related to changes in decommissioning liabilities of certain properties that had a zero carrying value.

At June 30, 2021, the significant increase in forecast benchmark commodity prices since the last impairment test at March 31, 2020 was an indicator of impairment reversal. PPR conducted a test for impairment reversal and determined that the recoverable amount exceeded the carrying amount for the Evi and Princess CGUs, resulting in the recognition of $35.0 million of impairment reversal in net income for the period. The recoverable amount of each CGUs was determined based on the fair value less costs of disposal ("FVLCD") and is a non-recurring fair value measurements which is classified as level 3 in the fair value hierarchy (see Note 3(g) of the Annual Financial Statements for information on fair value hierarchy) as certain key assumptions are not based on observable market data but rather the Company's best estimate. In estimating the FVLCD, PPR considered the net present value of after-tax cash flows from proved and probable reserves based on an independent reserves evaluation report prepared as at December 31, 2020 (updated to account for operations between December 31, 2020 and June 30, 2021 and for changes in forecast commodity prices, as published by our independent reserve evaluators, Sproule Associates Limited) and applying a discount rate of 12.5% to 15% as well as recent transactions completed within the industry on assets with similar characteristics to the relevant CGUs. Calculation of recoverable amounts are subject to the use of estimates and judgements (see note 2(d) - Use of Estimates and Judgements in the Annual Financial Statements).

The recoverable amounts as at June 30, 2021 were calculated using the following benchmark prices and assumptions, based on the forecast provided by our independent reserve evaluator:

	WTI ($US/bbl)	Edmonton Light ($CAD/bbl)	AECO ($CAD/ MMBtu)	Exchange rate ($US equals, $1CAD)	Inflation rate
2021	71.00	83.75	3.63	0.80	— %
2022	69.00	81.10	3.29	0.80	3 %
2023	67.00	78.45	2.82	0.80	3 %
2024	65.00	75.84	2.67	0.80	2 %
2025	66.30	77.36	2.72	0.80	2 %
2026	67.63	78.90	2.78	0.80	2 %
2027	68.98	80.48	2.83	0.80	2 %
2028	70.36	82.09	2.89	0.80	2 %
2029	71.77	83.73	2.95	0.80	2 %
2030	73.20	85.41	3.00	0.80	2 %
2031	74.66	87.12	3.06	0.80	2 %
Thereafter (inflation percentage)	2%	2%	2%	0.80	2 %

The following table summarizes the recoverable amount and impairment reversal at June 30, 2021:

CGU ***($000s)***	**Recoverable Amount**	**Impairment Reversal**
Evi	**83,819**	**23,000**
Princess	**38,915**	**12,000**
Total	**122,734**	**35,000**

The Princess CGU impairment reversal was limited to total accumulated impairment less subsequent depletion and as such, a decrease in the discount rate by 1% or an increase in forecast prices by 5% would not have affected impairment reversals recorded in the second quarter of 2021. With respect to the Evi CGU, the reversal of impairment would similarly not have been affected by a decrease in the discount rate by 1% or an increase in forecast prices by 5% given that the recoverable amount implied by the discounted cash flow analysis was capped as a result of cash flow metrics implied from recent market transactions.

At March 31, 2020, 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 of impairment testing, the Company determined that the carrying amounts of its Evi, Princess, Provost and Other CGUs exceeded their FVLCD and recorded $76.6 million of impairment loss for the three and nine months ended September 30, 2020 (see note 7(b) of the Annual Financial Statements).

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	**62**	**—**	**179**	**241**
Derecognition	**—**	**—**	**(6)**	**(6)**
Balance – September 30, 2021	**1,924**	**6,687**	**485**	**9,096**
Accumulated depreciation:				
Balance – December 31, 2020	(1,449)	(3,210)	(254)	(4,913)
Depreciation	**(39)**	**(1,204)**	**(34)**	**(1,277)**
Balance – September 30, 2021	**(1,488)**	**(4,414)**	**(288)**	**(6,190)**
Net book value – December 31, 2020	413	3,477	58	3,948
Net book value – September 30, 2021	**436**	**2,273**	**197**	**2,906**

7. BANK DEBT

($000s)	**September 30, 2021**	December 31, 2020
Revolving Facility		
USD Advances (US$14.0 million (December 31, 2020 - US$16.0 million))[1]	**17,837**	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))[2]	**543**	590
Total principal and deferred - Revolving Facility	**58,910**	61,491
Senior Notes Issued October 31, 2017		
Principal (US$16.0 million)[1]	**20,386**	20,371
Deferred interest (US$4.4 million (December 31, 2020 - US$4.4 million))[1]	**5,615**	5,611
Total Principal and Deferred Interest - October 31, 2017 Senior Notes	**26,001**	25,982
Senior Notes Issued November 21, 2018		
Principal (US$12.5 million)[1]	**15,926**	15,915
Deferred interest (US$2.6 million (December 31, 2020 - US$2.6 million))[1]	**3,341**	3,338
Total Principal and Deferred Interest - November 21, 2018 Senior Notes	**19,267**	19,253
Senior Notes Issued December 21, 2020		
Principal (US$11.4 million)[1]	**14,509**	14,500
Deferred interest (US$1.1 million (December 31, 2020 - US$0.04 million))[1]	**1,398**	48
Total Principal and Deferred Interest - December 21, 2020 Senior Notes	**15,907**	14,548
Total Principal and Deferred Interest - Senior Notes	**61,175**	59,783
Unamortized deferred financing fees	**(431)**	(691)
Unamortized value allocated to warrant liability	**(334)**	(343)
Unamortized value allocated to fair value adjustment	**(12,538)**	(17,169)
Long-term debt	**106,782**	103,071

[1] Converted using the month end exchange rate of $1.00 USD to $1.27 CAD as at September 30, 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 September 30, 2021, the Company had US$13.3 million (CAN$16.9 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.

As at September 30, 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 a cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market instruments with maturity dates of one year or less when purchased (see Note 18).

As at September 30, 2021, $0.4 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 was 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, 2020 (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 September 30, 2021 are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at September 30, 2021
Senior Leverage[1]	Cannot exceed 5.45 to 1.00	Cannot exceed 6.27 to 1.00	2.77 to 1.00
Asset Coverage[2]	Cannot be less than 0.37 to 1.00	Cannot be less than 0.31 to 1.00	1.16 to 1.00
Current Ratio[3]	Cannot be less than 1.00 to 1.00	Cannot be less than 0.85 to 1.00	1.88 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 September 30, 2021.

8. WARRANT LIABILITY

	Warrant Expiring December 21, 2028	
	Number of Warrants *(000s)*	**Amount *($000s)***
Balance – December 31, 2020	34,292	686
Fair value adjustment	—	2,743
Balance – September 30, 2021	**34,292**	**3,429**

The fair value of the warrants as at September 30, 2021 was $0.10 per warrant and was estimated using the following assumptions:

September 30, 2021	**Warrants Expiring December 21, 2028**
Risk-free interest rate	1.2%
Expected life of options (years)	7.2
Expected volatility	164.4%
Stock price	$0.10
Dividends per share	—

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2020	5,154
Additions and adjustments	250
Finance expense	333
Lease payments	(2,239)
Ending balance – September 30, 2021	**3,498**
Less: current portion	**2,351**
Ending balance – long-term portion	**1,147**

The expense recognized for variable lease payments (net of variable sublease income) excluded in the measure of lease liabilities during the three and nine months ended September 30, 2021 were $0.04 million and $0.09 million, respectively, (September 30, 2020 – $0.05 million and $0.1 million, respectively).

The following table details the undiscounted cash flows of PPR's lease obligations, as at September 30, 2021:

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	2,579	1,152	12	58	3,801	3,498

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2020	166,226
Liabilities incurred	**329**
Liabilities disposed - net	**(467)**
Government grants	**(1,799)**
Settlements	**(692)**
Change in estimates	**437**
Accretion of decommissioning liabilities	**1,267**
Total Balance – September 30, 2021	**165,301**
Comprised of:	
Current portion – September 30, 2021	**3,500**
Long-term portion – September 30, 2021	**161,801**
Current portion – December 31, 2020	3,500
Long-term portion – December 31, 2020	162,726

The Company estimated the undiscounted and inflated total future liabilities to be approximately $252.0 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 September 30, 2021 were determined using risk-free rates of 0.50% - 1.70% (December 31, 2020 – 0.52% - 1.19%) and an inflation rate of 1.6% (December 31, 2020 – 1.1%).

As at September 30, 2021, the change in estimates of $0.4 million is comprised of a $21.2 million increase resulting from a higher inflation rate which was offset by a $20.8 million decrease resulting from the higher risk-free rates applied at September 30, 2021 than at December 31, 2020.

During the nine months ended September 30, 2021, PPR recognized $1.8 million (2020 – $nil) of non-cash other income and a reduction of decommissioning liabilities related to government grants under the Government of Alberta's Site Rehabilitation Program.

11. SHARE CAPITAL

(a) Authorized

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

(b) Units Outstanding

	Number of Shares *(000s)*	Amount *($000s)*
Common shares:		
PPR Shares, December 31, 2019	171,427	135,958
Share issuance costs	—	4
Issued for RSU settlements	897	600
Withholding taxes on RSU settlements	—	(28)
PPR Shares, December 31, 2020	172,324	136,534
Share issuance costs	**—**	**(4)**
Issued for RSU and DSU settlements	**1,187**	**256**
Withholding taxes on RSU and DSU settlements	**—**	**(26)**
Share repurchase for DSU settlement	**(356)**	**(26)**
Share cancellation	**(44,711)**	**(35,372)**
PPR Shares, September 30, 2021	**128,444**	**101,362**

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) Earnings (Loss) per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
(000s)	**2021**	2020	**2021**	2020
Net (loss) earnings for the period	**(9,922)**	(8,276)	**2,567**	(93,903)
Weighted average number of common shares				
Basic	**128,395**	172,065	**139,772**	171,981
Diluted	**128,395**	172,065	**167,095**	171,981
Basic & diluted net (loss) earnings per share	**$(0.08)**	$(0.05)	**$0.02**	$(0.55)

In calculating the weighted-average number of diluted common shares outstanding for the three months ended September 30, 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 (three months ended September 30, 2020 – all anti-dilutive instruments excluded). For the nine months ended September 30, 2021, 3,085,853 options were excluded from the diluted weighted average shares calculation as they were anti-dilutive (nine months ended September 30, 2020 – all equity-settleable share based instruments were anti-dilutive).

12. SHARE-BASED COMPENSATION

(a) Stock Options

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

	Number of Options	Weighted Average Exercise Price
Balance – December 31, 2020	5,514,877	0.34
Granted	1,000,000	0.08
Forfeited or expired	(2,153,318)	0.43
Balance – September 30, 2021	4,361,559	0.24
Exercisable at September 30, 2021	2,300,723	0.38

The fair value of options granted in 2021 was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting fair value for the grants made during the nine months ended September 30, 2021:

Weighted Average for the period ended	September 30, 2021
Fair value of options per unit	$0.07
Risk free interest rate	0.8%
Expected life of options (years)	4.0
Expected volatility	165.6%
Estimated forfeiture rate	0.0%
Dividend per share	—
Exercise price of option	$0.08

	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**
2017	876,665	$0.75	0.3	876,665	$0.75
2019	1,209,188	$0.21	2.4	892,160	$0.21
2020	1,275,706	$0.05	3.4	531,898	$0.05
2021	1,000,000	$0.08	4.8	—	$0.08
Total	4,361,559	$0.24	2.8	2,300,723	$0.38

(b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance – December 31, 2020	2,337,081
Granted	550,000
Settled	(1,006,813)
Balance – September 30, 2021	1,880,268

(c) Restricted Share Units

The following table summarizes the RSUs outstanding under the plan:

	RSUs
Balance – December 31, 2020	1,805,021
Granted	**1,816,000**
Settled	**(773,377)**
Forfeited or expired	**(753,130)**
Balance – September 30, 2021	**2,094,514**

The weighted average fair value at the grant date for the RSUs awarded in 2021 was $0.06 per unit.

(d) **Share-based compensation expense**

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2021**	2020	**2021**	2020
Shared-based compensation expense (recovery):				
Gross share-based compensation	**(9)**	89	**46**	268
(Capitalized) during the period	**6**	—	**9**	(15)
Share-based compensation (recovery) expense	**(3)**	89	**55**	253

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2021**	2020	**2021**	2020
Source (use) of cash:				
Accounts receivable	**86**	1,198	**(984)**	1,855
Prepaid expenses and other current assets	**298**	(966)	**(740)**	268
Accounts payable and accrued liabilities	**2,300**	(3,386)	**4,808**	(4,980)
Foreign exchange on translation	**(84)**	12	**(79)**	(7)
	2,600	(3,142)	**3,005**	(2,864)
Related to operating activities	**1,519**	(3,644)	**823**	(2,272)
Related to financing activities	**301**	721	**901**	721
Related to investing activities	**780**	(219)	**1,281**	(1,313)
	2,600	(3,142)	**3,005**	(2,864)
Other:				
Interest paid during the period	**1,165**	1,138	**3,889**	4,826

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance – December 31, 2020	60,798	42,273
Changes in cash flows	(2,731)	—
Deferred interest	(47)	1,326
Debt issuance costs	2	—
Non-cash changes		
Unrealized foreign exchange loss	198	64
Amortization of debt issuance costs	259	9
Amortization of fair valuation of debt	—	4,631
Balance – September 30, 2021	58,479	48,303

14. REVENUE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2021	2020	2021	2020
Light & medium crude oil	15,834	11,010	45,399	29,185
Heavy crude oil	2,536	775	4,119	2,098
Conventional natural gas	3,050	1,809	7,964	5,401
Natural gas liquids	713	310	1,877	825
Oil and natural gas revenue	22,133	13,904	59,359	37,509

Included in accounts receivable at September 30, 2021 was $6.0 million (December 31, 2020 – $4.3 million related to December 2020 production) of accrued oil and natural gas sales related to September 2021 production.

15. OPERATING EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	2021	2020	2021	2020
Lease operating expense	8,175	7,252	23,026	21,896
Transportation and processing	859	489	2,166	1,738
Production, property and carbon taxes	1,067	1,313	3,882	4,238
Operating expense	10,101	9,054	29,074	27,872

16. GENERAL AND ADMINISTRATIVE COSTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2021**	2020	**2021**	2020
Salaries and benefits	**840**	848	**2,651**	2,807
Share-based compensation	**(9)**	89	**46**	268
Office rents and leases	**235**	249	**659**	682
Professional fees	**225**	171	**1,246**	998
Other – office	**(47)**	(27)	**(115)**	247
	1,244	1,330	**4,487**	5,002
Amounts capitalized to PP&E and E&E assets and Other	**(171)**	(2)	**(513)**	(184)
General and administrative expense	**1,073**	1,328	**3,974**	4,818

During the three and nine months ended September 30, 2021, PPR qualified for $0.2 million and $0.6 million (2020 – $0.1 million and $0.3 million, respectively) of government grants under the Canada Emergency Wage Subsidy and the Canadian Emergency Rent Subsidy programs, which were recognized as reductions in general and administrative expenses in the "Other - office" category.

17. FINANCE COSTS

	Three Months Ended September 30,		Nine Months Ended September 30,	
($000s)	**2021**	2020	**2021**	2020
Interest expense	**1,165**	1,096	**3,519**	4,084
Deferred interest expense[1]	**458**	2,046	**1,326**	5,327
Non-cash interest on debt (fair valuation and warrant liabilities)	**1,617**	111	**4,640**	316
Amortization of financing costs	**85**	386	**258**	1,104
Non-cash interest on lease liabilities (Note 9)	**86**	155	**333**	519
Accretion – decommissioning liabilities (Note 10)	**423**	694	**1,267**	2,081
Accretion – other liabilities	**2**	2	**6**	8
Finance cost	**3,836**	4,490	**11,349**	13,439

(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 Value of Financial Instruments

During the periods ended September 30, 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 September 30, 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 the ongoing global pandemic and its related impact to the economy, companies and their credit risk into its assessment of expected credit loss at September 30, 2021.

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

($000s)	**September 30, 2021**	December 31, 2020
Oil and natural gas marketing companies	**6,307**	4,412
Joint venture partners	**1,493**	1,486
Government agencies	**304**	534
Counterparties – derivative instruments	**—**	363
Other	**755**	1,080
Total accounts receivable	**8,859**	7,875

The Company’s accounts receivable are aged as follows:

($000s)	**September 30, 2021**	December 31, 2020
Current (less than 90 days)	**7,979**	7,115
Past due (more than 90 days)	**880**	760
Total	**8,859**	7,875

PPR’s allowance for doubtful accounts was $0.1 million as at September 30, 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 believed to have low credit risk. As of September 30, 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 September 30, 2021 and December 31, 2020. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

September 30, 2021 *($000s)*	**Gross Liabilities**	**Amount Offset Gross Liabilities**	**Net Amount Presented**
Current:			
Derivative instruments liabilities	**(11,574)**	**885**	**(10,689)**
Long-term:			
Derivative instruments liabilities – long-term	**(3,167)**	**562**	**(2,605)**

December 31, 2020 *($000s)*	Gross Assets (Liabilities)	Amount 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 September 30, 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 7) to trailing twelve months' EBITDAX (as defined in Note 7). 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. As September 30, 2021, the Senior Leverage ratio was 2.77 to 1.00, significantly lower than the required threshold.

(iii) Commodity Price Risk

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

September 30, 2021	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current liabilities	**(8,332)**	**(2,357)**	**(10,689)**
Derivative instruments – long-term liabilities	**(1,800)**	**(805)**	**(2,605)**
Total Liabilities	**(10,132)**	**(3,162)**	**(13,294)**

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

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three and nine months ended September 30, 2021 and 2020:

Three Months Ended September 30, 2021	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(1,894)	(382)	(2,276)
Unrealized loss on derivative instruments	(826)	(2,078)	(2,904)
Total loss	(2,720)	(2,460)	(5,180)

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

Nine months ended September 30, 2021	Crude Oil	Natural Gas	Total
($000s)			
Realized loss on derivative instruments	(4,943)	(666)	(5,609)
Unrealized loss on derivative instruments	(10,911)	(3,181)	(14,092)
Total loss	(15,854)	(3,847)	(19,701)

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

The following table summarizes commodity derivative transactions as at September 30, 2021:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/bbl	Weighted Average Price/bbl
Crude Oil Put Spread Options				
January 01, 2023 - March 31, 2023	US$ WTI	1,100	3.50[1]	$40.00/50.00
April 01, 2023 - June 30, 2023	US$ WTI	1,050	3.75[1]	$40.00/50.00
Crude Oil Three-way Collars				
October 01, 2021 - December 31, 2021	US$ WTI	650		$40.00/50.00/64.25
October 01, 2021 - December 31, 2021	US$ WTI	300		$30.00/40.00/55.00
October 01, 2021 - December 31, 2021	US$ 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

[1] Deferred premiums, payable upon settlement of the derivative contracts.

Remaining Term	Reference	Total Daily Volume (MMBtu)	Weighted Average Price/ MMBtu
Natural Gas Swaps			
October 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	$1.75/2.00/3.32
January 01, 2023 - March 31, 2023	US$ NYMEX	3,300	$2.00/2.50/3.75
Natural Gas Collars			
October 01, 2021 - December 31, 2021	US$ 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	$2.50/3.99
April 01, 2023 - June 30, 2023	US$ NYMEX	3,000	$2.00/3.80
Natural Gas Basis Swaps			
November 01, 2021 - March 31, 2022	US$ NYMEX/AECO	2,200	$(0.67)