Prairie Provident Resources Inc.

Condensed Interim Consolidated Financial Statements (Unaudited)

As at and for the Three Months Ended March 31, 2022

Dated: May 11, 2022

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (UNAUDITED)

As at *($000s)*	Note	March 31, 2022	December 31, 2021
ASSETS			
Cash		**1,906**	1,851
Restricted cash	18	**4,332**	4,332
Accounts receivable	18	**12,403**	9,315
Inventory		**806**	823
Prepaid expenses and other assets		**2,997**	3,282
Total current assets		**22,444**	19,603
Exploration and evaluation	4	**4,294**	4,344
Property and equipment	5	**222,769**	205,816
Right-of-use assets	6	**2,066**	2,581
Other assets		**619**	619
Total assets		**252,192**	232,963
LIABILITIES			
Accounts payable and accrued liabilities		**24,881**	19,970
Lease liabilities – current portion	9	**2,073**	2,274
Derivative instruments – current	18	**18,184**	8,618
Current portion of decommissioning liability	10	**4,000**	4,000
Warrant liability	8	**8,916**	4,115
Total current liabilities		**58,054**	38,977
Long-term debt	7	**112,835**	109,355
Lease liabilities – non-current portion	9	**134**	584
Derivative instruments	18	**1,238**	686
Decommissioning liabilities	10	**140,783**	142,332
Other liabilities		**7,489**	7,589
Total liabilities		**320,533**	299,523
SHAREHOLDERS' EQUITY			
Share capital	11	**101,424**	101,421
Contributed surplus		**38,783**	38,772
Accumulated deficit		**(209,124)**	(207,227)
Accumulated other comprehensive income ("AOCI")		**576**	474
Total equity		**(68,341)**	(66,560)
Total liabilities and shareholders' equity		**252,192**	232,963

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, 2022	March 31, 2021
REVENUE			
Oil and natural gas revenue	14	29,372	16,967
Royalties		(3,577)	(1,225)
Oil and natural gas revenue, net of royalties		25,795	15,742
Unrealized loss on derivative instruments	18	(10,118)	(4,304)
Realized loss on derivative instruments	18	(5,552)	(1,076)
		10,125	10,362
Other income		189	53
EXPENSES			
Operating	15	10,075	9,819
General and administrative	16	1,979	1,628
Depletion and depreciation	5	5,479	5,809
Exploration and evaluation	4	178	131
Depreciation on right-of-use assets	6	455	511
Gain on property dispositions		(20)	(131)
Loss on warrant liability	8	4,801	1,372
Impairment reversal	5	(15,000)	—
Gain on foreign exchange		(1,090)	(972)
Change in other liabilities		43	—
Finance costs	17	4,052	3,754
Transaction and restructuring costs		1,259	—
Total expenses – net		12,211	21,921
Net loss		(1,897)	(11,506)
Other comprehensive earnings			
Items that may be reclassified to net loss:			
Foreign currency translation adjustment		102	85
Comprehensive loss		(1,795)	(11,421)
Net loss per share			
Basic & diluted	11	(0.01)	(0.07)

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, 2021		101,421	38,772	(207,227)	474	(66,560)
Share-based compensation	12	—	18	—	—	18
Settlement of share-based compensation, net of withholding tax	11	3	(7)	—	—	(4)
Exchange differences on translation of foreign operations		—	—	—	102	102
Net loss		—	—	(1,897)	—	(1,897)
Balance at March 31, 2022		101,424	38,783	(209,124)	576	(68,341)

($000s)	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	(35,372)	35,372	—	—	—
Share-based compensation	—	27	—	—	27
Settlement of share-based compensation, net of withholding tax	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)

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, 2022	March 31, 2021
OPERATING ACTIVITIES			
Net loss		**(1,897)**	(11,506)
Adjustments for non-cash items:			
Impairment reversal	5	**(15,000)**	—
Unrealized loss on derivative instruments	18	**10,118**	4,304
Depletion and depreciation	5	**5,479**	5,809
Depreciation on right-of-use asset	6	**455**	511
Exploration and evaluation expense	4	**178**	131
Accretion and non-cash finance costs	17	**2,255**	2,115
Unrealized foreign exchange gain		**(1,093)**	(907)
Change in other liabilities		**43**	—
Gain on sale of properties		**(20)**	(131)
Loss on warrant liability	8	**4,801**	1,372
Share-based compensation	12	**15**	19
Non-cash other income		**(189)**	—
Settlements of decommissioning liabilities	10	**(2,124)**	(125)
Deferred interest on Senior Notes	7,17	**535**	387
Other, net		**35**	34
Change in non-cash working capital	13	**(1,122)**	2,604
Net cash from operating activities		**2,469**	4,617
FINANCING ACTIVITIES			
Share issuance costs		**—**	(1)
Settlement of share-based compensation, including withholding taxes and net of proceeds	11,12	**(3)**	(9)
Repayments of principal related to lease obligations	9	**(643)**	(724)
Change in Revolving Facility borrowings	7,13	**2,420**	(2,604)
Change in non-cash working capital	13	**300**	300
Net cash from (used in) financing activities		**2,074**	(3,038)
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	4	**(128)**	(321)
Property and equipment expenditures	5	**(7,328)**	(4,205)
Proceeds from dispositions (net of acquisitions)		**20**	102
Change in non-cash working capital	13	**2,948**	1,007
Net cash used in investing activities		**(4,488)**	(3,417)
Change in cash and restricted cash		**55**	(1,838)
Cash and restricted cash beginning of period		**6,183**	8,876
Cash and restricted cash end of period		**6,238**	7,038

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, 2022 and 2021

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 consolidated interim financial statements (the "Interim 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 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, 2021 and 2020 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, 2022.

(b) Basis of measurement

The Interim Financial Statements have been prepared on the historical cost basis except for except for those amounts 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 note 2(d).

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

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

4. EXPLORATION AND EVALUATION ASSETS

($000s)	
Cost Balance - December 31, 2021	62,614
Additions	**128**
Exploration and evaluation expense	**(178)**
Cost Balance - March 31, 2022	**62,564**
Provision for impairment – March 31, 2022 and December 31, 2021	**(58,270)**
Net book value – December 31, 2021	4,344
Net book value – March 31, 2022	**4,294**

During the three months ended March 31, 2022, PPR recognized $0.2 million (2021 - $0.1 million) of exploration and evaluation ("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 (2021 - $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, 2022 or December 31, 2021.

5. PROPERTY AND EQUIPMENT

($000s)	**Production and Development**	**Office Equipment**	**Total**
Cost:			
Balance - December 31, 2021	675,115	4,810	679,925
Additions	**7,429**	**62**	**7,491**
Balance - March 31, 2022	**682,544**	**4,872**	**687,416**
Accumulated impairment, depletion and depreciation:			
Balance – December 31, 2021	(469,770)	(4,339)	(474,109)
Depletion and depreciation	**(5,494)**	**(44)**	**(5,538)**
Impairment reversal	**15,000**	**—**	**15,000**
Balance - March 31, 2022	**(460,264)**	**(4,383)**	**(464,647)**
Net book value - December 31, 2021	205,345	471	205,816
Net book value – March 31, 2022	**222,280**	**489**	**222,769**

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

During the three months ended March 31,2022, $0.3 million (2021 – $0.2 million) of directly attributable general and administrative expenses, including a nominal amount (2021 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Reversal

As at March 31, 2022, the significant increase in forecast benchmark commodity prices since the last impairment test at June 30, 2021 was identified as an indicator of impairment reversal related to the Evi CGU. PPR conducted a test for impairment reversal and determined that the recoverable amount exceeded the carrying amount for the Evi CGU, resulting in the recognition of $15.0 million of impairment reversal in the period. The recoverable amount of the Evi CGU 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 reserves based on an independent reserves evaluation report prepared as at December 31, 2021 (updated to account for operations between December 31, 2021 and March 31, 2022 and for changes in forecast commodity prices, as published by our independent reserve evaluators, Sproule Associates Limited), and applying a discount rate of 17%. Calculation of recoverable amounts are subject to the use of estimates and judgements (see note 2(d) - Use of Estimates and Judgments in the Annual Financial Statements).

The recoverable amount as at March 31, 2022 was 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
Remainder of 2022	93.00	114.38	5.13	0.80	— %
2023	83.00	100.00	4.29	0.80	2 %
2024	73.00	86.25	3.02	0.80	2 %
2025	74.46	87.98	3.08	0.80	2 %
2026	75.95	89.73	3.14	0.80	2 %
2027	77.47	91.53	3.21	0.80	2 %
2028	79.02	93.36	3.27	0.80	2 %
2029	80.60	95.23	3.34	0.80	2 %
2030	82.21	97.13	3.40	0.80	2 %
2031	83.85	99.07	3.47	0.80	2 %
2032	85.53	101.06	3.54	0.80	2 %
Thereafter (inflation percentage)	2 %	2 %	2 %	0.80	2 %

The following table summarizes the effect of change in discount rate and commodity prices at March 31, 2022:

CGU ***($000s)***	**Recoverable Amount**	**Change in FVLCD with a 1% decrease in discount rate**	**Change in FVLCD with a 5% increase in commodity prices**
Evi	**90,269**	**2,028**	**4,818**

At December 31, 2021, the Company assessed its production and development assets for indicators of impairment or impairment reversal and none were noted.

6. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance - December 31, 2021	1,924	6,687	521	9,132
Additions and adjustments	—	—	42	42
Disposition/Derecognition	—	—	(102)	(102)
Balance – March 31, 2022	1,924	6,687	461	9,072
Accumulated depreciation:				
Balance - December 31, 2021	(1,427)	(4,815)	(309)	(6,551)
Depreciation	(37)	(401)	(17)	(455)
Balance – March 31, 2022	(1,464)	(5,216)	(326)	(7,006)
Net book value - December 31, 2021	497	1,872	212	2,581
Net book value – March 31, 2022	460	1,471	135	2,066

7. LONG-TERM DEBT

($000s)	March 31, 2022	December 31, 2021
Revolving Facility		
USD Advances (US$18.9 million (December 31, 2021 - US$17.0 million))[1]	23,618	21,553
CAD Advances (US$30.0 million (December 31, 2021 - US$30.0 million))[2]	40,530	40,530
CAD Deferred Interest (US$0.4 million (December 31, 2021 - US$0.4 million))[2]	541	541
Total principal and deferred - Revolving Facility	64,689	62,624
Senior Notes Issued October 31, 2017		
Principal (US$16.0 million)[1]	19,994	20,285
Deferred interest (US$4.4 million (December 31, 2021 - US$4.4 million))[1]	5,532	5,587
Total Principal and Deferred Interest - October 31, 2017 Senior Notes	25,526	25,872
Senior Notes Issued November 21, 2018		
Principal (US$12.5 million)[1]	15,620	15,848
Deferred interest (US$2.6 million (December 31, 2021 - US$2.6 million))[1]	3,298	3,324
Total Principal and Deferred Interest - November 21, 2018 Senior Notes	18,918	19,172
Senior Notes Issued December 21, 2020		
Principal (US$11.4 million)[1]	14,230	14,438
Deferred interest (US$1.9 million (December 31, 2021 - US$1.5 million))[1]	2,322	1,866
Total Principal and Deferred Interest - December 21, 2020 Senior Notes	16,552	16,304
Total Principal and Deferred Interest - Senior Notes	60,996	61,348
Unamortized deferred financing fees	(340)	(389)
Unamortized value allocated to Warrant Liability	(325)	(330)
Unamortized value allocated to fair value adjustment	(12,185)	(13,898)
Long-term debt	112,835	109,355
Long-term debt due within one year	—	—
Long-term debt due beyond one year	112,835	109,355

[1] Converted using the month end exchange rate of $1.00 USD to $1.25 CAD as at March 31, 2022 and $1.00 USD to $1.27 CAD as at December 31, 2021

[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 (the "Revolving Facility") has a borrowing base of US$53.8 million and a maturity date of December 31, 2023. The borrowing base is subject to a reduction to US$50.0 million on December 31, 2022 and to semi-annual redeterminations thereafter, without limiting the lenders' right to require a redetermination at any time. The next borrowing base re-determination is in Spring 2023 based on the year-end 2022 reserves evaluation. As at March 31, 2022, the Company had US$4.5 million (CAN$5.6 million equivalent) borrowing capacity under the Revolving Facility (December 31, 2021 - US$6.4 million (CAD$8.1 million equivalent).

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 are 650 basis points until December 31, 2022, and then 950 basis points thereafter, and standby fees on any undrawn borrowing capacity are 87.5 basis points per annum.

PPR can make further draws under the Revolving Facility on or before the maturity date, subject at all times to the then-applicable commitment amount. 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 March 31, 2022, PPR had outstanding letters of credit of $4.2 million (December 31, 2021 – $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, 2022, $0.3 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2021 – $0.4 million).

(b) Subordinated Senior Notes

On December 29, 2021, 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 2024"). Under the amendments, the maturity date was extended from June 30, 2023 to June 30, 2024. Under a previous amendment to the Senior Notes due 2024 that occurred on December 21, 2020, the annual interest rate was reduced from 15% per annum to nil until June 30, 2021, and was set to rise thereafter 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. PPR did not incur any interest expense between December 21, 2020 and March 21, 2022, at which time the interest rate increased to 4% per the terms of the agreements.

Additionally, on December 21, 2020, PPR issued additional US$11.4 million senior notes ("Senior Notes due 2026", collectively with the Senior Notes due 2024, "Senior Notes") (CAN$14.2 million using the March 31, 2022, month-end exchange rate of $1.00 USD to $1.25 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 so long as any indebtedness remains outstanding under the Revolving Facility, 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. PPR will thereafter be permitted to elect to defer up to 4.00% per annum of interest on the Senior Notes.

PPR accounted for the December 29, 2021 amendments to the Senior Notes due 2024 as a modification, resulting in the recognition of a gain on revaluation of the liability in the fourth quarter of 2021 of $3.5 million.

(c) Covenants

The note purchase agreement for the Revolving Facility, the Senior Notes 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 agreements for the Revolving Facility and the Senior Notes include the same financial covenants, with less restrictive thresholds under the Senior Notes agreements.

The applicable financial covenants thresholds as at March 31, 2022 are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at March 31, 2022
Senior Leverage[1]	Cannot exceed 5.70 to 1.00	Cannot exceed 6.56 to 1.00	2.39 to 1.00
Asset Coverage[2]	Cannot be less than 0.40 to 1.00	Cannot be less than 0.34 to 1.00	1.61 to 1.00
Current Ratio[3]	Cannot be less than 0.90 to 1.00	Cannot be less than 0.77 to 1.00	1.16 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.

Future thresholds for financial covenants vary by quarter and are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement
Senior Leverage	Cannot exceed between 3.00 and 6.36 to 1.00	Cannot exceed between 3.00 and 7.31 to 1.00
Asset Coverage	Cannot be less than between 0.34 and 0.87 to 1.00	Cannot be less than between 0.29 and 0.78 to 1.00
Current Ratio	Cannot be less than 1.00 to 1.00	Cannot be less than 0.85 to 1.00

The Company was in compliance with all applicable covenants as at March 31, 2022.

8. WARRANT LIABILITY

	Warrant Expiring December 21, 2028	
	Number of Warrants	Amount
PPR Warrant Liability, December 31, 2021	34,292	4,115
Fair value adjustment	—	4,801
PPR Warrant Liability, March 31, 2022	**34,292**	**8,916**

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, 2022 of $0.26 per warrant was estimated using the following assumptions:

	Warrants Expiring December 21, 2028
Risk-free interest rate	**2.37%**
Exercise price	**$0.0192**
Expected life of options (years)	**6.7**
Expected volatility	**162%**
Stock price at March 31, 2022	**$0.27**
Dividends per share	**—**

9. LEASE LIABILITIES

($000s)	
Opening balance – December 31, 2021	2,858
Additions and adjustments	**(72)**
Finance expense	**64**
Lease payments	**(643)**
Ending balance – March 31, 2022	**2,207**
Less: current portion	**2,073**
Ending balance – Non-current portion	**134**

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, 2022, was a $0.1 million recovery (2021 – nominal).

The following table details the undiscounted cash flows of PPR's lease obligations, as at March 31, 2022:

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	**2,189**	**109**	**12**	**55**	**2,365**	**2,207**

10. DECOMMISSIONING LIABILITIES

($000s)	
Total Balance – December 31, 2021	146,332
Liabilities incurred	**160**
Government grants	**(189)**
Settlements	**(2,124)**
Accretion of decommissioning liabilities	**604**
Total Balance – March 31, 2022	**144,783**
Current portion	**4,000**
Long-term portion	**140,783**

The Company estimated the undiscounted and inflated total future liabilities to be approximately $243.9 million (December 31, 2021 – $245.9 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 34 years, of which $18.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at March 31, 2022 were determined using risk-free rates of 0.72% - 1.88% (December 31, 2021 – 0.72% - 1.88%) and an inflation rate of 1.6% (December 31, 2021 – 1.6%).

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, 2021	128,725	101,421
Issued for Options and restricted share unit ("RSU") settlements	157	11
Withholding taxes on RSU settlement	—	(8)
PPR Shares, March 31, 2022	**128,882**	**101,424**

(c) Loss per Share

Three months ended *(000s)*	March 31, 2022	March 31, 2021
Net loss for the period	(1,897)	(11,506)
Weighted average number of common shares		
Basic & diluted	128,855	163,126
Basic & diluted net loss per share	(0.01)	(0.07)

In calculating the weighted-average number of diluted common shares outstanding for the three months ended March 31, 2022, 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, 2021 – 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, 2021	3,401,015	0.24
Exercised	(107,859)	0.05
Forfeited or expired	(994,110)	0.56
Balance, March 31, 2022	**2,299,046**	0.11
Exercisable at March 31, 2022	**1,160,751**	0.14

	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**
2019	**647,041**	**$0.21**	**1.9**	**647,041**	**$0.21**
2020	**652,005**	**$0.05**	**2.9**	**513,710**	**$0.05**
2021	**1,000,000**	**$0.08**	**4.2**	**—**	**$0.00**
Total	**2,299,046**	**$0.11**	**3.2**	**1,160,751**	**$0.14**

No new options were granted during the three months ended March 31, 2022.

(b) Deferred Restricted Share Units

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, December 31, 2021 and March 31, 2022	**1,880,268**

No new DSUs were granted during the three months ended March 31, 2022.

(c) Restricted Share Units

	RSUs
Balance – December 31, 2021	1,474,263
Settled	**(95,131)**
Forfeited or expired	**(213,910)**
Balance – March 31, 2022	**1,165,222**

No new RSUs were granted during the three months ended March 31, 2022.

(d) Share-based compensation expense

Three months ended *($000s)*	**March 31, 2022**	March 31, 2021
Shared based compensation expense:		
Included in G&A	**18**	27
Share-based compensation expense before capitalization	**18**	27
Capitalized during the period	**(3)**	(8)
Share-based compensation expense after capitalization	**15**	19

13. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Three months ended ($000s)	March 31, 2022	March 31, 2021
Source (use) of cash:		
Accounts receivable	(3,088)	(511)
Prepaid expenses and other current assets	302	202
Accounts payable and accrued liabilities	4,911	4,218
Foreign exchange on translation	1	2
	2,126	3,911
Related to operating activities	(1,122)	2,604
Related to financing activities	300	300
Related to investing activities	2,948	1,007
	2,126	3,911
Other:		
Interest paid during the period	945	1,567

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
Balance as of December 31, 2021	62,235	47,120
Changes in cash flows	2,420	—
Deferred interest	—	535
Non-cash changes		
Unrealized foreign exchange gain	(355)	(704)
Amortization of debt issuance costs	49	4
Amortization of debt modification adjustments	—	1,531
Balance as of March 31, 2022	64,349	48,486

14. REVENUE

Three months ended ($000s)	March 31, 2022	March 31, 2021
Light & medium crude oil	19,005	13,322
Heavy crude oil	5,719	545
Conventional natural gas	3,809	2,580
Natural gas liquid	839	520
Oil and natural gas revenue	29,372	16,967

Included in accounts receivable at March 31, 2022 was $10.4 million (December 31, 2021 – $6.9 million related to December 2021 production) of accrued oil and natural gas sales related to March 2022 production.

15. OPERATING EXPENSE

Three months ended ($000s)	March 31, 2022	March 31, 2021
Lease operating expense	7,000	7,524
Transportation and processing	1,590	959
Production and property taxes	1,485	1,336
Operating expense	10,075	9,819

16. GENERAL AND ADMINISTRATIVE COSTS

Three months ended ($000s)	March 31, 2022	March 31, 2021
Salaries and benefits	1,365	896
Share-based compensation	18	27
Office rents and leases	12	234
Professional fees	575	763
Other – office	291	(106)
	2,261	1,814
Amounts capitalized to PP&E, E&E assets and other	(282)	(186)
General and administrative expense	1,979	1,628

During three months ended March 31, 2021, PPR qualified for $0.2 million of government grants under the Canada Emergency Wage Subsidy ("CEWS") program, which were recognized as reductions in general and administrative expenses in the "Other - office" category. The program ended in October 2021 and as such, PPR did not qualify for any grants under the CEWS program in 2022.

17. FINANCE COSTS

Three months ended ($000s)	March 31, 2022	March 31, 2021
Interest expense	1,261	1,252
Deferred interest expense[1]	535	387
Non-cash interest on debt modification and warrant liabilities	1,536	1,481
Amortization of financing costs	49	87
Non-cash interest on lease liabilities (Note 9)	64	124
Accretion – decommissioning liabilities (Note 10)	604	421
Accretion – other liabilities	3	2
Finance cost	4,052	3,754

[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

During the periods ended March 31, 2022 and 2021, 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, 2022, restricted cash included $4.3 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2021 – $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.

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

($000s)	**March 31, 2022**	December 31, 2021
Oil and natural gas marketing companies	**10,787**	7,435
Joint venture partners	**771**	928
Other	**845**	952
Total accounts receivable	**12,403**	9,315

The Company's accounts receivable are aged as follows:

($000s)	**March 31, 2022**	December 31, 2021
Current (less than 90 days)	**12,285**	8,993
Past due (more than 90 days)	**118**	322
Total	**12,403**	9,315

PPR's allowance for doubtful accounts was $0.02 million as at March 31, 2022 (December 31, 2021 – $0.03 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, 2022, 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, 2022 and December 31, 2021. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

March 31, 2022 *($000s)*	**Gross Assets (Liabilities)**	**Amount Offset Gross Assets (Liabilities)**	**Net Amount Presented**
Current:			
Derivative instruments liabilities	**(18,234)**	**50**	**(18,184)**
Long-term:			
Derivative instruments liabilities – long-term	**(2,496)**	**1,258**	**(1,238)**

December 31, 2021 *($000s)*	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments liabilities	(9,224)	606	(8,618)
Long-term:			
Derivative instruments liabilities – long-term	(950)	264	(686)

(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 and equity issuance along with its planned capital expenditure program. As outlined in Note 7, at March 31, 2022, the Company had US$4.5 million borrowing capacity under the Revolving Facility.

During the fourth quarter of 2021, PPR renewed its credit facilities with its lender which included extensions in maturity dates of its Revolving Facility and its Senior Notes due 2024.

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, 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 March 31, 2022, the Senior Leverage ratio was 2.39 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:

March 31, 2022	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current liabilities	**(14,419)**	**(3,765)**	**(18,184)**
Derivative instruments – long-term liabilities	**(761)**	**(477)**	**(1,238)**
Total liabilities	**(15,180)**	**(4,242)**	**(19,422)**

December 31, 2021	Crude Oil	Natural Gas	Total
($000s)			
Derivative instruments – current liabilities	(7,815)	(803)	(8,618)
Derivative instruments – long-term liabilities	(364)	(322)	(686)
Total liabilities	(8,179)	(1,125)	(9,304)

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the three months ended March 31, 2022 and 2021:

Three Months Ended March 31, 2022	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Realized loss on derivative instruments	**(5,209)**	**(343)**	**(5,552)**
Unrealized loss on derivative instruments	**(7,001)**	**(3,117)**	**(10,118)**
Total loss	**(12,210)**	**(3,460)**	**(15,670)**

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)

The following table summarizes commodity derivative transactions as at March 31, 2022:

Remaining Term	**Reference**	**Total Daily Volume (bbl)**	**Premium/ bbl**	**Weighted Average Price/ bbl**
Crude Oil Put Spread Options (No Ceiling)				
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]	$40.00/50.00
July 01, 2023 - December 31, 2023	US$ WTI	600	4.20[1]	$55.00/65.00
Crude Oil Three-way Collars				
April 01, 2022 - June 30, 2022	US$ WTI	300		$30.00/40.00/58.50
April 01, 2022 - June 30, 2022	US$ WTI	1,150		$35.00/45.00/64.00
July 01, 2022 - December 31, 2022	US$ WTI	1,250		$32.00/42.00/64.00
July 01, 2023 - December 31, 2023	US$ WTI	500		$55.00/65.00/105.00

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

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	$1.75/2.00/3.32
January 01, 2023 - March 31, 2023	US$ NYMEX	3,300	$2.00/2.50/3.75
July 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.65
July 01, 2023 - December 31, 2023	US$ NYMEX	1,700	$2.25/2.75/4.90
Natural Gas Collars			
April 01, 2023 - June 30, 2023	US$ NYMEX	3,000	$2.00/3.80