



Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Year Ended December 31,
2016

Dated: March 30, 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Prairie Provident Resources Inc.

We have audited the accompanying consolidated financial statements of Prairie Provident Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of combined and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

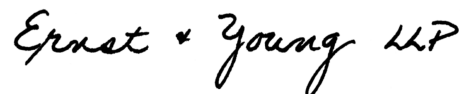
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Prairie Provident Resources Inc. as at December 31, 2016 and 2015, and its financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Calgary, Canada
March 30, 2017

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

Chartered Professional Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (\$000s)	Note	December 31, 2016	December 31, 2015
ASSETS			
Cash and cash equivalents		7,926	13,021
Accounts receivable	18	8,535	6,582
Inventory		521	471
Prepaid expenses and other assets		557	1,139
Derivative instruments – current	18	—	9,531
Total current assets		17,539	30,744
Exploration and evaluation	5	26,437	48,314
Property and equipment	6	203,381	115,272
Derivative instruments	18	—	3,918
Other assets		478	657
Total assets		247,835	198,905
LIABILITIES			
Accounts payable and accrued liabilities	18	21,919	8,945
Flow-through share premium		390	—
Derivative instruments	18	2,311	—
Current portion of decommissioning liability	9	3,500	3,500
Total current liabilities		28,120	12,445
Long-term debt	7	15,047	—
Preferred shares	8	—	166,171
Preferred shares – conversion liability	8	—	26,450
Derivative instruments	18	3,800	—
Decommissioning liabilities	9	94,220	67,002
Other liabilities		4,062	899
Total liabilities		145,249	272,967
Commitments and contingencies	20		
SHAREHOLDERS' EQUITY			
Share capital	10	115,062	73,912
Contributed surplus	11	514	1,024,623
Accumulated deficit		(13,266)	(1,172,884)
Accumulated other comprehensive income ("AOCI")		276	287
Total equity (deficit)		102,586	(74,062)
Total liabilities and shareholders' equity		247,835	198,905

See accompanying notes to the consolidated financial statements.

Approved by the Board of Directors,

(signed)

Patrick McDonald

Chair of the Board of Directors and Director

(signed)

Ajay Sabherwal

Chair of the Audit and Reserves Committee and Director

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended

(\$000s)	Note	December 31, 2016	December 31, 2015
REVENUE			
Oil and natural gas revenue		42,748	39,335
Royalties		(4,893)	(2,190)
Oil and natural gas revenue, net of royalties		37,855	37,145
Unrealized loss on derivative instruments	18	(19,274)	(6,843)
Realized gain on derivative instruments	18	9,743	16,785
		28,324	47,087
EXPENSES			
Operating	14	23,417	15,959
General and administrative	15	10,830	12,430
Depletion and depreciation	6	21,344	21,436
Exploration and evaluation	5	58	545
Loss on sale of properties		73	197
Impairment loss	5, 6	26,723	13,298
Loss (gain) on foreign exchange	8	(9,510)	25,498
Finance costs	16	13,119	16,145
Reorganization	17	392	1,415
Transaction costs	4	2,288	—
Total expenses		88,734	106,923
Net loss before taxes		(60,410)	(59,836)
Current taxes	12	(14)	58
Net loss		(60,396)	(59,894)
Other comprehensive income			
Items that will not be reclassified to net loss:			
Actuarial gain on employee post-retirement benefit plan	3(j)	276	—
Comprehensive loss		(60,120)	(59,894)
Net loss per share – basic & diluted	10	(0.62)	(0.61)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

(\$000s)	Note	Share Capital	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at January 1, 2016		73,912	1,024,623	(1,172,884)	287	(74,062)
Issued for the Business						
Combination	1, 4	38,735	—	—	—	38,735
Issued in exchange of the Preferred Shares	1, 8	193,851	—	—	—	193,851
Issuance of common shares for cash	10	4,556	—	—	—	4,556
Share issuance costs	10	(519)	—	—	—	(519)
Share-based compensation	11	—	430	—	—	430
Settlement of restricted share units		3,382	(3,382)	—	—	—
Withholding taxes on settlement of restricted share units	11	(285)	—	—	—	(285)
Actuarial gain on post-retirement benefit plan	3(j)	—	—	—	276	276
Net loss		—	—	(60,396)	—	(60,396)
Reduction of share capital	1	(198,570)	(1,021,157)	1,220,014	(287)	—
Balance at December 31, 2016		115,062	514	(13,266)	276	102,586

(\$000s)	Note	Share Capital	Contributed Surplus	Accumulated Deficit	AOCI	Total Deficit
Balance at January 1, 2015		73,912	1,023,364	(1,112,990)	287	(15,427)
Share-based compensation	11	—	1,259	—	—	1,259
Net loss		—	—	(59,894)	—	(59,894)
Balance at December 31, 2015		73,912	1,024,623	(1,172,884)	287	(74,062)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended (\$000s)	Note	December 31, 2016	December 31, 2015
OPERATING ACTIVITIES			
Net loss		(60,396)	(59,894)
Adjustments for non-cash items:			
Impairment loss	5, 6	26,723	13,298
Unrealized loss on derivative instruments	18	19,274	6,843
Depletion and depreciation	6	21,344	21,436
Exploration and evaluation	5	58	545
Accretion and financing charges	9, 16	12,389	15,317
Unrealized loss (gain) on foreign exchange		(9,613)	25,498
Loss on sale of property and equipment		73	197
Share-based compensation	11	395	1,217
Amortization of deferred cost		332	510
Payment of decommissioning liabilities	9	(4,540)	(1,389)
Other, net		(433)	(463)
Change in non-cash working capital	13	2,539	(2,348)
Cash from operating activities		8,145	20,767
FINANCING ACTIVITIES			
Debt issuance costs		(190)	(217)
Issuance of common shares	10	4,945	—
Share issuance costs	10	(519)	—
Withholding taxes on settlement of restricted share units	11	(285)	—
Change in long-term debt		15,458	—
Cash from (used in) financing activities		19,409	(217)
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	5	(28,741)	(21,250)
Property and equipment expenditures	6	(6,122)	(3,365)
Proceeds on sale of property and equipment		20	150
Cash acquired on business combination	1, 4	249	—
Change in non-cash working capital	13	1,945	1,678
Cash used in investing activities		(32,649)	(22,787)
Change in cash and cash equivalents		(5,095)	(2,237)
Cash beginning of year		13,021	15,258
Cash and cash equivalents end of year		7,926	13,021

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2016 and 2015

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 provinces of Alberta, British Columbia and Quebec, and in the Northwest Territories. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these consolidated annual 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.

On September 12, 2016, Lone Pine Resources Canada Ltd. (“LPR Canada”), Lone Pine Resources Inc. (“Lone Pine Resources”, collectively with LPR Canada, “Lone Pine”) and Arsenal Energy Inc. (“Arsenal”) completed a business combination by way of a plan of arrangement (the “Arrangement” or the “Transaction”) whereby the Arrangement brought together Lone Pine and Arsenal under a new parent corporation, PPR, of which Lone Pine and Arsenal became direct or indirect wholly-owned subsidiaries. Prior to the Arrangement, LPR Canada and Lone Pine Resources were under common control in accordance with International Financial Reporting Standards (“IFRS”). The Arrangement involved the following key steps:

- Issuance of 13.9 million PPR common shares to the shareholders of LPR Canada in exchange for all LPR Canada common shares;
- Issuance of 60.9 million PPR common shares in exchange for all LPR Canada preferred shares;
- Amalgamation of Lone Pine Resources with a wholly-owned subsidiary of PPR, whereby PPR became the sole owner of the amalgamated company. The outstanding Lone Pine Resources common shares were cancelled without any consideration; and
- The acquisition of all of the issued and outstanding common voting shares of Arsenal with 22.7 million PPR common shares pursuant to the Arrangement in accordance with the terms and conditions of the arrangement agreement dated June 23, 2016 as amended on August 2, 2016 (the “Business Combination”).

The exchange of PPR common shares for LPR Canada preferred shares and LPR Canada common shares, and the amalgamation of PPR’s wholly owned-subsiary with Lone Pine Resources were not considered business combinations as there was no change to the controlling shareholder group resulting from the Transaction. Accordingly, the consolidated financial statements of PPR have been prepared as a continuation of LPR Canada and Lone Pine Resources’ combined and consolidated financial statements. Subsequently, on November 1, 2016, LPR Canada changed its name to Prairie Provident Canada Resources Ltd. (“PPR Canada”).

The concurrent acquisition of Arsenal common shares has been accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business and the assets and liabilities assumed are recorded at their fair values (Note 4). Transaction costs associated with the acquisition are expensed when incurred.

On September 12, 2016, PPR elected, pursuant to the *Business Corporations Act*, to eliminate its contributed surplus, excluding the portion related to the outstanding long-term incentive awards, and its accumulated deficit and accumulated other comprehensive income against its share capital. The Company’s share capital was reduced solely for accounting purposes, without payment or reduction to the Company’s or its subsidiaries’ stated capital or paid up

capital. Accordingly, the accumulated deficit as at December 31, 2016 reflects the results of operations of PPR from September 12, 2016 to December 31, 2016.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These annual financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”). The annual financial statements were approved and authorized for issue by the Audit and Reserves Committee of the Board of Directors of PPR on March 30, 2017 (the “Financial Statements”).

The Company’s significant accounting policies under IFRS are presented in Note 3.

(b) Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for derivative instruments that are measured at fair value.

(c) Functional and Presentation Currency

The Financial Statements are presented in Canadian dollars, which is also the Company’s functional currency. All references to US\$ are to United States dollars.

(d) Use of Estimates and Judgements

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

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

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

- PPR’s oil and gas assets are grouped into cash generating units (“CGUs”). A CGU is the lowest level of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or groups of assets. The allocation of assets into CGUs requires significant judgement and interpretations with respect to the integration between assets, geological formation, geographical proximity, the existence of common sales points and shared infrastructures and the way in which management monitors its operations. The recoverability of PPR’s oil and gas assets is assessed at the CGU level, and therefore, the determination of a CGU costs could have a significant impact on impairment losses or impairment reversals;
- Reserves engineering is an inherently complex and subjective process of estimating underground accumulations of petroleum and natural gas. The process relies on interpretations of available geological, geophysical, engineering, economic and production data. The accuracy of a reserves estimate is a function of the quality and quantity of available data, the interpretation of that data, the accuracy of various economic assumptions and the judgement of those preparing the estimate. Because these estimates depend on many assumptions, all of which may differ from actual results,

reserves estimates and estimates of future net revenue may be different from the sales volumes ultimately recovered and net revenues actually realized. Changes in market conditions, regulatory matters and the results of subsequent drilling, testing and production may require revisions to the original estimates. Estimates of reserves impact: (i) the assessment of whether or not a new well has found economically recoverable reserves; (ii) depletion rates; (iii) the determination of net recoverable amount of oil and gas properties for impairment assessment and measurement, (iv) purchase price allocation for business combinations, and (v) the determination of reserve lives which affect the timing of decommissioning activities, all of which could have a material impact on earnings and financial positions;

- Recoverable amounts calculated for impairment testing are based on estimates of future commodity prices, expected volumes, quantity of reserves and discount rates as well as future development costs and operating costs. These calculations require the use of estimates and assumptions, which by their nature, are subject to measurement uncertainty. In addition, judgement is exercised by management as to whether there have been indicators of impairment or of impairment reversal. Indicators of impairment or impairment reversal may include, but are not limited to a change in: market value of assets, estimate of future prices and costs, a change in estimated quantity of reserves and appropriate discount rates;
- Business combinations are accounted for using the acquisition method of accounting where the acquired assets, liabilities and consideration issued were all fair valued. The determination of fair value requires the use of assumptions and estimates related to future events. The valuation of property and equipment includes key assumptions and estimates related to oil and gas reserves acquired, forecasted commodity prices, expected production volumes, future development costs, operating costs and discount rates. The valuation of exploration and evaluation assets includes key assumptions and estimates related to recent transactions on similar assets considering geographic location and risk profile. The valuation of the decommissioning liabilities and other liabilities includes estimates related to the timing and amount of anticipated cash outflows as well as for inflation rates and discount rates. For the Arrangement, as PPR common shares were issued in exchange for AEI's common shares, PPR common shares were fair valued with reference to PPR's enterprise value, which in turn was determined by fair valuing PPR's underlying assets and liabilities. Key assumptions used to fair value PPR's assets and liabilities were similar to the ones mentioned above. In addition, PPR's enterprise value was calibrated against trading metrics of recent market transactions for reasonableness. Changes in assumptions and estimates used in the determination of assets and liabilities acquired and consideration issued could result in changes to the values assigned to the assets, liabilities and goodwill or a bargain purchase gain. This could in turn impact future earnings or loss as a result of changes in the realization of assets value or settlement of liabilities;
- Amounts recorded for decommissioning liabilities and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning expenditures, inflation rates and discount rates. Actual costs and cash outflows can differ from estimates because of changes in law and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology. Decommissioning liabilities are recognized in the period when it becomes probable that there will be a future cash outflow;
- Compensation costs recorded pursuant to share-based compensation plans are subject to the estimated fair values of the awards on the grant date and the estimated number of units that will ultimately vest. The Company uses the Black-Scholes option pricing model to estimate the fair value of options, which requires the Company to determine the most appropriate inputs including the expected life of the options, volatility, forfeiture rates and future dividends, which by nature are

subject to measurement uncertainty. The determination of the fair value of performance share units requires the estimation of the performance multiplier from 0 to 2 on the grant date;

- Derivative risk management contracts are valued using valuation techniques with market observable inputs. The most frequently applied valuation techniques include Black-Scholes option pricing model and forward pricing and swap models. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, volatilities of commodity prices and forward rate curves of the underlying commodity. Changes in any of these assumptions would impact fair value of the risk management contracts and as a result, future net income and other comprehensive income;
- Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. The Company is also subject to income tax audits and reassessments which may change its provision for income taxes. Therefore, the determination of income taxes is by nature complex, and requires making certain estimates and assumptions. PPR recognizes net deferred tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted;
- The determination of fair value requires judgement and is based on market information, where available and appropriate. Fair value is best evidenced by an independent quoted market price for the same asset or liability in an active market. However, quoted market prices and active markets do not always exist. In those instances, fair valuation techniques are used. The Company applies judgement in determining the most appropriate inputs and the weighting ascribed to each such input as well as its selection of valuation methodologies. The calculation of fair value is based on market conditions as at each reporting date, and may not be reflective of ultimate realizable value;
- Contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events; and
- Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post license exploration and evaluation assets and to development and producing CGU properties requires the use of estimates and judgements and is by its nature subject to measurement uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below were applied consistently to all periods presented in these Financial Statements.

(a) Basis of Consolidation

At December 31, 2016, the Financial Statements included the accounts of PPR and its wholly owned subsidiaries, including PPR Canada, Lone Pine Resources, Lone Pine Resources (Holdings) Inc., Arsenal, Arsenal Energy USA Inc. and Arsenal Energy Holdings Ltd. Subsidiaries are consolidated from the date the Company obtains control and continues to be consolidated until the date such control ceases. Control is achieved when PPR is exposed, or

has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All inter-entity transactions have been eliminated upon consolidation between PPR and its subsidiaries in these consolidated financial statements. PPR's operations are viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

Arsenal's operating results are included in these consolidated financial statements since September 12, 2016, the closing date of the Business Combination.

Historical financial information prior to the Arrangement represents the combined and consolidated results of Lone Pine. Lone Pine Resources and LPR Canada were controlled through direct and indirect ownership by a single majority investor and as such Lone Pine Resources and LPR Canada were under common control and as such, are presented on a combined and consolidated basis for the periods prior to September 12, 2016 in these financial statements.

(b) Joint Arrangements

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

(c) Business Combinations

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

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

(d) Revenue

Revenue from the sale of petroleum and natural gas is recognized when the risks and rewards of ownership have been substantially transferred and when the amount of revenue can be reliably measured. Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

(e) Exploration and Evaluation Assets and Property and Equipment

(i) Recognition and Measurement

Exploration and Evaluation ("E&E") Assets

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

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

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

Production and Development ("P&D") Assets

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

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

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

(ii) Depletion and Depreciation

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

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

Reserves are the remaining quantities of, petroleum and natural gas from known accumulations estimated to be recoverable from a given date forward. The estimates of reserves are determined from drilling, geological, geophysical and engineering data based on established technology and specified economic

conditions. For depletion purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

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

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

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

(iii) Impairment

E&E Assets

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

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

P&D Assets

PPR assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less cost of disposal ("FVLCD") and its value-in-use ("VIU"). The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In such case, an impairment test is performed at the CGU level. A CGU is a group of assets that PPR aggregates based on their ability to generate largely independent cash flows. As a result of the Business Combination (Note 4), the Company has reassessed its groupings of CGUs to incorporate the assets acquired. As a result, the Company added a new CGU, Princess. Other assets were grouped with previously existing CGUs considering the integration of assets, geological formation, geographical proximity, the existence of common sales points and shared processing facilities and the way in which management monitors its operations. As at December 31, 2016, the Company has five principal operating CGUs – Evi, Wheatland, Princess, Provost (previously known as Hayter) and Other.

Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. To determine VIU, the Company estimates the present value of the future net cash flows expected to derive from the continued use of the asset or CGU. Discount rates that reflect the market assessments of the time value of money and the risks specific to the asset or CGU are used. In determining FVLCD, discounted cash flows and recent market transactions are taken into account, if available. These calculations are corroborated by valuation multiples or other

available fair value indicators. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the previously recognized impairment loss is reversed. The reversal is limited such that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior periods.

(f) Financial Instruments

(i) Recognition and Measurement

PPR recognizes financial assets and financial liabilities, including derivatives, on the consolidated statements of financial position when the Company becomes a party to the contract. The Company initially measures all financial instruments at fair value. Subsequent measurement of the financial instrument is based on its classification. Financial assets are classified into the following categories: held for trading, available for sale, held-to-maturity investments and loans and receivables. Financial liabilities are classified as held for trading or other financial liabilities. PPR has not designated any financial asset or liability at fair value through profit or loss.

Financial assets and financial liabilities classified as held for trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as either held-to-maturity or loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method of amortization. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to the financial instruments are recognized in comprehensive loss over the expected life of the instrument. Financial assets classified as available-for-sale are measured at fair values with changes in those fair values recognized in other comprehensive loss.

(ii) Liabilities and Equity

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

(iii) Derivative Financial Instruments

As described in Note 18, derivative financial instruments are used by the Company to manage its exposure to market risks relating to commodity prices. The Company's policy is not to use derivative financial instruments for speculative purposes. The estimate of fair value of all derivative instruments is based on quoted market prices, or in their absence, third party market indications and forecasts and includes an estimate of the credit quality of counterparties to the derivative instruments. The estimated fair value of financial assets and liabilities is subject to measurement uncertainty.

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

(iv) Derecognition of Financial Instruments

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. The difference between the carrying value of the liability and the ultimate consideration paid is recognized in the consolidated statement of loss. If equity instruments are issued to extinguish a financial liability, the equity instruments are treated as consideration paid and measured at their fair value at the date of extinguishment.

A financial asset is derecognized when (1) the rights to receive cash flows from the assets have expired or (2) the Company has transferred its rights to receive cash flows from the assets or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the assets, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the assets, but has transferred control of the asset.

(v) Impairment

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. All impairment losses are recognized in profit or loss.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are assessed for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that have similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event following recognition. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

(vi) Offsetting

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

(g) Fair Value Measurement

PPR measures derivatives at fair value at each balance sheet date and, for the purposes of impairment testing, uses FVLCD to determine the recoverable amount of some of its non-financial assets. Also, fair values of financial instruments measured at amortized cost are disclosed in Note 18. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the following markets that are accessible by the Company:

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable.

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

(h) Provisions

(i) Provisions and Contingencies

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

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

(ii) Decommissioning Liabilities

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

(i) Share-Based Compensation

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

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

(j) Employee Benefits and Post-Retirement Obligation

PPR sponsors a group savings plan for its employees. Contributions made under the plan are expensed as the plan benefits are earned by the employees.

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

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

In 2016, a \$0.3 million actuarial gain was recognized on the post-retirement health care benefit plan and decreased the plan liability as at December 31, 2016 to \$0.6 million (December 31, 2015 - \$0.9 million). There are no assets set aside.

(k) Flow-through Shares

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

(l) Income Tax

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

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

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

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

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

(m) Reorganization Costs

Reorganization costs are non-recurring costs related to corporate restructuring activities. Reorganization costs include employment termination payments, accelerated share-based compensation expense, office closure costs and professional fees.

(n) Cash Equivalents

Cash equivalents include market deposits and similar type instruments, with an original maturity of three months or less when purchased.

(o) Inventory

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

(p) Foreign Currency

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

(q) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at the inception date of the contract. Leases, which transfer substantially all of the risks and rewards of ownership to the Company, are classified as finance leases. Finance leases are recognized at the lower of the fair value of the leased property or the present value of the minimum lease payments and are depreciated over the shorter of the estimated useful life of the asset and the lease term. As at December 31, 2016 PPR did not have any finance leases. Other leases are classified as operating leases and payments are recognized as an expense in the period incurred. Lease inducement costs are initially capitalized and amortized to net income over the lease terms.

(r) Adoption of New Accounting Standards and New Accounting Pronouncements

New and Amended Accounting Standards and Interpretations Adopted

There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2016.

New Accounting Pronouncements

- In July 2014, the IASB completed the final elements of IFRS 9 - Financial Instruments. The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company plans to adopt IFRS 9 on a retrospective basis on January 1, 2018. Based on a preliminary assessment, the Company does not expect the 'expected loss' impairment model to have a material impact on its consolidated financial statements. The Company does not currently apply hedge accounting to its derivative financial instruments and does not expect to apply hedge accounting upon adoption of IFRS 9;
- In May 2014, the IASB published IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) replacing IAS 11 – Construction Contracts, IAS 18 – Revenue and several revenue-related interpretations. The new standard establishes a single revenue recognition framework that applies to contracts with customers and requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company plans to adopt IFRS 15 on January 1, 2018. The Company is in the process of reviewing its revenue streams and underlying contracts with customers to evaluate the impact, if any, adoption will have on the consolidated financial statements and disclosures;

- In January 2016, the IASB issued IFRS 16 - Leases, which replaces IAS 17 – Leases. For lessees, IFRS 16 removes the classification of leases as financing or operating leases, effectively treating all leases as finance leases which requires the recognition of lease assets and lease obligations. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 Revenue from Contracts with Customers. The Company is currently evaluating the impact of the standard on its consolidated financial statements; and
- In January 2016, the IASB issued an amendment to IAS 7 Statement of Cash Flows. The amendment to IAS 7 requires additional disclosures for changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings, and non-cash changes, such as acquisitions, disposals and unrealized exchange differences. The amendment is effective for fiscal years beginning on or after January 1, 2017, and is applied on a prospective basis. The adoption of this standard is not expected to have a material impact on the Company's disclosures.

4. BUSINESS COMBINATION

On September 12, 2016, the Arrangement was completed whereby PPR acquired all of the issued and outstanding common shares of Arsenal through the issuance of PPR common shares (Note 1). Arsenal was a public oil and natural gas exploration, development and production company, listed on the TSX, with reserves, producing properties and prospects primarily located in Alberta.

PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the year ended December 31, 2016 included approximately \$6.3 million and \$2.4 million, respectively, attributable to the Arsenal acquisition. Had the Arrangement closed on January 1, 2016, PPR's oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the year ended December 31, 2016 would have been approximately \$53.5 million and \$17.6 million, respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable.

The acquisition of Arsenal has been accounted for as a business combination using the acquisition method of accounting whereby PPR is deemed to be the acquirer of the Arsenal business. The following table summarizes the acquisition date fair value of consideration paid and the preliminary purchase price allocation:

<i>(\$000s)</i>	
Allocation:	
Property and equipment	67,065
Exploration and evaluation assets	3,573
Cash	249
Accounts receivable	3,035
Other current assets	511
Current liabilities	(10,615)
Derivative liability	(286)
Decommissioning obligations	(21,487)
Other liabilities	(3,310)
Net assets acquired	38,735
Consideration:	
Shares issued (22,678,817 common shares at \$1.71 per share)	38,735

The fair values of cash and working capital including accounts receivable, other current assets and accounts payable approximate their carrying values due to their short-term maturities. The fair value of the remaining assets and liabilities included the use of certain key assumptions as described under Note 2(d) to the Financial Statements.

The fair value of consideration issued was calculated with reference to the enterprise value of PPR, based on the underlying consolidated assets and liabilities and confirmed through observable market trading multiples for similar entities.

The recognized amounts of identifiable assets, liabilities and consideration issued are preliminary estimates and are subject to change.

Transaction costs incurred to effect the Arrangement with Arsenal incurred in the year ended December 31, 2016 of \$2.3 million (2015 – \$nil) were recognized as Transaction Expense in the statement of loss. Transaction costs included primarily legal fees, professional fees, and change of control settlements.

5. EXPLORATION AND EVALUATION ASSETS

<i>(\$000s)</i>	December 31, 2016	December 31, 2015
Cost Balance – beginning of year	77,384	85,675
Additions	30,632	24,197
Acquisitions (Note 4)	3,573	—
Transfers to oil and gas property and equipment (Note 6)	(30,157)	(22,171)
Exploration and evaluation expense	(58)	(545)
Expiries of previously impaired assets	—	(9,772)
Cost Balance – end of year	81,374	77,384
Provision for impairment – beginning of year	(29,070)	(28,324)
Impairment loss	(25,867)	(10,518)
Expiries of previously impaired assets	—	9,772
Provision for impairment – end of year	(54,937)	(29,070)
Net book value – beginning of the year	48,314	57,351
Net book value – end of the year	26,437	48,314

During the year ended December 31, 2016, the Company recognized an impairment loss related to leases that were due to expire in the next twelve months in the Evi CGU of \$0.9 million to an estimated recoverable amount of \$0.4 million based on its FVLCD. The FVLCD was determined using a market approach based on the estimated selling price of land in the related area considering recent transactions completed on similar assets. Key assumptions include the estimated selling prices of assets held considering the geographic location and related risk profile. The fair value measurement is non-recurring and is classified as level 3 in the fair value hierarchy (see Note 3(g) for information on the fair value hierarchy).

Additionally, during 2016, due to successful drilling in the Wheatland area and additional development prospects from the then-proposed Arrangement with Arsenal, along with a prolonged period of political uncertainty around oil and gas development in the province of Quebec, management shifted its exploration and development priorities, which in turn triggered an impairment indicator related to E&E assets in the Quebec exploratory area as at June 30, 2016. The impairment assessment resulted in the recognition of \$25.0 million of impairment in the year ended December 31, 2016 against the Quebec exploratory area to a recoverable amount of \$13.0 million based on its value-in-use.

In the year ended December 31, 2015, the Company recorded impairment of E&E assets of \$8.1 million as a result of changes in management development plans due to significant and prolonged decreases in commodity prices. This included impairments of \$1.5 million related to the Evi CGU, \$0.2 million related to the Hayter CGU, \$0.4 million related to the Other CGU and \$6.0 million related to exploratory areas that were not related to established CGUs with any reserves. E&E assets were written down to their estimated recoverable amounts of \$nil based on the FVLCD. The FVLCD was determined using a market approach based on the estimated selling price of land, seismic, equipment and exploration drilling held in the related area considering recent transactions completed on similar assets. Key assumptions include the estimated selling prices of assets held considering the geographic location and related risk profile. The fair value measurement is non-recurring and is classified as level 3 in the fair value hierarchy (see Note 3(g) for information on the fair value hierarchy).

Additional impairment of \$2.4 million was recorded in 2015 related to the changes in the decommissioning liability estimates on certain E&E assets that were fully impaired in previous years.

During the year ended December 31, 2016, \$1.3 million (2015 – \$0.5 million) of directly attributable general and administrative expenses including a nominal amount (2015 – a nominal amount) of share-based compensation, were capitalized to E&E assets.

6. PROPERTY AND EQUIPMENT

<i>(\$000s)</i>	Production and Development	Office Equipment	Year Ended December 31, 2016
Cost:			
Balance – beginning of year	350,735	3,833	354,568
Additions	12,848	363	13,211
Acquisitions (Note 4)	67,065	—	67,065
Disposals	(188)	—	(188)
Transfer from E&E assets (Note 5)	30,157	—	30,157
Balance – end of year	460,617	4,196	464,813
Accumulated impairment, depletion and depreciation:			
Balance- beginning of year	(237,149)	(2,147)	(239,296)
Depletion and depreciation	(20,641)	(567)	(21,208)
Impairment loss (b)	(1,023)	—	(1,023)
Disposals	95	—	95
Balance – end of year	(258,718)	(2,714)	(261,432)
Net book value:			
At beginning of year	113,586	1,686	115,272
At end of year	201,899	1,482	203,381

(\$000s)	Production and Development	Office Equipment	Year Ended December 31, 2015
Cost:			
Balance – beginning of year	316,260	3,444	319,704
Additions	12,390	389	12,779
Disposals	(86)	—	(86)
Transfer from E&E assets (Note 5)	22,171	—	22,171
Balance – end of year	350,735	3,833	354,568
Accumulated impairment, depletion and depreciation:			
Balance- beginning of year	(213,667)	(1,557)	(215,224)
Depletion and depreciation	(20,919)	(590)	(21,509)
Impairment loss (b)	(2,630)	—	(2,630)
Disposals	67	—	67
Balance – end of year	(237,147)	(2,147)	(239,296)
Net book value:			
At beginning of year	102,593	1,887	104,480
At end of year	113,586	1,686	115,272

As at December 31, 2016, an estimated \$83.7 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2015 - \$94.4 million).

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

During the year ended December 31, 2016, \$0.1 million (2015 – \$0.3 million) of directly attributable general and administrative expenses, including a nominal amount (2015 – a nominal amount) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment Loss

As at December 31, 2016, the Company assessed its production and development assets for indicators of impairment. Based on the assessment, no indicators of impairment were noted.

The Company concluded that there was no impairment to P&D assets as a result of impairment test performed as at December 31, 2016.

During the year ended December 31, 2016, the Company recorded impairment of \$0.8 million for changes in estimated decommissioning liabilities of certain properties with a carrying value of nil, impairment of \$0.2 million on the write down of certain surplus equipment and a recovery of \$0.2 million as a result of an increase in the net realizable value of inventory.

During the third quarter of 2015, an impairment test was performed as a result of continued declines in forward crude oil and natural gas prices which resulted in the recognition of \$0.9 million of impairment in the Provost CGU. The Provost CGU was written down to the net recoverable amount of \$1.8 million. The FVLCD was estimated using a risk adjusted pre-tax discount rate of 12%.

The remaining \$1.7 million of impairment loss recognized in 2015 was comprised of \$1.5 million related to the change in the decommissioning liability estimates on certain properties with a carrying value of nil and \$0.2 million on the write down of certain surplus equipment.

7. LONG-TERM DEBT

Under the Company's credit facility, PPR had outstanding long-term debt of \$15.0 million (December 31, 2015 - \$nil) and \$5.4 million of letters of credit issued as at December 31, 2016 (December 31, 2015 – \$4.5 million).

The weighted average effective interest rate on credit facility borrowings and letters of credit outstanding for the year ended December 31, 2016 was 2.3%. The weighted average effective interest rate on letters of credit outstanding for the year ended December 31, 2015 was 2.3%.

On September 12, 2016, the Company renewed and amended its credit facility with a syndicate of banks (the "Amended Credit Facility"). Under the Amended Credit Facility, PPR has a \$45 million syndicated revolving term facility and a \$10 million operating facility, which mature one year after the term-out date. Annually prior to the applicable term-out date, subject to the lenders' approval, PPR may extend the term-out date by 364 days. The next term-out date is set at May 30, 2017; as such the maturity date of Amended Credit Facility is May 29, 2018. The Amended Credit Facility is collateralized by a demand debenture from PPR and each of its restricted subsidiaries in the amount of \$500 million granting a first priority security interest over all present and after-acquired personal property and a first floating charge over all other present and after-acquired property, together with a fixed charge and mortgage over its existing borrowing base assets. A fixed charge and mortgage over after-acquired borrowing base assets will only be granted under certain circumstances.

Borrowings under the Amended Credit Facility may be in the form of Canadian prime loans, bankers acceptances, US base rate loans and Libor loans. Applicable margins per annum are as follows:

- (i) for Canadian prime loans and US base rate loans, the margins are between 100 and 250 basis points ("bps");
- (ii) for Libor loans, bankers' acceptance and financial letters of credit, the margins range from 200 to 350 bps; and
- (iii) standby fees on any undrawn borrowing capacity are between 50 to 87.5 bps per annum.

The applicable margins and standby fees all depend on the debt to EBITDAX (as herein defined) ratio of the Company calculated at the Company's previous quarter-end. EBITDAX is defined as consolidated net income before financing charges, exploration expenses, income taxes, depreciation, depletion and amortization and other non-cash items of expense. For purposes of calculating covenants under the Amended Credit Facility, EBITDAX (hereafter referred to as "Adjusted EBITDAX") is determined using financial information from the most recent four consecutive fiscal quarters. Adjusted EBITDAX also includes adjustments for major acquisitions and material dispositions assuming that such transactions had occurred on the first day of the applicable calculation period.

The Amended Credit Facility includes terms and covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends and mergers and acquisitions. The Amended Credit Facility also includes two financial covenants where at the end of each applicable quarterly period:

- (i) total debt outstanding (including bank indebtedness and outstanding letters of credit) to Adjusted EBITDAX for a trailing 12-month period is required to be less than 3.0 to 1.0 (1.2 to 1.0 as at December 31, 2016); and
- (ii) current assets to current liabilities (including available borrowing capacity and excluding derivative instruments) is required to be greater than 1.0 to 1.0 (2.0 to 1.0 as at December 31, 2016).

As at December 31, 2016, the Company was in compliance with all covenants under the Amended Credit Facility.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of PPR's oil and natural gas properties in accordance with the lenders' customary practices for oil and gas loans. The borrowing base is subject to a semi-annual redetermination, with the next redetermination scheduled for May 30, 2017. In addition to the scheduled semi-annual redeterminations, the lenders each have the discretion at any time, but not more often than once during any calendar year, to have the borrowing base re-determined.

As at December 31, 2016, \$0.4 million of deferred costs related to its outstanding credit facilities is net against long-term debt (December 31, 2015 – \$0.4 million included in other assets and \$0.2 million included in other long-term assets).

8. LPR CANADA PREFERRED SHARES

In January 31, 2014, the LPR Canada issued preferred shares ("Preferred Shares") that were puttable after eight years and immediately convertible at the holder's option. The Preferred Shares were classified as financial liabilities due to the holder's put option. Further, the Preferred Shares were denominated in United States currency, resulting in the conversion option classified as an embedded derivative (the "Preferred Share – Conversion Liability").

Pursuant to the Arrangement, outstanding Preferred Shares were exchanged for PPR common shares at an exchange ratio of 0.81, whereby 60.9 million PPR common shares were issued. As the preferred shareholders were also common shareholders of PPR, the transaction was in substance an equity contribution to the Company. Upon the exchange, PPR derecognized the Preferred Shares liability and the Preferred Share - Conversion Liability (collectively, "Preferred Share Liabilities") and recorded the PPR common shares at the carrying value of the Preferred Share Liabilities, resulting in an increase to the share capital of \$193.9 million without any recognition of gains or losses.

During the year ended December 31, 2016, a \$9.8 million unrealized foreign exchange gain (2015 – \$25.6 million loss) was recognized related to the translation of the US dollar denominated Preferred Shares at prevailing rates.

9. DECOMMISSIONING LIABILITIES

(\$000s)	December 31, 2016	December 31, 2015
Balance – beginning of year	70,502	58,325
Liabilities incurred	1,859	468
Liabilities acquired (Note 4)	21,487	—
Payments	(4,540)	(1,389)
Change in estimates	7,086	11,747
Accretion of decommissioning liabilities	1,326	1,351
Sub total	97,720	70,502
Current portion – end of year	3,500	3,500
Long-term portion – end of year	94,220	67,002

The Company's decommissioning liabilities result from its ownership interests in oil and natural gas assets and are estimated based on the Company's net ownership interests in wells and facilities, the estimated costs to abandon and reclaim such properties and the estimated timing of these costs to be incurred in future years. At December 31, 2016, risk-free rates of 0.7% - 2.2% (December 31, 2015 – 0.7% - 2.2%) and an inflation rate of 1.7% (December 31, 2015 – 1.7%) were used to calculate the net present value of the decommissioning liabilities.

Decommissioning obligations acquired as part of the Business Combination (Note 4) were initially measured at fair value using a credit-adjusted risk free rate of 5.2% to discount estimated future cash flows. In accordance with PPR's accounting policy, decommissioning obligations are carried on the financial statements using risk-free discount rates. The revaluation of the acquired decommissioning obligations to the risk-free rates as disclosed above resulted in an

increase to the carrying values of decommissioning liabilities of \$15.2 million, which was included in changes in estimates. Partially offsetting the increase was an \$8.9 million decrease due to changes in cost estimates that were recognized as of December 31, 2016. The remaining increase of \$0.8 million during 2016 resulted from other changes in estimates. Changes in estimates in 2015 resulted in an increase in the decommissioning liabilities of \$11.7 million, of which \$6.8 million related to the changes in discount rates.

The Company has estimated the undiscounted total future liabilities of approximately \$141.1 million, based on an inflation rate of 1.7% (December 31, 2015 – \$111.8 million). Liability payments are estimated over the next 55 years with the majority of costs expected to be incurred over the next 25 years.

10. SHARE CAPITAL

(a) Authorized

The Company is authorized to issue an unlimited number of common shares without par value.

(b) Units Outstanding

	Number of Shares (000s)	Amount (\$000s)
Common shares:		
PPR Shares, inception	—	—
Lone Pine Resources common shares, December 31, 2015	99,986	—
LPR Canada common shares, December 31, 2015	24,986	73,912
Lone Pine combined and consolidated common shares	124,972	73,912
Cancellation of Lone Pine Resources common shares (Note 1)	(99,986)	—
Exchange of PPR shares for LPR Canada common shares ⁽¹⁾	(11,134)	—
PPR Shares outstanding upon the exchange for Lone Pine common shares (Note 1)	13,852	73,912
PPR Shares issued in exchange for the Preferred Shares (Notes 1 & 8)	60,878	193,851
PPR Shares outstanding prior to Arsenal acquisition (Notes 1 & 4)	74,730	267,763
PPR Shares issued in exchange for Arsenal shares (Notes 1 & 4)	22,679	38,735
Reduction of consolidated share capital (Note 1)	—	(198,570)
Issued for cash	5,840	4,556
Share issuance costs	—	(519)
Issued on settlement of RSUs	904	3,382
Withholding taxes on settlement of RSUs	—	(285)
PPR Shares, December 31, 2016	104,153	115,062

⁽¹⁾ LPR Canada common shares were exchanged for PPR common shares at a conversion ratio of 0.55.

On December 16, 2016, the Company issued 5,465,000 flow-through common shares with respect to Canadian Exploration Expenses (“CEE”) at \$0.85 per share and 375,000 flow-through common shares with respect to Canadian Development Expenses (“CDE”) at \$0.80 per common share for total gross proceeds of \$4.9 million (net proceeds of \$4.4 million). As defined by the Income Tax Act, the Company has until December 31, 2017 to incur \$4.6 million of CEE costs and \$0.3 million of CDE costs (see Note 20 – Commitments and Contingencies). The difference between cash received from the issuance and the market value of shares issued of \$0.4 million was recognized as a flow-through premium liability.

(c) Loss per Share

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Net loss for the year	(60,396)	(59,894)
Weighted average number of common shares ⁽¹⁾		
Basic & diluted	97,868	97,409
Basic & diluted net loss per share	(0.62)	(0.61)

⁽¹⁾ As the historical financial statements were prepared on a combined and consolidated basis it was not possible to measure loss per share in accordance with IAS 33 until subsequent to the closing of the Arrangement on September 12, 2016 when Lone Pine and Arsenal were brought under a common parent. The Company calculated loss per share for the current and historical periods by assuming that the shares issued upon the closing of the Arrangement at September 12, 2016 were outstanding since the beginning of the periods.

11. SHARE-BASED COMPENSATION

(a) Long-term incentive plans subsequent to the Arrangement

In conjunction with the closing of the Arrangement, the Company adopted new long-term incentive plans for employees and directors pursuant to which share-based incentive awards may be granted.

Stock Options

Under the Company's stock option plan, options granted vest evenly over a three year period and expire 5 years after the grant date, except for the initial options granted upon the completion of the Arrangement, where those options will vest in three tranches on January 1, 2017, January 1, 2018 and January 1, 2019. Each option entitles the holder to purchase one common share at the specified exercise price.

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

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2015	—	—
Granted	752,174	0.96
Balance, December 31, 2016	752,174	0.96
Exercisable at December 31, 2016	—	0.96

The weighted average remaining contractual life of options outstanding as at December 31, 2016 was 4.7 years.

The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and resulting values for the grants made:

	December 31, 2016
Fair value of options	\$0.41
Risk free interest rate	0.7%
Expected life of options (years)	3.1
Expected volatility ⁽¹⁾	70.0%
Estimated forfeiture rate	2.0%
Dividends per share	—

⁽¹⁾ The expected volatility was calculated with reference to the volatilities of peer companies over a time period consistent with the expected life of the options upon grant due to the limited trading history of PPR at the date of grant.

Subsequent to December 31, 2016, an additional 1,869,795 options were granted with an exercise price of \$0.76 per share.

Performance Share Units

Under the Company's incentive security plan, performance share units ("PSUs") granted vest on a date specified under the grant agreement, no more than 3 years after the grant date. The number of common shares issued for each PSU is subject to a performance multiplier from 0 to 2 based on share performance relative to a selected peer group. PSUs may be settled in common shares or cash at the discretion of the Company, however, it is PPR's intention to settle the PSUs in common shares and the plan has accounted for as equity settled.

The following table summarizes the PSUs outstanding under the plan:

	PSUs
Balance, December 31, 2015	—
Granted	116,427
Balance, December 31, 2016	116,427

The fair value of PSUs issued is determined at the date of the grant using the closing price of common shares, multiplied by the estimated performance multiplier. For the purposes of share-based compensation expense, a performance multiplier of 1 has been estimated for units granted in 2016. The weighted average fair value of units granted in 2016 is \$0.92 and will vest on December 15, 2018.

Subsequent to December 31, 2016, an additional 354,905 PSUs were granted.

(b) Long-term incentive plans prior to the Arrangement

Outstanding restricted shares units ("RSUs") were issued in 2014 pursuant to the Company's previous Equity Incentive Plan ("EIP") adopted in that year. The RSUs granted vested over two years for directors and three years for other participants. Pursuant to the award agreements, vested RSUs are only to be settled and redeemed upon a corporate change that (i) directly or indirectly ascribes a value to the shares and (ii) provides liquidity to the holders of shares. The Arrangement (Note 1) meets the definition of a corporate change as defined in the EIP and as such, vested RSUs were settled in exchange for PPR common shares shortly after closing. The unvested portion of RSUs were settled subsequent to the January 31, 2017 vesting date.

The number of RSUs outstanding is as follows:

	Directors ⁽¹⁾	Officer and Employees ⁽¹⁾	Total ⁽¹⁾
Outstanding – December 31, 2015	203,263	1,199,772	1,403,035
Cancellations – terminations	—	(27,637)	(27,637)
Settled	(203,263)	(1,029,323)	(1,232,586)
Outstanding – December 31, 2016	—	142,812	142,812
Weighted average fair value per RSU at grant date:	\$1.59	\$1.57	

⁽¹⁾ Under the terms of the award agreements vested RSUs were to be settled in the following manner:

- for director RSUs: 75% with the Preferred Shares and 25% with LPR Canada common shares; and
- for officer and employee RSUs: 80% with the Preferred Shares and 20% with LPR Canada common shares.

RSUs issued by Lone Pine have been converted to the equivalent PPR common shares in the table above based on the conversion ratios of 0.81 per Preferred Share and 0.55 per LPR Canada common share.

On October 3, 2016, the Company issued 903,359 PPR common shares related to the settlement of 1,232,586 RSUs. The difference between the number of RSUs settled and the number of common shares issued relates to shares withheld to cover the withholding tax obligations of certain unit holders. The Company settled the withholding tax obligation with the related tax authority in cash rather than through the issuance of shares.

On February 10, 2017, the entity issued 84,086 (after adjustment for withholding taxes) PPR common shares for the settlement of remaining outstanding RSUs.

(c) Share-based compensation expense

For the year ended December 31, 2016, share-based compensation of \$0.4 million (2015 – \$1.0 million) was included in general and administrative expense net of a nominal amount of capitalized share based compensation (2015 – a nominal amount). A nominal amount of share-based compensation was included in operating expense for the years ended December 31, 2016 and December 31, 2015.

12. INCOME TAX

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

<i>Years ended</i> <i>(\$000s)</i>	December 31, 2016	December 31, 2015
Net loss before taxes	(60,410)	(59,836)
Statutory income tax rate	27.00%	25.96%
Expected income tax recovery	(16,313)	(15,535)
Add (deduct):		
Accretion and foreign exchange on preferred shares	332	10,282
Change in unrecognized deferred tax asset	15,018	13,212
Provincial tax rate increase	—	(7,882)
Non-deductible share-based compensation	116	327
Non-deductible transaction costs	186	—
Flow-through share renouncements	347	—
Other	300	(346)
Current income tax expense	(14)	58

The movements in deferred tax balances during the year ended December 31, 2016 are as follows:

(\$000s)	Balance December 1, 2015	Recognized in Net Loss	Recognized in OCI	Recognized in Equity	Arsenal Acquisition	Balance December 31, 2016
Deferred tax liabilities:						
Unrealized gains on financial instruments	(3,631)	5,204	—	—	77	1,650
Total deferred tax liabilities	(3,631)	5,204	—	—	77	1,650
Deferred tax assets:						
Petroleum and natural gas assets	4,127	40,482	—	—	(9,230)	35,379
Decommissioning liabilities	19,036	1,547	—	—	5,802	26,385
Net operating loss carry forwards	2,286	(68)	—	—	—	2,218
Financing and restructuring fees	2,480	(684)	—	—	—	1,796
Non-capital losses	64,109	(31,928)	—	—	9,248	41,429
Accruals and other items, net	550	(84)	(74)	139	368	899
Total deferred tax assets	92,588	9,265	(74)	139	6,188	108,106
Net deferred tax asset	88,957	14,469	(74)	139	6,265	109,756
Less: Unrecognized deferred tax asset	(88,957)	(14,469)	74	(139)	(6,265)	(109,756)
Deferred taxes	—	—	—	—	—	—

The movements in deferred tax balances during the year ended December 31, 2015 are as follows:

(\$000s)	Balance January 1, 2015	Recognized in Net Loss	Balance December 31, 2015
Deferred tax liabilities:			
Unrealized gains of financial instruments	(5,083)	1,452	(3,631)
Total deferred tax liabilities	(5,083)	1,452	(3,631)
Deferred tax assets:			
E&E and property and equipment	22,435	(18,308)	4,127
Decommissioning liabilities	14,611	4,425	19,036
Net operating loss carry forwards	1,917	369	2,286
Financing and restructuring fees	2,930	(450)	2,480
Non-capital losses	53,933	10,176	64,109
Accruals and other items, net	392	158	550
Total deferred tax assets	96,218	3,630	92,588
Net deferred tax assets	91,135	(2,178)	88,957
Less: Unrecognized deferred tax assets	(91,135)	2,178	(88,957)
Deferred taxes	—	—	—

At December 31, 2016, the Company had \$325.7 million (December 31, 2015 – \$141.2 million) of federal tax pools in Canada related to the exploration, development and production of oil and gas available for deduction against future

Canadian taxable income. In addition, the Company had Canadian tax loss carry-forwards in the amount of \$153.1 million (December 31, 2015 – \$237.4 million), scheduled to expire in the years 2026 to 2036.

In 2015, the Canada Revenue Agency (“CRA”) conducted an audit regarding the income tax treatment of compromised debt pertaining to the CCAA, as well as certain historic tax pools. In 2016, the CRA issued a final letter of adjustment that resulted in a reduction in tax pools of \$59.4 million, of which \$57.0 million was reflected in the 2015 provision with an additional \$2.4 million reflected in the 2016 provision. The CRA’s audit also resulted in the reclassification of various pools between Canadian exploration and development and non-capital losses.

As of December 31, 2016 and December 31, 2015, the Company did not recognize any deferred tax assets in the consolidated statements of financial position for deductible temporary differences and unused tax losses as there was insufficient evidence to indicate that it was probable that future taxable profits in excess of profits arising from the reversal of existing temporary difference would be generated to utilize the existing deferred tax assets.

13. SUPPLEMENTAL INFORMATION

Cash Flow Presentation

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

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Source (use) of cash:		
Accounts receivable	(1,953)	487
Prepaid expenses and other current assets	532	213
Accounts payable and accrued liabilities	12,974	(1,370)
Working capital acquired (Note 4)	(7,069)	—
	4,484	(670)
Related to operating activities	2,539	(2,348)
Related to investing activities	1,945	1,678
	4,484	(670)
Other:		
Interest paid during the year	623	630

14. OPERATING EXPENSE

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Lease operating expense	16,515	12,924
Transportation and processing	5,128	1,147
Production and property taxes	1,774	1,888
Total operating expense	23,417	15,959

15. GENERAL AND ADMINISTRATIVE COSTS

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Salaries and benefits	5,442	5,346
Share-based compensation	392	1,073
Office rents and leases	1,457	1,600
Professional fees	2,853	3,231
Other – office and administration	2,120	2,011
	12,264	13,261
Amounts capitalized to property and equipment and E&E assets (Notes 5 & 6)	(1,434)	(831)
General and administrative expense	10,830	12,430

16. FINANCE COST

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Interest expense	730	828
Accretion – preferred shares (Note 8)	11,024	13,966
Accretion – decommissioning liability (Note 9)	1,326	1,351
Accretion – other liabilities	39	—
Finance cost	13,119	16,145

17. REORGANIZATION COST

Years Ended (\$000s)	December 31, 2016	December 31, 2015
Salaries and benefits – terminations	382	1,126
Share-based compensation – terminations	—	176
Professional fees	10	113
Reorganization cost	392	1,415

Reorganization costs are non-recurring costs related to corporate restructuring activities. The reorganization costs incurred in 2016 and 2015 mainly related to staff reduction.

18. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

The financial instruments of PPR consist of cash and cash equivalents, accounts receivable, accounts payable, borrowings under its credit facilities, derivative contracts and Preferred Shares and the conversion liability.

Cash and cash equivalents, derivative contracts and the conversion option within the Preferred Shares are classified as held for trading. Accounts receivable are classified as loans and receivables. The remaining instruments are considered other financial liabilities.

(a) Fair Value

The fair value of the borrowings under PPR's credit facilities approximates the carrying value (excluding deferred financing charges) as they bear floating market rates.

The Company's finance department is responsible for performing the valuation of financial instruments. The valuation process and results are reviewed and approved by management at least once every quarter, in line with the Company's quarterly reporting dates.

Cash and cash equivalents and derivative instruments are measured and recorded on PPR's statement of financial position at fair value through profit and loss. Cash and cash equivalents and risk management contracts have been assessed on the fair value hierarchy described in Note 3(g). Cash is classified as Level 1, while cash equivalents and derivative contracts are classified as Level 2. During the years ended December 31, 2016 and 2015, there were no transfers among Levels 1, 2 and 3.

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

(b) Risk Management

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

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

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

(i) Credit Risk

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

Cash and Cash Equivalents

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of December 31, 2016, the Company did not hold any cash equivalents, where as of December 31, 2015, the cash and cash equivalents included \$9.0 million one-month guaranteed investment certificates.

Accounts Receivable

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

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

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

<i>(\$000s)</i>	2016	2015
Oil and natural gas marketing companies	5,619	2,625
Joint operators	1,766	1,238
Government agencies	118	485
Counterparties – derivative instruments	399	1,873
Other	633	361
Total accounts receivable	8,535	6,582

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

<i>(\$000s)</i>	2016	2015
Current (less than 90 days)	7,616	6,141
Past due (more than 90 days)	919	441
Total	8,535	6,582

PPR's allowance for doubtful accounts was \$0.7 million as at December 31, 2016 (December 31, 2015 – \$0.3 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 with each of its derivative counterparties an International Swap and Derivatives Association, Inc. ("ISDA") Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. As of December 31, 2016, all of the derivative counterparties are lenders under the Amended Credit Facility, which provides that any security granted under the credit facility shall also extend to and be available to those lenders that are counterparties to derivative transactions with PPR. None of these counterparties require collateral beyond

that already pledged under the credit facility. PPR's derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. PPR does not require the posting of collateral for its benefit under its derivative agreements. However, PPR's ISDA Master Agreements generally contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party's obligations. These provisions generally apply to all derivative transactions, or all derivative transactions of the same type (e.g., commodity, interest rate, etc.), with the particular counterparty.

The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at December 31, 2016 and 2015. The net asset amounts represented the maximum exposure to credit risks for derivative instruments at each applicable reporting date:

December 31, 2016 (\$000s)	Gross Assets (Liabilities)	Amounts Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	2,944	(2,944)	—
Derivative instruments liabilities	(5,255)	2,944	(2,311)
Long-term:			
Derivative instruments assets – long-term	940	(940)	—
Derivative instruments liabilities – long-term	(4,740)	940	(3,800)

December 31, 2015 (\$000s)	Gross Assets (Liabilities)	Amounts Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	16,758	(7,227)	9,531
Derivative instruments liabilities	(7,227)	7,227	—
Long-term:			
Derivative instruments assets – long-term	5,121	(1,203)	3,918
Derivative instruments liabilities – long-term	(1,203)	1,203	—

(ii) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company addresses its liquidity risk through its capital management of cash, committed credit capacity along with its planned capital expenditure program. As outlined in Note 7, at December 31, 2016, the Company had \$55.0 million borrowing capacity under the Amended Credit Facility, of which \$20.9 million was utilized including \$5.4 million for the issuance of letters of credit. Subsequent to December 31, 2016, PPR acquired assets in the Greater Red Earth area ("Red Earth Acquisition") for cash consideration of \$41.0 million, prior to closing adjustments (Note 21). In conjunction with the closing of this acquisition, PPR issued flow-through common shares and common shares through a bought deal financing that raised gross proceeds of \$8.0 million, which was used to fund the Red Earth Acquisition. The balance of the purchase price was funded with borrowings under the Amended Credit Facility, under which the borrowing capacity was increased to \$65 million. Though PPR has increased its debt leverage

significantly, PPR also expects its future funds flow to increase as a result of the Red Earth Acquisition. PPR anticipates its future development to be funded with primarily with cash flows from operations, while maintaining a balanced leverage ratio. The Company has determined that its current financial obligations, including current commitments (Note 20), are adequately funded from the available borrowing capacity and from working capital derived from operations. Except for the long-term debt and the long-term portion of derivative financial instruments, both of which are due in 2018, unless long-term debt is extended, all of the Company's financial liabilities are due within one year.

(iii) Market Risk

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

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

Currency Risk

Currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Substantially all of the Company's petroleum and natural gas sales are conducted in Canada and are denominated in Canadian dollars. Canadian commodity prices are influenced by fluctuations in the Canada to United States dollar exchange rate. Prices for oil are determined in global markets and generally denominated in United States dollars.

Interest Rate Risk

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

A change in prime interest rates by 1% would have changed net loss by approximately \$0.1 million in 2016 (2015 – nil) assuming all other variables remain constant.

Commodity Price Risk

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

PPR enters into derivative instruments to manage its exposure to commodity price risk caused by fluctuations in commodity prices, which have served to protect and provide certainty on a portion of the Company's cash flows. The following table summarizes commodity derivative transactions as at December 31, 2016:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	500 bbls/d	January 1, 2017 – December 31, 2017	CDN\$ WTI	\$ 65.00/ 72.00	Collar
Oil	250 bbls/d	January 1, 2017 – December 31, 2017	CDN\$ WTI	\$ 65.00/ 75.00	Collar
Oil	500 bbls/d	January 1, 2017 – December 31, 2017	CDN\$ WTI	\$ 58.00/ 67.50	Collar
Oil	500 bbls/d	January 1, 2017 – December 31, 2017	CDN\$ WTI	\$ 87.78	Swap
Light Oil Differential	1,000 bbls/d	January 1, 2017 – December 31, 2017	CDN\$ MSW ⁽¹⁾	\$ (5.70)	Swap
Natural Gas	1,800 GJ/d	January 1, 2017 – December 31, 2017	AECO 7A Monthly Index	\$ 2.60	Swap
Natural Gas	2,750 GJ/d	January 1, 2017 – December 31, 2017	AECO 7A Monthly Index	\$ 2.91	Swap
Oil	500 bbls/d	January 1, 2018 – December 31, 2018	USD\$ WTI	\$ 65.00	Sold Call Option
Oil	800 bbls/d	January 1, 2018 – December 31, 2018	CDN\$ WTI	\$ 58.00/ 67.50	Collar

(1) Settled on the monthly average Mixed Sweet Blend ("MSW") Differential to WTI

The following lists the fair value of all derivative contracts by commodity type in place at the following balance sheet dates:

December 31, 2016	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Derivative instruments – current liability	(1,536)	(775)	(2,311)
Derivative instruments – long-term liability	(3,800)	—	(3,800)
Total	(5,336)	(775)	(6,111)

December 31, 2015	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Derivative instruments – current asset	9,531	—	9,531
Derivative instruments – long-term asset	3,918	—	3,918
Total	13,449	—	13,449

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type in the fiscal years 2016 and 2015:

Year ended December 31, 2016	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Unrealized loss on derivative instruments	(18,499)	(775)	(19,274)
Realized gain on derivative instruments	9,352	391	9,743
Total gain	(9,147)	(384)	(9,531)

Year ended December 31, 2015	Crude Oil	Natural Gas	Total
<i>(\$000s)</i>			
Unrealized loss on derivative instruments	(6,843)	—	(6,843)
Realized gain on derivative instruments	16,785	—	16,785
Total gain (loss)	9,942	—	9,942

An increase of Canadian dollar WTI by \$1.00 per bbl from the expected forward prices as at December 31, 2016 would result in a decrease in the unrealized gain on derivative instruments of approximately \$0.9 million, assuming all other variables, including the Canadian/United States dollar exchange rate, remain constant. An increase of Canadian dollar AECO by \$0.25 per Mcf from the expected forward prices as at December 31, 2016 would result in a decrease in the unrealized gain on derivative instruments of approximately \$0.8 million, assuming all other variables remain constant.

(c) Capital Management

PPR's objectives when managing capital is to maintain a flexible capital structure in order to meet its financial obligations and allow it to execute on its planned capital expenditure program. The Company's long-term goal is to fund current period decommissioning expenditures and capital expenditures necessary for the replacement of production declines using only funds from operations. Value-creating activities may be financed with a combination of funds from operations and other sources of capital. The Company considers its capital structure to include shareholders' equity, Amended Credit Facility, and working capital. PPR aims to manage the capital structure of the Company to provide a strong financial position that is capable of funding the future growth of the Company. PPR monitors the current and forecasted capital structure and makes adjustments on an ongoing basis in order to maintain the liquidity needed to satisfy the funding requirements of the Company. Modifications to the capital structure of the Company can be accomplished through issuing common shares, issuing new debt or replacing existing debt, adjusting capital spending and acquiring or disposing of assets.

The Company monitors its capital structure based on the ratio of total debt to trailing twelve months Adjusted EBITDAX (as defined below). Total debt to Adjusted EBITDAX provides a measure of the Company's ability to manage its debt levels under current operating conditions. The ratio is calculated as total debt from the Amended Credit Facility divided by Adjusted EBITDAX for the most recent four consecutive fiscal quarters. The Company's goal is to manage this ratio well within the financial covenants imposed on it under the Amended Credit Facility. Total debt to Adjusted EBITDAX at December 31, 2016 was 1.2 to 1.0 (2015 – 0.2 to 1.0), and as such, was in compliance with covenants as at December 31, 2016. The Company also plans to maintain a prudent financial position by actively managing its capital program with careful consideration of the commodity pricing environment in order to optimize leverage, liquidity and cash flows.

Adjusted EBITDAX corresponds to defined terms in the Company's credit facility agreement and means net earnings 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. As transaction costs related to the Arrangement are non-recurring costs, Adjusted EBITDAX has been calculated, excluding transaction costs, as a meaningful measure of continuing operating cash flows. For purposes of calculating covenants under the credit facility, Adjusted EBITDAX is determined using financial information from the most recent four consecutive fiscal quarters.

The following is a reconciliation of Adjusted EBITDAX to the nearest IFRS measure, net loss before income tax:

	Year Ended December 31,	
<i>(\$000s)</i>	2016	2015
Net loss before income tax	(60,410)	(59,836)
Add (deduct):		
Interest	730	828
Depletion and depreciation	21,344	21,436
Exploration and evaluation expense	58	545
EBITDAX	(38,278)	(37,027)
Unrealized (gain) loss on derivative instruments	19,274	6,843
Impairment loss	26,723	13,298
Accretion	12,389	15,317
Loss (gain) on foreign exchange	(9,510)	25,498
Reorganization costs ¹	392	1,415
Share-based compensation	366	1,041
Loss on sale of properties	73	197
Transaction costs	2,288	—
Pro-forma impact of acquisition	3,206	—
Adjusted EBITDAX	16,923	26,582

19. KEY MANAGEMENT COMPENSATION

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

<i>Years ended</i> <i>(\$000s)</i>	December 31, 2016	December 31, 2015
Salary, bonus and fees	2,312	2,124
Termination payments	628	747
Share based compensation	316	820
Share based compensation – terminations	10	174
Total remuneration	3,266	3,865

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

¹ Reorganization cost includes share-based compensation related to terminations.

20. COMMITMENTS AND CONTINGENCIES

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

	2017	2018	2019	2020	2021	Thereafter	Total
Debt	384	15,207	—	—	—	—	15,591
Operating Leases – net	1,668	2,380	2,453	2,453	2,453	204	11,611
Firm transportation agreements	260	260	255	136	51	21	983
Capital commitments	13,382	20,250	—	—	—	—	33,632
Flow-through share commitment	4,945	—	—	—	—	—	4,945
Other agreements	429	45	39	41	38	407	999
Total	21,068	38,142	2,747	2,630	2,542	632	67,761

Included in operating leases – net are sublease recoveries in amount of \$1.4 million over the contractual period.

The flow-through share commitment relates to flow-through shares issued by PPR in December 2016 (Note 10(b)) and will be met by incurring CEE and CDE as defined in the *Income Tax Act* and renouncing the related income tax deductions to investors.

Capital commitments relate to annual capital commitments for three years ending July 1, 2018 pursuant to a lease acquisition agreement as described below. The capital commitments and flow-through share commitment may be fulfilled by the same exploration expenditures.

In addition, the Company has estimated future decommissioning liabilities on its interests in wells and facilities in the total amount of \$141.1 million on an undiscounted basis, inflated at 1.7%, of which, \$15.5 million is estimated to be incurred over the next five years.

(a) Lease Acquisition Capital Commitment

Under the lease acquisition capital commitment, the Company is committed to annual capital expenditures for three years ending July 1, 2018 pursuant to the acquisition of 69,000 net undeveloped acres in the Wheatland area. During the third quarter of 2016, the lease acquisition agreement was amended whereby an additional approximate 4,500 net acres of undeveloped land in the Wheatland area were purchased for \$0.6 million. The Company can meet its original capital commitment by incurring costs related to the additional undeveloped land purchased as well as on the lands purchased under the original agreement. In the event that PPR does not incur the minimum capital expenditures by the end of a given commitment period, the shortfall will be payable to the vendor. If the amount of capital expenditures incurred for any commitment period exceeds the minimal amount, such excess will be applied to satisfy capital commitment in the subsequent commitment period. During the first two years of the leases, if the average WTI prices for a calendar quarter are below US\$50/bbl, PPR may defer a portion of the drilling commitment from that commitment period to be allocated over the remaining term. Averaged WTI prices for the first two calendar quarters of the second commitment period were below US\$50/bbl, as such, the deferrable option is exercisable. On or before July 1, 2017, if PPR fails to drill or to elect to drill one well in a specific formation on certain lands (“Specific Formation”), PPR will be required to surrender the leases pertaining to the Specific Formation immediately. In the event that the Company made the election but does not drill by July 1, 2018, \$250,000 will be payable to the vendor.

As of December 31, 2016, the capital commitment for the year ending July 1, 2016 of \$10.0 million was met and additional spending of \$1.6 million has been applied towards the July 1, 2017 capital commitment of \$15.0 million.

(b) Farm-in Arrangement Capital Commitment

Under the farm-in arrangement capital commitment, a minimum of \$20 million of drilling and completion expenditures (the "Gross Capital Commitment") must be incurred on farm-in lands by December 31, 2016. Depending on the participation of the farmor, the Company's share of the expenditures may be between 50% and 100% of the Gross Capital Commitment. In the second quarter of 2016, the farm-in and option agreement was amended to allow more flexibility of timing on drilling test wells and option wells throughout 2016 and 2017. As at December 31, 2016, the full Gross Capital Commitment has been met. Under the terms of the amended arrangement, PPR may continue to drill test and option wells on the farm-in lands until December 31, 2017. The farmor may elect to participate up to a 50% working interest on earnings and test wells. There is no further capital spending commitments under this agreement.

(c) Contingencies

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

21. SUBSEQUENT EVENTS

On February 13, 2017, PPR entered into an agreement to acquire oil and natural gas assets in the Greater Red Earth Area of Northern Alberta for cash consideration of \$41 million, before closing adjustments. The acquisition closed on March 22, 2017. The assets acquired include high quality and low decline oil production which is complementary to PPR's existing operations at Evi in the Peace River Arch area of Northern Alberta and further enhances the Company's size and competitive position. The Greater Red Earth asset includes producing assets with current production of approximately 1,100 boe/d (98% liquids weighting) and approximately 78,000 net acres of undeveloped land. The acquisition was funded through the Company's credit facility, which was amended on March 22, 2017 and now has a total borrowing capacity of \$65 million including a \$55 million syndicated revolving credit facility and a \$10 million operating facility, and through the proceeds from a bought deal financing of \$8 million which closed on March 16, 2017. In conjunction with the amendment of the credit facility, the financial covenant for current assets to current liabilities has been rescinded for the first quarter of 2017. The preliminary allocation of the purchase price to the assets and liabilities acquired will be recorded in the first quarter of 2017.

Under the bought deal financing, the Company issued 5,195,000 flow-through common shares with respect to CEE at \$0.77 per share and 5,971,000 subscription receipts ("Subscription Receipts") at \$0.67 per share for gross proceeds of \$8.0 million. The proceeds from the sale of Subscription Receipts were held in escrow until the closing of the Red Earth Acquisition, upon which, the purchasers of the Subscription Receipts automatically received, for every Subscription Receipt held, one PPR common share and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant will entitle the holder to acquire one common share at an exercise price of \$0.87 per share until March 16, 2019. The underwriters' have an over-allotment option to purchase, in whole or in part, at any time prior to April 15, 2017, up to an additional 779,250 flow-through common shares and 895,650 common shares for total additional gross proceeds of up to approximately \$1.2 million.