Prairie Provident Resources Inc.

Management's Discussion and Analysis
For the Three Months Ended March 31, 2017

Dated: May 10, 2017

Advisories

In this management's discussion and analysis ("MD&A"), unless otherwise indicated or the context otherwise requires, the terms "we", "us", "our", "PPR", "Prairie Provident" and "the Company": (i) when used in reference to periods prior to September 12, 2016, refer to Lone Pine Resources Inc. ("Lone Pine Resources") and Lone Pine Resources Canada Ltd. ("LPR Canada", now Prairie Provident Resources Canada Ltd., collectively, "Lone Pine"); and (ii) when used in reference to the period following September 12, 2016, refers to Prairie Provident Resources Inc., as parent corporation, together with its wholly-owned subsidiaries, Prairie Provident Resources Canada Ltd. (formerly Lone Pine Resources Canada Ltd.), Lone Pine Resources Inc. and Arsenal Energy Inc. This MD&A presents the results for the historical Lone Pine properties for the period up to September 12, 2016 and for the combination of Lone Pine and Arsenal Energy Inc. after September 12, 2016. See "Arrangement Agreement" section for details.

The following MD&A provides management's analysis of the Company's results of operations, financial position and outlook as at and for the three months ended March 31, 2017. This MD&A is dated May 10, 2017 and should be read in conjunction with the audited consolidated financial statements of PPR as at and for the year ended December 31, 2016 (the "2016 Annual Financial Statements") and the 2016 annual MD&A (the "Annual MD&A"), both dated March 30, 2017. Additional information relating to PPR, including the Company's December 31, 2016 Annual Information Form, is available on SEDAR at www.sedar.com.

All financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Unless otherwise noted, all financial information provided herein is reported in Canadian dollars. Production volumes are presented on a working-interest basis, before royalties.

This MD&A contains forward-looking statements and non-IFRS measures. Readers are cautioned that the MD&A should be read in conjunction with the Company's disclosures under the headings "Forward-Looking Statements" and "Non-IFRS Measures" included at the end of this MD&A.

Abbreviations

The following is a list of abbreviations that may be used in this MD&A:

bbl	barrel
bbl/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
Mboe	thousands of barrels of oil equivalent
mmboe	millions of barrels of oil equivalent
Mcf	thousand cubic feet
Mcf/d	thousand cubic feet per day
mmbtu	million British Thermal Units
GJ	gigajoule
AECO	AECO "C" hub price index for Alberta natural gas
CGU	cash-generating-unit
DD&A	depreciation, depletion and amortization
E&E	exploration and evaluation
GAAP	generally accepted accounting principles
G&A	general and administrative
P&D	production and development
PSU	performance share unit
RSU	restricted share unit
WTI	West Texas Intermediate

Financial and Operational Highlights

	Three Months Ended March 31	
($000s except per unit amounts)	**2017**	2016
Financial		
Oil and natural gas revenue	**19,208**	7,203
Net earnings	**7,262**	3,197
Per share – basic	**0.07**	0.03
Per share – diluted	**0.07**	0.03
Adjusted funds from operations[1]	**5,934**	1,090
Per share – basic	**0.06**	0.01
Per share – diluted	**0.06**	0.01
Capital expenditures and acquisitions (net of proceeds from dispositions)	**48,386**	10,732
Production Volumes		
Crude oil (bbls/d)	**2,832**	1,884
Natural gas (Mcf/d)	**15,073**	7,698
Natural gas liquids (bbls/d)	**293**	124
Total (boe/d)	**5,637**	3,291
% Liquids	**55%**	61%
Average Realized Prices		
Crude oil ($/bbl)	**55.89**	33.63
Natural gas ($/Mcf)	**2.97**	1.86
Natural gas liquids ($/bbl)	**35.46**	12.23
Total ($/boe)	**37.86**	24.05
Operating Netback ($/boe)[2]		
Realized price	**37.86**	24.05
Royalties	**(5.97)**	(2.17)
Operating costs	**(17.02)**	(21.47)
Operating netback	**14.87**	0.41
Realized gains on derivative instruments	**1.38**	11.97
Operating netback, after realized gains on derivative instruments	**16.25**	12.38

First quarter 2017 corporate developments:

- On March 22, 2017, PPR acquired oil and natural gas assets in the Greater Red Earth area of Northern Alberta (the "Red Earth Assets") for cash consideration of $40.9 million (the "Red Earth Acquisition"). 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. The acquisition further enhances the Company's size and competitive position through an increased liquids ratio, lower corporate decline and increased netbacks.

[1,2] Adjusted funds from operations and operating netback are non-IFRS measures and are defined below under "Other Advisories".

- In conjunction with the closing of the Red Earth Acquisition, PPR amended its credit facility with a syndicate of lenders to increase its borrowing capacity to $65 million including a $55 million syndicated revolving credit facility and a $10 million operating facility (collectively, the "Amended Credit Facility").

- On March 16, 2017, the Company issued 5,195,000 flow-through common shares with respect to Canadian Exploration Expenses ("CEE") at $0.77 per shares and 5,971,000 subscription receipts ("Subscription Receipts") at $0.67 per unit for total 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 warrant (each whole warrant, a "Warrant"). Each Warrant entitles the holder to acquire one common share at an exercise price of $0.87 per share until March 16, 2019.

First quarter 2017 highlights:

- Production averaged 5,637 boe/day (55% liquids), a 71% increase compared to the first quarter of 2016 due to production additions from the Arsenal acquisition (see "Arrangement Agreement" below) and the successful 2016 Wheatland drilling program which resulted in 15 wells being brought on production in 2016 and two wells being brought on production in February 2017. Production additions were partially offset by natural declines.

- Operating netback after realized hedging gains was $16.25/boe for the first quarter of 2017, an increase of $3.87/boe from the first quarter of 2016. The increase was primarily due to an increase of $13.81/boe in realized prices, combined with a $4.45/boe decrease operating costs, partially offset by a $10.59/boe decrease in realized gains on derivative in instruments and a $3.80/boe increase in royalties.

- Adjusted funds from operations was $5.9 million, a $4.8 million increase as compared to the first quarter of 2016 primarily due to higher operating netback after realized hedging gains, higher production and lower G&A expenses.

- Capital expenditures (net of $0.3 million of proceeds from dispositions) in the quarter were $48.4 million, including $40.9 million for the Red Earth Acquisition. Excluding acquisitions and dispositions, capital expenditures were $6.9 million in the quarter including $5.9 million on the Wheatland drilling program and $0.9 million on the Evi waterflood project. At Wheatland, for the first quarter of 2017, four gross wells were drilled and two gross wells that were drilled in the fourth quarter of 2016 were tied-in and brought on-stream.

- Net earnings were $7.3 million, compared to $3.2 million in the first quarter of 2016. The $4.1 million variance was largely due to an increase of $9.6 million in oil and natural gas revenues, net of royalties, the recognition of a $4.3 million gain on business combination related to the Red Earth Acquisition and an increase in gains on derivative instruments of $2.1 million, partially offset by a $10.6 million decrease in foreign exchange gain recognized. Foreign exchange gains recognized in the first quarter of 2016 substantially related to US dollar denominated preferred shares, which were converted to common shares pursuant to the Arrangement (defined herein).

- Exited the quarter with borrowings of $45.5 million drawn on the Amended Credit Facility and a working capital deficit (as defined in "Other Advisories" below) of $13.1 million.

Outlook

PPR maintains its 2017 guidance (see Annual MD&A) whereby budgeted capital expenditures range from $25.0 million to $35.0 million (including expenditures on decommissioning activities). PPR remains focused on long-term value creation through the development of its core assets. The Company 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.

Arrangement Agreement

On September 12, 2016, Lone Pine and Arsenal completed a business combination by way of a plan of arrangement ("Arrangement") whereby Lone Pine and Arsenal became direct or indirect wholly-owned subsidiaries of Prairie Provident Resources Inc. (see Note 1 to the Annual Financial Statements).

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

Business Combination

On March 22, 2017, PPR acquired oil and natural gas properties in the Greater Red Earth area of Northern Alberta for cash consideration of $40.9 million. The assets acquired include high quality and low decline oil production which is complementary to PPR's existing operations at Evi in the Peach River Arch area of Northern Alberta and further enhances the Company's size and competitive position in the area. 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 with an increased borrowing base of $65 million, and through the gross proceeds from a bought-deal equity financing of $8.0 million ($7.0 million net of share issuance costs), which closed on March 16, 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 Receipt 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 entitles the holder to acquire one common share at an exercise price of $0.87 per share until March 16, 2019. Pursuant to the bought-deal financing, the underwriters' had an over-allotment option to purchase, at any time prior to April 15, 2017, up to an additional 15% of the number of flow-through common shares and Subscription Receipts initially offered. On April 12, 2017, the overallotment option was partially exercised, resulting in the issuance of an additional 146,170 CEE flow-through common shares at $0.77 per share and 338,650 Subscription Receipts at $0.67 per share for total gross proceeds of $0.3 million.

Results of Operations

Production

	Three Months Ended March 31	
	2017	2016
Crude oil (bbls/d)	**2,832**	1,884
Natural gas (Mcf/d)	**15,073**	7,698
Natural gas liquids (bbls/d)	**293**	124
Total (boe/d)	**5,637**	3,291
Liquids Weighting	**55%**	61%

PPR's production for the first quarter of 2017 increased by 71% to 5,637 boe/d from the first quarter of 2016. The increase was primarily the result of additions from the Arsenal acquisition and the Wheatland drilling program, which incorporated 15 wells that came on production during 2016, of which three were drilled in 2015. An additional two wells that were drilled in 2016 commenced production in February 2017. The successful drilling program at Wheatland and the Arsenal acquisition resulted in incremental production in the first quarter of 2017 of approximately 1,500 boe/d and 1,100 boe/d, respectively. Further contributing to the production increase was production related to the Red Earth Acquisition, which has been included in PPR's operating results since the closing date of the acquisition on March 22, 2017. This resulted in an additional 125 boe/d of production for the three months ended March 31, 2017. Increases in production were partially offset by natural production declines.

The decline in the liquids-weighting from 61% in the first quarter of 2016 to 55% in the first quarter of 2017 was primarily due to increased production from the Wheatland area, which has a lower liquids-weighting than the remaining assets. Going forward, as production from the Red Earth Assets is comprised of approximately 98% liquids, PPR's liquids-weighting is expected to increase.

Revenue

	Three Months Ended March 31	
($000s, except per unit amounts)	**2017**	2016
Revenue		
Crude oil	**14,245**	5,765
Natural gas	**4,028**	1,300
Natural gas liquids	**935**	138
Oil and natural gas revenue	**19,208**	7,203
Average Realized Prices		
Crude oil ($/bbl)	**55.89**	33.63
Natural gas ($/Mcf)	**2.97**	1.86
Natural gas liquids ($/bbl)	**35.46**	12.23
Total ($/boe)	**37.86**	24.05
Benchmark Prices		
Crude oil - WTI ($/bbl)	**68.62**	45.96
Crude oil - Edmonton Light Sweet ($/bbl)	**63.41**	40.24
Natural gas - AECO month index-7A ($/Mcf)	**2.95**	2.10
Natural gas - AECO daily index-5A ($/Mcf)	**2.70**	1.83
Exchange rate - US$/CDN$	**0.76**	0.73

PPR's first quarter 2017 revenue increased by 167% or $12.0 million from the first quarter of 2016. The 147% increase in crude oil revenue and 210% increase in natural gas revenue were largely due to higher realized prices

which increased by 66% and 60%, respectively. The higher realized prices reflected increases in benchmark prices. The increases in realized prices were compounded by increased production, which increased from the first quarter of 2016 by 50% for crude oil and 96% for natural gas, respectively. The overall average realized prices did not increase to the same extent as individual commodity prices due to a lower liquids-weighted production mix in the first quarter of 2017 than in the first quarter of 2016.

Royalties

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Royalties	**3,029**	649
Per boe	**5.97**	2.17
Percentage of revenue	**15.8%**	9.0%

The majority of PPR's royalties are paid to the Crown, which are based on various sliding scales that are dependent on incentives, production volumes and commodity prices. Production in the Wheatland area is subject to flat royalty rates of between 15% and 17.5%, which is currently higher than the average royalty rate of the remaining properties. On a percentage of revenue basis, royalties for the three months ended March 31, 2017 increased from the corresponding period in 2016 due to royalties incurred on additional Wheatland production, the impact of the Arsenal properties acquired and a higher Crown royalty burden as a result of higher benchmark prices.

Commodity Price and Risk Management

PPR enters into derivative risk management contracts to manage exposure to commodity price fluctuations and to protect and provide certainty on a portion of the Company's cash flows. PPR considers these derivative contracts to be an effective means to manage cash flows from operations.

	Three Months Ended March 31	
($000s)	**2017**	2016
Realized gain on derivatives	**703**	3,585
Unrealized gain on derivatives	**5,858**	852
Total gain on derivatives	**6,561**	4,437
Per boe		
Realized gain on derivatives	**1.38**	11.97
Unrealized gain on derivatives	**11.55**	2.84
Total gain on derivatives	**12.93**	14.82

Realized gains and losses on derivative risk management contracts represent the cash settlements of outstanding contracts while unrealized gains and losses on derivative risk management reflect changes in mark-to-market positions of outstanding contracts in the current period. Both realized and unrealized gains and losses on derivate contracts vary based on fluctuations related to the specific terms of outstanding contracts in the related period including contract types, contract quantities and fluctuations in underlying commodity reference prices.

As at March 31, 2017, the Company held the following outstanding derivative contracts:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	500 bbls/d	April 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/72.00	Collar
Oil	250 bbls/d	April 1, 2017 – December 31, 2017	CDN$ WTI	$ 65.00/75.00	Collar
Oil	500 bbls/d	April 1, 2017 – December 31, 2017	CDN$ WTI	$ 58.00/67.50	Collar
Oil	500 bbls/d	April 1, 2017 – December 31, 2017	CDN$ WTI	$ 87.78	Swap
Light Oil [(1)] Differential	1,000 bbls/d	April 1, 2017 – December 31, 2017	CDN$ MSW	$ -5.70	Swap
Natural Gas	4,550 GJ/d	April 1, 2017 – December 31, 2017	AECO 7A Monthly Index	$ 2.79	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

Subsequent to March 31, 2017, the Company entered into the following derivative contracts:

Commodity Contract	Notional Quantity	Remaining Term	Reference	Weighted Average Price	Contract Type
Oil	400 bbls/d	April 1, 2017 – December 31, 2017	CDN$ WTI	$ 70.00/85.00	Collar
Oil	400 bbls/d	January 1, 2019 – December 31, 2019	CDN$ WTI	$ 85.00	Sold Call Option
Natural Gas	1,500 GJ/d	May 1, 2017 – December 31, 2017	AECO 7A Monthly Index	$ 2.80	Swap
Natural Gas	800 GJ/d	October 1, 2017 – December 31, 2017	AECO 7A Monthly Index	$ 2.95	Swap
Natural Gas	2,500 GJ/d	January 1, 2018 – March 31, 2018	AECO 7A Monthly Index	$ 3.12	Swap
Natural Gas	1,500 GJ/d	January 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Swap
Natural Gas	1,500 GJ/d	January 1, 2018 – December 31, 2018	AECO 7A Monthly Index	$ 2.76	Sold Call Option
Natural Gas	2,000 GJ/d	January 1, 2019 – March 31, 2019	AECO 7A Monthly Index	$ 2.73	Swap

All of the Company's derivatives contracts are entered into with counterparties that are lenders under the terms of PPR's credit facility.

Operating Expenses

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Lease operating expense	**5,702**	4,874
Transportation and processing	**2,219**	1,120
Production and property taxes	**712**	436
Total operating expenses	**8,633**	6,430
Per boe	**17.02**	21.47

Lease operating expense for the first quarter of 2017 increased by 17% from the same period in 2016 primarily due to incremental production from Wheatland, the Arsenal assets and the Red Earth Assets. The period over period increase was mitigated by $1.0 million of site clean-up and remediation costs that were included in the first quarter of 2016 lease operating expenses as a result of a breach in an above-ground section of wellhead piping in the

Wheatland area that occurred in the quarter. These costs were subsequently offset by a $0.9 million insurance recovery that was received in the fourth quarter of 2016.

Transportation and processing expense for the first three months of 2017 increased by $1.1 million as compared to the same period in 2016. The increase primarily relates to third party natural gas processing costs and natural gas transportation costs incurred on Wheatland production.

On a per boe basis, operating expenses decreased by 21% largely due to costs related to the Wheatland wellhead pipe breach incident incurred in the first quarter of 2016. Excluding the costs related to this incident, operating expenses would have decreased by 6% from the prior year on a per boe basis due to operating efficiencies and economies of scale.

Operating Netback

	Three Months Ended March 31	
($ per boe)	**2017**	2016
Revenue	**37.86**	24.05
Royalties	**(5.97)**	(2.17)
Operating costs	**(17.02)**	(21.47)
Operating netback	**14.87**	0.41
Realized gains on derivative instruments	**1.38**	11.97
Operating netback, after realized gains on derivative instruments	**16.25**	12.38

Compared against the same period in 2016, operating netback after realized gains on derivative instruments increased by $3.87/boe in the first quarter of 2017. Increase in revenue was compounded by decrease in operating costs, but were partially offset by decreased realized gains on derivative instruments and increased royalties.

General and Administrative ("G&A") Expenses

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Gross cash G&A expenses	**2,608**	2,987
Gross share-based compensation expense	**139**	94
Less amounts capitalized	**(487)**	(377)
Net G&A expenses	**2,260**	2,704
Per boe	**4.45**	9.03

For the quarter ended March 31, 2017, gross cash G&A decreased by $0.4 million or 13% compared to the same period in 2016. The decrease primarily relates to decreased professional fees incurred and increased operating recoveries.

Changes in gross share-based compensation expense relate to the number of units granted, the timing of grants, the fair value of units on the grant date, and the vesting period over which the related expense is recognized. The increase in gross share-based compensation expense was the result of share-based incentive awards granted to employees, officers and directors in the fourth quarter of 2016 and the first quarter of 2017.

Capitalized G&A varies with the composition and compensation levels of technical departments. The increase in capitalized G&A for the three months ended March 31, 2017 compared to the same periods in 2016 related to the increased staffing levels in the technical departments subsequent to the Arrangement.

Share-based compensation

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 are granted. Prior to the Arrangement, share-based compensation related to restricted share units, which were settled with PPR common shares in the fourth quarter of 2016 and in the first quarter of 2017.

In the first quarter of 2017, the Company granted 1,869,795 stock options to employees, officers and directors at an exercise price of $0.76 per share. Options granted vest evenly over a three year period and will expire five years after the grant date. As at March 31, 2017, 2,621,969 stock options were outstanding, of which 250,724 was exercisable.

The Company also issued 354,905 performance share units ("PSUs") to certain officers of the Company in the first quarter of 2017. These PSUs will vest on December 15, 2019 and are subject to a multiplier from 0 to 2 based on share performance relative to a selected peer group. PSUs will 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. As at March 31, 2017, 471,332 PSUs were outstanding.

Finance Costs

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Interest expense	**309**	178
Accretion expenses	**470**	4,295
Total finance costs	**779**	4,473
Per boe	**1.54**	14.94

Interest expense is primarily related to interest incurred related to the Company's credit facilities. There were no borrowings outstanding during the three months ended March 31, 2016 and interest incurred in this period primarily comprised of the amortization of deferred financing charges, recognition of standby fees and interest on outstanding letters of credit. The increase in interest expense by $0.1 million from the first quarter of 2016 relates to borrowings under the Company's credit facilities during the first quarter of 2017. The weighted average effective interest rate on credit facility borrowings for the three months ended March 31, 2017 was 3.1% (March 31, 2016 – 2.0% on letters of credit outstanding). PPR expects interest expense to increase in 2017 due to additional borrowings against the Company's credit facilities for the Red Earth Acquisition that was closed on March 22, 2017. Due to the timing of the transaction, it did not have a significant impact on the interest expense of the Company during the first quarter of 2017.

Accretion charges are non-cash expenses. Historically, the Company's accretion expense was primarily comprised of accretion on preferred shares. Pursuant to the Arrangement, outstanding preferred shares were exchanged for PPR common shares and as such accretion expense on preferred shares is no longer recognized after September 12, 2016 (see Preferred Shares under the Capital Resources section below). During the first quarter of 2017, $nil (March 31, 2016 – $4.0 million) accretion charges were incurred on the preferred shares. The remaining accretion charges primarily related to the decommissioning liabilities, which increased by $0.2 million during the first quarter of 2017 from the same period in the prior year as a result of additional decommissioning liabilities acquired from the Arsenal acquisition. Accretion related to decommissioning liabilities is expected to increase further in future periods as a result of the additional liabilities acquired pursuant to the Red Earth Acquisition.

Gain on Foreign Exchange

	Three Months Ended March 31	
($000s)	**2017**	2016
Realized gain on foreign exchange	**55**	73
Unrealized gain on foreign exchange	**30**	10,575
Gain on foreign exchange	**85**	10,648

Foreign exchange gains (losses) incurred in the three months ended March 31, 2016 related mainly to the previously outstanding US dollar denominated preferred shares (see Preferred Shares under the Capital Resources section below). The weakening (strengthening) of the Canadian dollar during a period would result in unrealized foreign exchange loss (gain) on preferred shares. Pursuant to the Arrangement, outstanding preferred shares were exchanged for PPR common shares on September 12, 2016 and as such foreign exchange fluctuations of the US dollar had a significantly reduced impact in the first quarter of 2017.

Exploration and Evaluation Expense

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Exploration and evaluation expense	**8**	26
Per boe	**0.02**	0.09

Depletion and Depreciation

	Three Months Ended March 31	
($000s, except per boe)	**2017**	2016
Depletion and depreciation	**8,201**	4,658
Per boe	**16.17**	15.55

Depletion and depreciation rates are subject to change based on changes in the carrying value of the asset base, changes in future development costs, reserve updates and changes in production by area. The slight increase in the first quarter 2017 depletion rate from the first quarter 2016 depletion rates incorporated the Arsenal assets and related reserves.

Capital Expenditures

	Three Months Ended March 31	
($000s)	**2017**	2016
Drilling and completion	**4,733**	6,057
Equipment, facilities and pipelines	**1,625**	4,160
Land	**9**	47
Capitalized overhead and other	**539**	468
Capital expenditures	**6,906**	10,732
Acquisitions – cash consideration	**41,829**	—
Proceeds from disposals of property	**(349)**	—
Total capital expenditures and acquisitions net of dispositions	**48,386**	10,732

PPR focused its capital activities during the first quarter of 2017 in the Wheatland area including drilling 4 gross (4.0 net) wells, the equipping and tie-in of two wells that were drilled and completed in 2016 and pipelines construction

in the area. Additional capital expenditures were spent on advancing the Evi waterflood project including the conversion of 4 producer wells to water injection wells.

Additionally, the Company incurred $41.8 million on acquisitions of oil and natural gas properties in the first quarter of 2017, of which $40.9 million was for the Red Earth Acquisition (see Business Combinations above).

During the first quarter of 2016, the Company focused its capital activities in the Wheatland area including the drilling and completion of 3 gross (2.9 net) wells and expenditures on the construction of a multi-well battery and pipeline. Additional capital expenditures were spent on the second phase of the Evi waterflood.

Reorganization Costs

	Three Months Ended March 31	
($000s)	**2017**	2016
Salary and benefits – terminations	—	266
Professional fees	—	10
Total reorganization costs	—	276

Reorganization costs are non-recurring costs associated with the Company's corporate restructuring initiatives. For 2016, majority of the reorganization costs related to staff reductions.

Transaction Costs

Transaction costs incurred in the three months ended March 31, 2017 of $0.7 million (March 31, 2016 – nil) included $0.4 million related to the Red Earth Acquisition and $0.3 million related to the Arrangement. Transaction costs included primarily legal fees and professional fees.

Decommissioning Liabilities

The Company's decommissioning liabilities at March 31, 2017 were $112.0 million (December 31, 2016 - $97.7 million) to provide for future remediation, abandonment and reclamation of PPR's oil and gas properties. The $14.3 million increase in decommissioning liabilities was primarily due to the Red Earth Acquisition and related change in estimates, partially offset by settlements of decommissioning obligations of $4.0 million. The Company completed the majority of its 2017 decommissioning program in the first quarter of 2017 in a winter access only area and decommissioning expenditures for the remainder of 2017 are expected to be considerably less.

Decommissioning obligations acquired through business combination and asset acquisition are initially measured at fair value using a credit-adjusted risk free rate of 5.7% 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 $11.5 million, which was included in changes in estimates.

The undiscounted decommissioning obligation liabilities, based on inflation rate at 1.7%, were estimated at $175.4 million. While the provision for decommissioning liabilities is based on management's best estimates of future costs, discount rates, timing and the economic lives of the assets, there is uncertainty regarding the amount and timing of incurring these costs.

Capital Resources and Liquidity

Capital Resources

Working Capital

At March 31, 2017, PPR had working capital deficit (as defined in "Other Advisories" below) of $13.1 million (December 31, 2016 - $4.4 million). The increase in the working capital deficit was primarily the result of the Red Earth Acquisition for cash consideration of $40.9 million in the first quarter of 2017, resulting in a reduction of cash from $7.9 million as at December 31, 2016 to $nil as at March 31, 2017. Additionally, capital expenditures in the first quarter of 2017 contributed to the working capital deficit.

Amended Credit Facility

Under the Company's credit facility, PPR had outstanding long-term debt at March 31, 2017 of $45.0 million (December 31, 2016 - $15.0 million), net of deferred financing costs and prepaid interest of $0.5 million (December 31, 2016 - $0.5 million) and $5.4 million of letters of credit issued (December 31, 2016 – $5.4 million). Also included in long-term debt were $1.6 million of cheques issued in excess of cash balance.

On March 22, 2017, the Company amended its credit facility with a syndicate of banks. Under the Amended Credit Facility, PPR has a $55 million syndicated revolving term facility and a $10 million operating facility, both 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 was set at May 30, 2017; as such the maturity date of Amended Credit Facility is May 29, 2018.

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 (as defined below) for a trailing 12-month period is required to be less than 3.0 to 1.0 (1.5 to 1.0 as at March 31, 2017); 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. In conjunction with the amendment of the credit facility on March 22, 2017, the financial covenant for current assets to current liabilities was rescinded for the first quarter of 2017.

As at March 31, 2017, the Company was in compliance with all applicable covenants under the Amended Credit Facility.

Shareholders' Equity

At March 31, 2017, PPR had consolidated share capital of $121.3 million (December 31, 2016 – $115.1 million) and had 115.4 million outstanding common shares. In addition, PPR had 2.6 million stock options (December 31, 2016 – 0.8 million), 0.5 million PSUs (December 31, 2016 – 0.1 million) (which will be settled subject to a performance multiplier from 0 to 2), 3.0 million warrants (December 31, 2016 – nil) and nil RSUs (December 31, 2016 – 0.1 million) outstanding as at March 31, 2017.

As of the date of the MD&A, there are 115.9 million common shares, 2.7 million stock options, 0.5 million PSUs (which will be settled subject to a performance multiplier from 0 to 2) and 3.2 million Warrants outstanding.

Preferred Shares

Pursuant to the Arrangement, all outstanding LPR Canada preferred shares ("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.

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, the 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. The Company 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 in "Other Advisories" 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. 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.

Liquidity

The Company's has a borrowing capacity of $65 million under its Amended Credit Facility, under which $45.5 million was drawn as at March 31, 2017, $5.4 million letters of credit were issued, and there was a working capital deficit (as defined in "Other Advisories" below) of $13.1 million.

During the first quarter of 2017, PPR acquired assets in the Great Red Earth area for cash consideration of $40.9 million (see Business Combination). The acquisition was funded through net proceeds of $7.0 million from the issuance of common shares in March 2017 and borrowings under the Amended Credit Facility, which resulted in an increase in the Company's debt leverage in the first quarter of 2017. Though PPR has increased its debt leverage, 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 primarily with cash flows from operations, while maintaining a balanced capital structure. PPR monitors its capital structure based on the ratio of total debt to trailing twelve months Adjusted EBITDAX (as defined in "Other Advisories" below). Total debt to Adjusted EBITDAX at March 31, 2017 was 1.5 to 1.0 (2016 – 1.2 to 1.0), which was well below the financial covenant requirement of 3.0 to 1.0. The Company 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.

PPR's management believes that with the high quality reserve base and development inventory, solid hedging program and steady base cash flows, the Company is well positioned to execute its business strategy. The Company remains committed to maintaining a strong financial position while continuing to maximize shareholder return through its long-term growth strategies. The Company has determined that its current financial obligations, including current commitments and working capital deficit are adequately funded from the available borrowing capacity and from cash flows derived from operations.

Contractual Obligations and Commitments

Contractual obligations and commitments are outlined in Note 20 of the Annual Financial Statements. There were no significant changes during the first quarter of 2017 except as outlined below.

Lease Acquisition Capital Commitment

As of March 31, 2017, the Company has incurred $4.9 million (December 31, 2016 - $1.6 million) towards the July 1, 2017 lease acquisition capital commitment of $15.0 million and nil towards the July 1, 2018 lease acquisition capital commitment of $20.0 million. Under the lease acquisition capital commitment, the Company is committed to annual capital expenditures pursuant to the acquisition of approximately 73,500 net undeveloped acres in the Wheatland area. In the event that PPR does not incur the minimum capital expenditures by the end of a given commitment period, the shortfall may 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 and the deferral option was exercised subsequent to March 31, 2017 to extend the remaining 2017 capital commitment to July 1, 2018. The Company expects to fulfill the remainder of its 2017 capital commitment, together with its 2018 commitment, through its ongoing capital program in Wheatland. The lease acquisition capital commitment is further described in Note 20 of the Annual Financial Statements.

Flow-through Share Commitment

Pursuant to the bought deal financing which closed on March 16, 2017, the Company issued 5,195,000 flow-through common shares with respect to CEE at $0.77 per share. As defined by the Income Tax Act, the Company has until December 31, 2018 to incur $4.0 million of CEE costs related to this flow-through common share issuance.

During the first quarter of 2017, the Company incurred a total of $1.5 million towards the flow-through share commitment related to the December 2016 flow-through share issuance including $1.2 million of CEE costs and $0.3 million of Canadian Development Expenses (“CDE”). The lease acquisition capital commitment as described above and the flow-through share capital commitment may be fulfilled by the same exploration expenditures.

Supplemental Information

Financial – Quarterly extracted information

($000)	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2
Oil and natural gas revenue	19,208	17,060	9,334	9,151	7,203	8,783	9,191	11,591
Royalties	(3,029)	(2,270)	(1,050)	(924)	(649)	(746)	(575)	(323)
Unrealized (loss) gain on Derivatives	5,858	(7,231)	(1,936)	(10,959)	852	(730)	4,118	(6,650)
Realized gain on derivatives	703	1,362	2,257	2,539	3,585	4,921	4,421	3,063
Revenue net of realized and unrealized gains (losses) on derivative instruments	22,740	8,921	8,605	(193)	10,991	12,228	17,155	7,681
Net earnings (loss)	7,262	(8,782)	(11,588)	(43,223)	3,197	(15,390)	(12,985)	(9,929)
Per share – basic [1]	0.07	(0.09)	(0.12)	(0.44)	0.03	(0.16)	(0.13)	(0.10)
Per share – diluted [2]	0.07	(0.09)	(0.12)	(0.44)	0.03	(0.16)	(0.13)	(0.10)
Adjusted funds from operations [3]	5,934	7,107	1,810	3,252	1,090	7,007	5,925	8,012
Per share – basic [4]	0.06	0.07	0.02	0.03	0.01	0.07	0.06	0.08
Per share – diluted [5]	0.06	0.07	0.02	0.03	0.01	0.07	0.06	0.08

[1,2,4,5] As the historical financial statements were prepared on a combined and consolidated basis it is not possible to measure per share amounts until subsequent to the closing of the Arrangement on September 12, 2016 when Lone Pine and Arsenal were brought under a common parent entity. The Company calculated per share information for the current and historical periods by assuming that the common shares issued upon the closing of the Arrangement at September 12, 2016 were outstanding since the beginning of the period. Diluted per share information is calculated with consideration to the effect of outstanding restricted share units as converted to PPR equivalent units.

[3] Adjusted funds from operations is a non-IFRS measure and is defined below under "Other Advisories".

Over the past eight quarters, the Company's oil and natural gas revenue have fluctuated primarily due to changes in production and movement in the commodity prices. The Company's production has varied due to its successful capital development program at Wheatland, the Arrangement with Arsenal, the Red Earth Acquisition and natural declines. Movements in oil and natural gas revenue attributable to fluctuations in commodity prices were partially mitigated by realized gain on derivatives, even though there were significant swings in unrealized gains/losses on derivatives. Despite earning positive adjusted funds from operations in the past eight quarters, the Company incurred net losses in several quarters due to non-cash expenses, including unrealized derivative losses, impairments to D&P and E&E assets, DD&A, and accretion expense and foreign exchange losses related to the Preferred Shares. As the Preferred Shares were exchanged for PPR common shares upon the Arrangement, accretion expense and foreign exchange gains/losses should be reduced considerably in the future.

First quarter 2017 oil and natural gas revenue was the highest, compared to the previous seven quarters due to increased production volume including production from Arrangement with Arsenal and due to recoveries in crude oil prices from prior quarters. Net income of $7.3 million in the first quarter of 2017 was largely the result of non-cash items including a gain of $4.3 million on the Red Earth Acquisition, unrealized gains on derivative instruments of $5.9 million and a gain of $0.5 million in the disposition of non-core properties.

Oil and natural gas revenue and adjusted funds from operations increased significantly in the fourth quarter of 2016 as production significantly increased, coupled with recovery of commodity prices from the previous four quarters. The net loss of $8.8 million in the fourth quarter of 2016 was attributable to unrealized losses on derivative instruments of $7.2 million and depletion and depreciation of $7.4 million.

The net loss of $11.6 million in the third quarter of 2016 was the result of non-cash expenses including impairment of $1.7 million, non-cash accretion of $3.5 million, unrealized losses on derivative instruments of $1.9 million and depletion and depreciation of $4.2 million, which exceeded adjusted funds from operations.

PPR experienced $43.2 million of net loss in the second quarter of 2016, the most significant in the past 8 quarters, mainly due to the recognition of $25.0 million impairment charges against its E&E assets in Quebec and unrealized losses on derivative instruments of $11.0 million.

The net earnings of $3.2 million in the first quarter of 2016 was primarily the result of unrealized foreign exchange gains of $10.7 million related to the translation of the US dollar denominated preferred share liability and realized gains on derivative instruments of $3.6 million.

Adjusted funds from operations for the four quarters in 2015 were relatively stable, though net losses fluctuated from quarter to quarter primarily due to the significant movements in unrealized derivative gains/losses and foreign exchange gains/losses as a result of changes in forward commodity prices and US/CAD exchange rates.

Internal Control over Financial Reporting and Officer Certifications

Internal control over financial reporting is a process designed to provide reasonable assurance that all the assets are safeguarded and transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information. Due to inherent limitations, internal control over financial reporting may not prevent or detect all misstatements due to fraud or error.

The Company's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal controls over financial reporting as defined in NI 52-109. The control framework PPR's officers used to design and evaluate the Company's internal controls over financial reporting is the Internal Control – Integrated Framework (2013) by The Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). There have been no changes in the Company's internal controls over financial reporting during the period from January 1, 2017 to March 31, 2017 that have materially affected, or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Changes in Accounting Policies

The Interim Financial Statements have been prepared on a basis consistent with the accounting, estimation and valuation policies described in the Annual Financial Statements. PPR did not adopt any new accounting policies or standards during the first quarter of 2017.

There were no new or amended standards issued during the first three months of 2017 that are applicable to PPR in future periods. A description of issued accounting pronouncements that will be adopted by the Company in future periods is also included in Note 3 to the annual financial statements. The Company is currently evaluating the impact of those new accounting pronouncements.

Operational and Other Risk Factors

PPR's operations are conducted in the same business environment as most other oil and gas operators and the business risks are very similar. Significant risks are summarized in the Annual MD&A and have remained unchanged during the first quarter of 2017. Additional risks are provided in the "Risk Factors" section of the 2016 Annual Information Form filed on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements and information in this MD&A may constitute forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond the Company's control. All statements regarding the Company's strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. The words "could," "believe," "anticipate," "intend," "plan," "estimate," "expect," "may," "continue," "predict," "potential," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words.

Forward-looking statements may include statements with respect to, among other things:

- estimates of the Company's oil and natural gas reserves;
- estimates of the Company's future oil, natural gas and NGL production, including estimates of any increases or decreases in the Company's production;
- estimates of future capital expenditures;
- estimates and judgements related to common shares and preferred shares valuations;
- the Company's future financial condition and results of operations;
- the source of funding for the Company's activities, including development costs;
- the Company's ability to meet its capital commitment;
- the Company's future revenues, cash flows and expenses;
- the Company's access to capital and expectations with respect to liquidity and capital resources;
- the Company's future business strategy and other plans and objectives for future operations;
- the Company's future development opportunities and production mix;
- the Company's outlook on oil, natural gas and NGL prices;
- the anticipated benefits of merger and acquisitions;
- the Company's ability to incur CEE;
- the amount, nature and timing of future capital expenditures, including future development costs;
- the Company's ability to access the capital markets to fund capital and other expenditures;
- The company's expectations regarding the Company's ability to raise capital and to add reserves and grow production
- through acquisitions, exploration and development;the Company's assessment of the Company's counterparty risk and the ability of the Company's counterparties to perform their future obligations; and
- the impact of federal, provincial, territorial and local political, legislative, regulatory and environmental developments in Canada.

PPR believes the expectations and forecasts reflected in the Company's forward-looking statements are reasonable, but PPR can give no assurance that they will prove to be correct. Readers are cautioned that these forward-looking statements can be affected by inaccurate assumptions and are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control, incident to the exploration for and development, production and sale of oil and natural gas. When considering forward-looking statements, you should keep in mind the assumptions, risk factors and other cautionary statements that include, among other things:

- the volatility of oil, natural gas and NGL prices, and the related differentials between realized prices and benchmark prices;
- a continuation of depressed natural gas prices;
- the availability of capital on economic terms to fund the Company's significant capital expenditures and acquisitions;
- the Company's ability to obtain adequate financing to pursue other business opportunities;

- the Company’s ability to generate sufficient cash flow from operations or obtain adequate financing to fund the Company’s capital expenditures and meet working capital needs;
- the Company’s ability to replace and sustain production;
- a lack of available drilling and production equipment, and related services and labor;
- the Company's ability to successfully integrate the acquired assets;
- increases in costs of drilling, completion and production equipment and related services and labor;
- unsuccessful exploration and development drilling activities;
- regulatory and environmental risks associated with exploration, drilling and production activities;
- declines in the value of the Company’s oil and natural gas properties, resulting in impairments;
- the adverse effects of changes in applicable tax, environmental and other regulatory legislation;
- a deterioration in the demand for the Company’s products;
- the risks and uncertainties inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and the timing of expenditures;
- the risks of conducting exploratory drilling operations in new or emerging plays;
- intense competition with companies with greater access to capital and staffing resources;
- the risks of conducting operations in Canada and the impact of pricing differentials, fluctuations in foreign currency exchange rates and political developments on the financial results of the Company’s operations; and
- the uncertainty related to the pending litigation against us.

Should one or more of the risks or uncertainties described above or elsewhere in this MD&A occur, or should underlying assumptions prove incorrect, the Company’s actual results and plans could differ materially from those expressed in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this MD&A, and the Company undertakes no obligation to update this information to reflect events or circumstances after the delivery of this MD&A. All forward-looking statements, expressed or implied, included in this MD&A are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that the Company may make or persons acting on the Company’s behalf may issue.

Other Advisories

Volumetric Conversion

The oil and gas industry commonly expresses production volumes and reserves on a “barrel of oil equivalent” basis (“boe”) whereby natural gas volumes are converted at the ratio of six thousand cubic feet to one barrel of oil. The intention is to sum oil and natural gas measurement units into one basis for improved analysis of results and comparisons with other industry participants.

Throughout the MD&A, PPR has used the 6:1 boe measure, which is the approximate energy equivalency of the two commodities at the burner tip. Boe does not represent a value equivalency at the wellhead nor at the plant gate, which is where PPR sells its production volumes and therefore may be a misleading measure, particularly if used in isolation. Given that the value ration based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalency of 6:1, utilizing a 6:1 conversion may be misleading as an indication of value.

Non-IFRS Measures

PPR uses terms within the MD&A that do not have a standardized prescribed meaning under IFRS and these measurements may not be comparable with the calculation of similar measurements used by other companies. The non-IFRS measures used in this report are summarized as follows:

Working Capital

Working capital (deficit) is calculated as current assets less current liabilities excluding the current portion of derivative instruments, the current portion of decommissioning liabilities and the flow-through share premium. This measure is used to assist management and investors in understanding liquidity at a specific point in time. The current portion of derivatives instruments is excluded as management intends to hold derivative contracts through to maturity rather than realizing the value at a point in time through liquidation. The current portion of decommissioning expenditures is excluded as these costs are discretionary and the current portion of flow-through share premium liabilities are excluded as it is a non-monetary liability.

The following table provides a calculation of working capital (deficit):

($000s)	**March 31, 2017**	December 31, 2016
Current assets	**10,678**	17,539
Less current derivative instrument assets	**(1,044)**	—
Current assets excluding current derivatives instruments	**9,634**	17,539
Current liabilities	**27,326**	28,120
Less flow-through share premium	**(1,066)**	(390)
Less current derivative instrument liabilities	**—**	(2,311)
Less current portion of decommissioning liability	**(3,500)**	(3,500)
Current assets excluding current derivatives instruments and current portion of decommissioning liabilities	**22,760**	21,919
Working capital (deficit)	**(13,126)**	(4,380)

Operating Netback

Operating netback is a non-IFRS measure commonly used in the oil and gas industry. This measurement assists management and investors to evaluate the specific operating performance at the oil and gas lease level. Operating netbacks included in this report were determined by taking (oil and gas revenues less royalties less operating costs) divided by gross working interest production. Operating netback, including realized commodity gains and losses, adjusts the operating netback for only realized gains and losses on derivative instruments

Adjusted Funds from Operations

Adjusted funds from operations is calculated based on cash flow from operating activities before changes in non-cash working capital, transaction costs, restructuring costs, decommissioning expenditures and other non-recurring items. Management believes that such a measure provides an insightful assessment of PPR's operation performance on a continuing basis by eliminating certain non-cash charges and charges that are non-recurring or discretionary and utilizes the measure to assess its ability to finance operating activities, capital expenditures and debt repayments. Adjusted funds from operations as presented is not intended to represent cash flow from operating activities, net earnings or other measures of financial performance calculated in accordance with IFRS. Adjusted funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of earnings per share.

The following table reconciles cash flow from operating activities to adjusted funds from operations:

	Three Months Ended March 31	
($000s)	2017	2016
Cash flow from operating activities	1,655	526
Changes in non-cash working capital	(502)	(2,724)
Funds from Operations	1,153	(2,198)
Other	62	25
Settlement of decommissioning liabilities	4,042	2,987
Restructuring costs	—	276
Transaction costs	677	—
Adjusted Funds from Operations	5,934	1,090

Adjusted EBITDAX

The Company monitors its capital structure and liquidity based on the ratio of Debt to Adjusted EBITDAX as defined below. The ratio provides a measure of the Company's ability to manage its debt levels under current operating conditions. "Debt" refers to the Company's borrowings under its Amended Credit Facility. "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:

	Three Months Ended March 31	
($000s)	2017	2016
Net earnings (loss) before income tax	7,262	3,197
Add (deduct):		
Interest	309	178
Depletion and depreciation	8,201	4,658
Exploration and evaluation expense	8	26
EBITDAX	15,780	8,059
Unrealized (gain) loss on derivative instruments	(5,858)	(852)
Impairment (gain) loss	—	(125)
Accretion	470	4,295
Loss (gain) on foreign exchange	(85)	(10,648)
Reorganization costs[1]	—	276
Share – based compensation	124	92
Gain on sale of properties	(548)	—
Gain on business combination	(4,343)	—
Transaction costs	677	—
Pro-forma impact of acquisitions	2,394	555
Adjusted EBITDAX	8,611	1,652

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