



Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Year Ended December 31,  
2018

Dated: March 27, 2019

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Prairie Provident Resources Inc.

### Opinion

We have audited the consolidated financial statements of Prairie Provident Resources Inc. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Janet Huang.

*Ernst + Young LLP*

Calgary, Alberta

March 27, 2019

Chartered Professional Accountants

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at (\$000s)	Note	December 31, 2018	December 31, 2017
<b>ASSETS</b>			
Cash		1,867	3,564
Restricted cash	8	7,083	4,881
Accounts receivable	19	5,767	8,654
Inventory		887	697
Prepaid expenses and other assets	2(e)	3,462	2,069
Derivative instruments – current	19	5,768	895
<b>Total current assets</b>		<b>24,834</b>	20,760
Exploration and evaluation	6	9,682	26,420
Property and equipment	7	302,161	217,035
Derivative instruments	19	867	192
Other assets		189	272
<b>Total assets</b>		<b>337,733</b>	264,679
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	19	35,205	20,894
Flow-through share premium		332	711
Derivative instruments	19	—	4,156
Current portion of decommissioning liability	10	4,700	2,300
Warrant liability	9	810	533
<b>Total current liabilities</b>		<b>41,047</b>	28,594
Long-term debt	8	101,144	55,760
Derivative instruments	19	—	2,258
Decommissioning liabilities	10	143,760	110,534
Other liabilities		4,731	4,193
<b>Total liabilities</b>		<b>290,682</b>	201,339
Commitments and contingencies	21		
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	136,145	121,546
Warrants	11	1,440	337
Contributed surplus		1,859	928
Accumulated deficit	2(e)	(92,861)	(59,896)
Accumulated other comprehensive income ("AOCI")		468	425
<b>Total equity</b>		<b>47,051</b>	63,340
<b>Total liabilities and shareholders' equity</b>		<b>337,733</b>	264,679

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 Committee and Director

## CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

For the years ended

(\$000s)	Note	December 31, 2018	December 31, 2017
<b>REVENUE</b>			
Oil and natural gas revenue	15	84,822	79,011
Royalties		(13,060)	(10,373)
Oil and natural gas revenue, net of royalties		71,762	68,638
Unrealized gain on derivative instruments	19	10,569	783
Realized (loss) gain on derivative instruments	19	(9,020)	4,926
		73,311	74,347
<b>EXPENSES</b>			
Operating	16	37,915	38,650
General and administrative	17	9,164	10,218
Depletion and depreciation	7	29,686	34,875
Exploration and evaluation	6	544	4,877
Loss (Gain) on sale of properties	5	4,810	(853)
Gain on warrant liabilities	9	(563)	(46)
Gain on business combination	4	—	(3,893)
Impairment loss	6, 7	5,319	34,177
Loss (Gain) on foreign exchange		5,684	(1,621)
Finance costs	18	9,979	5,160
Transaction, restructuring and other costs	4	4,490	1,075
Total expenses		107,028	122,619
Net loss before taxes		(33,717)	(48,272)
Current taxes	13	21	7
Deferred tax recovery	13	(773)	(477)
Net tax recovery		(752)	(470)
<b>Net loss</b>		<b>(32,965)</b>	<b>(47,802)</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to net loss:			
Actuarial (loss) gain on employee post-retirement benefit plan	3(j)	(43)	149
<b>Comprehensive loss</b>		<b>(33,008)</b>	<b>(47,653)</b>
<b>Net loss per share – basic &amp; diluted</b>			
	11	(0.27)	(0.42)

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(\$000s)	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at January 1, 2018		121,546	337	928	(59,896)	425	63,340
Issuance of common share	11	15,797	1,103	—	—	—	16,900
Share issuance costs	11	(916)	—	—	—	—	(916)
Normal course issuer bid ("NCIB")	11	(353)	—	233	—	—	(120)
Share-based compensation	12	—	—	797	—	—	797
Settlement of deferred share units ("DSUs"), net of withholding tax	11	10	—	(20)	—	—	(10)
Settlement of performance share units ("PSUs"), net of withholding tax	11	73	—	(79)	—	—	(6)
Purchase of common shares for PSU settlement	11	(12)	—	—	—	—	(12)
Actuarial loss on post- retirement benefit plan		—	—	—	—	43	43
Net loss		—	—	—	(32,965)	—	(32,965)
<b>Balance at December 31, 2018</b>		<b>136,145</b>	<b>1,440</b>	<b>1,859</b>	<b>(92,861)</b>	<b>468</b>	<b>47,051</b>

(\$000s)	Note	Share Capital	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at January 1, 2017	2(e)	115,062	—	514	(12,094)	276	103,758
Issuance of common share		7,204	337	—	—	—	7,541
Share issuance costs		(1,065)	—	—	—	—	(1,065)
Share-based compensation		—	—	803	—	—	803
Settlement of restricted share units ("RSUs"), net of withholding tax		345	—	(389)	—	—	(44)
Actuarial gain on post- retirement benefit plan		—	—	—	—	149	149
Net loss		—	—	—	(47,802)	—	(47,802)
Balance at December 31, 2017	2(e)	121,546	337	928	(59,896)	425	63,340

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended  
(\$000s)

	Note	December 31, 2018	December 31, 2017
<b>OPERATING ACTIVITIES</b>			
Net loss		(32,965)	(47,802)
Adjustments for non-cash items:			
Impairment loss	6, 7	5,319	34,177
Unrealized gain on derivative instruments	19	(10,569)	(783)
Depletion and depreciation	7	29,686	34,875
Exploration and evaluation	6	544	4,877
Accretion and financing charges	18	2,484	2,146
Unrealized loss (gain) on foreign exchange		4,710	(1,519)
Loss (gain) on sale of property and equipment		4,810	(853)
Gain on business combination		—	(3,893)
Gain on warrant liability		(563)	(46)
Deferred tax recovery		(773)	(477)
Share-based compensation	12	626	687
Amortization of deferred cost		973	611
Settlement of decommissioning liabilities	10	(2,061)	(5,136)
Deferred interest on Senior Notes		1,323	—
Other, net		386	258
Change in non-cash working capital	14	12,623	(501)
Net cash from operating activities		16,553	16,621
<b>FINANCING ACTIVITIES</b>			
Debt issuance costs		(1,240)	(3,179)
Issuance of common shares and warrants for cash	11	5,465	8,340
Share issuance costs	11	(916)	(1,065)
Purchase of common shares under NCIB	11	(120)	—
Purchase of common shares for PSU settlement	11	(12)	—
Withholding taxes on PSU and DSU settlements	11	(16)	(44)
Change in Senior Note borrowings		16,588	20,629
Change in Revolving Facility borrowings		23,766	39,963
Repayment of Marquee's debt facilities	4	(37,300)	—
Change in Amended Credit Facility borrowings		—	(15,500)
Net cash from financing activities		6,215	49,144
<b>INVESTING ACTIVITIES</b>			
Exploration and evaluation expenditures	6	(1,190)	(13,385)
Property and equipment expenditures	7	(28,194)	(10,191)
Acquisitions – business combination		(1,003)	(40,894)
Cash acquired on business combination	1, 4	1,394	—
Asset dispositions (net of acquisitions)		6,082	383
Change in non-cash working capital	14	648	(1,159)
Net cash used in investing activities		(22,263)	(65,246)
Change in cash and restricted cash		505	519
Cash and restricted cash beginning of year		8,445	7,926
Cash and cash equivalents end of year		8,950	8,445

See accompanying notes to the consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2018 and 2017

## 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 and British Columbia. 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.

## 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 Company’s significant accounting policies under IFRS are presented in Note 3. The annual financial statements were approved and authorized for issue by the Board of Directors of PPR on March 27, 2019 (the “Financial Statements”).

### (b) Basis of Measurement

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

### (c) Functional and Presentation Currency

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

### (d) Use of Estimates and 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 royalties 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, asset performance, estimate of future prices, royalties and costs, 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, royalties 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. 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 asset value or the 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.

#### **(e) Prior Period Comparatives**

The prior year opening retained earnings and prepaid and other assets have been restated. The amounts were not material.

### **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, 2018, the Financial Statements included the accounts of PPR and its wholly owned subsidiaries, including Prairie Provident Resources Canada Ltd. ("PPR Canada"), Lone Pine Resources, Lone Pine Resources (Holdings) Inc., 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.

#### **(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 assets acquired, the liabilities assumed 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 crude oil, natural gas and natural gas liquids is measured per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The Company satisfies performance obligations and the customer obtains control upon the delivery of crude oil, natural gas and natural gas liquids, which is generally at a point in time.

The Company does not have contracts with customers where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money. See also Note 3(i).

## **(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 net loss and 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 at December 31, 2018, the Company has five principal operating CGUs – Evi, Michichi (previously known as Wheatland), Princess, Provost 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 and financial liabilities are classified into the following categories: amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss (“FVPL”).

Financial assets and financial liabilities classified as FVPL are measured at fair value with changes in those fair values recognized in net income. Financial assets and liabilities classified as amortized cost 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 FVOCI 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**

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 and comprehensive 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 and comprehensive 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**

The Company recognizes allowances for losses on its financial assets measured at amortized costs based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of financial asset. To calculate the expected credit loss, PPR applies the simplified approach applying a provision matrix whereby financial assets are grouped into categories based on counterparty characteristics and aging categories. The Company considers past experience and forward-looking information if such information is reasonable and supportable, available without undue costs and effort, and can have a significant impact on the loss estimate.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in profit and 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 19. 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.

**(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) 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.

**(n) 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.

**(o) 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, 2018 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.

**(p) Adoption of New Accounting Standards and New Accounting Pronouncements**

***New and Amended Accounting Standards and Interpretations Adopted***

**(i) IFRS 15 – Revenue from Contracts with Customers**

Effective January 1, 2018, the Company adopted IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which replaces IAS 11 – Construction Contracts, IAS 18 – Revenue and several revenue-related interpretations. PPR adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. Additional disclosures required under IFRS 15 related to the disaggregation of revenue are provided in Note 15. The Company’s newly adopted accounting policy is incorporated into Note 3 – Significant Accounting Policies.

**(ii) IFRS 9 – Financial Instruments**

Effective January 1, 2018, the Company adopted IFRS 9 – Financial Instruments (“IFRS 9”) retrospectively. In accordance with transitional provisions, comparative figures have not been restated. No adjustment to retained earnings was required upon the adoption of IFRS 9.

***Classification of Financial Assets and Liabilities***

IFRS 9 bases the classification of financial assets on the contractual cash flow characteristics and the company’s business model for managing the financial asset. Additionally, financial assets with embedded derivatives are considered in their entirety when assessed for classification and measurement. The principal classification categories for financial assets include amortized cost, (FVOCI) and (FVPL), replacing the previous categories under IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) of held to maturity, FVPL, loans and receivables and available for sale.

The classifications of financial liabilities under IFRS 9 include amortized cost and FVPL, replacing IAS 39 categories of other financial liabilities and FVPL.

There were no adjustments to the carrying amounts of financial assets and financial liabilities as a result of changes in the classification categories from IAS 39 to IFRS 9. The following table summarizes the measurement categories of PPR’s financial instruments under IAS 39 and IFRS 9:

<b>Financial Instrument</b>	<b>Measurement Category</b>	
	<b>IAS 39</b>	<b>IFRS 9</b>
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Derivative instruments (assets)	FVPL	FVPL
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Derivative instruments (liability)	FVPL	FVPL
Warrant Liability	FVPL	FVPL
Long-term debt	Other financial liabilities	Amortized cost

***Impairment of Financial Assets***

IFRS 9 replaces the ‘incurred loss’ model under IAS 39 with an ‘expected credit loss’ model for financial assets carried at amortized cost, contract assets and FVOCI. PPR applied the expected credit loss model to its financial assets classified as amortized cost using the simplified approach applying a provision matrix whereby accounts are grouped into categories based on counterparty characteristics and aging categories. The application of the expected credit loss model did not result in an adjustment upon transition.

The Company has revised its accounting policies in Note 3 – Significant Accounting Policies to reflect the new classification approach and impairment model, as outlined above.

#### ***New Accounting Pronouncements***

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 a right-of-use assets and lease obligations. An accounting policy choice can be made whereby 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.

The Company will adopt IFRS 16 on January 1, 2019 using the modified retrospective approach and applying certain practical expedients available upon transition. PPR intends to apply a practical expedient that allows the Company to apply a recognition exemption for leases with remaining lease terms of less than 12 months and leases of low value on the transition date. The payments of these leases will be disclosed in the notes to the financial statements. The Company also intends to apply a practical expedient which allows the right-of-use asset recognized on transition to equal the lease liability recorded versus recognizing the carrying amount of the right-of-use asset as if IFRS 16 had been applied since the commencement date of the lease. This practical expedient is available on a lease by lease basis and PPR intends to apply it to leases that are not individually significant. In addition, any provision for onerous contracts previously recognized will be applied to the associated right-of-use asset recognized upon transition to IFRS 16 on transition date. In these cases, there will be no impairment assessment made under IAS 36 - Impairment of Assets.

The Company is in the process of quantifying the impact of the contracts that falls within the scope of the new standard. The Company expects adjustments for its processing facility lease, office leases and the related subleases and certain vehicle leases; however, the full extent of the impact has not yet been finalized.

## **4. BUSINESS COMBINATION**

### **(a) Marquee Energy Ltd. Acquisition**

On November 21, 2018, PPR completed the acquisition of Marquee Energy Ltd. (“Marquee”), an oil and natural gas exploration and production company listed on the TSX Venture Exchange, by way of a plan of arrangement under the Business Corporations Act (Alberta) (the “Arrangement”). Pursuant to the Arrangement, PPR acquired all of the outstanding Marquee common shares on a share exchange basis, with Marquee shareholders receiving an aggregate of 38,608,416 PPR shares based on an exchange ratio of 0.0886 PPR common shares for each Marquee share. Concurrently with the closing of the Arrangement, the Company also issued 4,400,000 common shares as an early repayment fee for the Marquee term loan.

The acquisition of Marquee was accounted for as a business combination using the acquisition method of accounting whereby the assets and liabilities assumed were recorded at their fair values. Transaction costs associated with the acquisition were expensed when incurred.

Marquee’s business operation was located primarily 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, 2018 included approximately \$1.2 million and \$(0.6) million, respectively, attributable to the Marquee acquisition. Had the Marquee acquisition closed on January 1, 2018, PPR’s oil and natural gas revenue and oil and natural gas revenue less royalties and operating expenses for the year ended December 31, 2018 would have been approximately \$118.9 million and \$46.3

million, respectively. This is not necessarily representative of future revenues and operations. The effect on net income is not determinable.

The following table summarizes the acquisition date fair value of consideration paid and the preliminary purchase price allocation:

*(\$000s)*

Allocation:	
Property and equipment	55,375
Exploration and evaluation assets	4,232
Derivative assets	1,394
Cash	1,394
Accounts receivable	4,696
Prepaid expenses and other current assets	1,395
Accounts payable and accrued liabilities	(9,645)
Provision	(640)
Bank debt	(7,300)
Term loan	(30,000)
Decommissioning obligations	(10,283)
<b>Net assets acquired</b>	<b>10,618</b>
Consideration:	
Shares exchanged (38,609,416 common shares at \$0.275/share)	10,618

The recognized amounts of identifiable assets, liabilities and consideration issued are preliminary estimates and are subject to change. The fair values of cash and working capital including accounts receivable, prepaid expenses and 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 bank debt and term loan were repaid concurrently with the closing of the Arrangement using funds from PPR's expanded credit facilities (see Note 8 – Long Term Debt). The fair value of consideration issued was calculated with reference to PPR's closing price on November 21, 2018.

Transaction costs of \$2.7 million (2017 – \$nil million) were expensed in the statement of loss for the year ended December 31, 2018, primarily for legal fees, professional fees, and change of control payments.

#### **(b) Red Earth Acquisition**

On March 22, 2017, PPR acquired oil and natural gas properties in the Greater Red Earth area ("Red Earth Acquisition") of Northern Alberta for cash consideration of \$40.9 million. The assets acquired are complementary to PPR's existing operations at Evi in the Peace River Arch area of Northern Alberta. The acquisition was accounted for as a business combination using the acquisition method of accounting. The following table summarizes the final purchase price allocation:

*(\$000s)*

Allocation:	
Property and equipment	50,500
Decommissioning liabilities	(5,263)
Other liabilities	(450)
<b>Net assets acquired</b>	<b>44,787</b>

Consideration:	
Cash	40,894
Gain on business combination	3,893

The gain on business combination arose as the result of acquiring the assets for proceeds below the fair value of the assets acquired. For the year ended December 31, 2017, \$0.7 million of transaction costs were expensed in the consolidated statement of earnings, primarily for legal and professional services.

## 5. ASSET ACQUISITIONS AND DISPOSITIONS

In March 2018, PPR acquired oil and natural gas properties in the Princess area for cash consideration of \$0.9 million. The transaction resulted in \$0.9 million addition to property and equipment assets and a nominal amount of addition to decommissioning liabilities.

During 2018, the Company disposed of certain non-core properties and undeveloped land for the total proceeds of \$6.1 million. The associated exploration and evaluation assets and decommissioning liabilities were derecognized, resulted in a net loss of \$4.8 million on disposition.

During 2017, PPR acquired properties in the Wheatland area comprised of undeveloped land and wellbores without associated reserves for cash consideration of \$1.0 million. The transactions resulted in \$2.1 million addition to exploration and evaluation assets and \$1.1 million addition to decommissioning liabilities.

The Company disposed of certain non-core properties and undeveloped land in 2017 in Alberta and British Columbia for proceeds of \$1.4 million. The associated property and equipment, exploration and evaluation assets and decommissioning liabilities were derecognized, resulted in gains of \$0.9 million.

## 6. EXPLORATION AND EVALUATION ASSETS ("E&E")

(\$000s)	December 31, 2018	December 31, 2017
Cost Balance – beginning of year	77,271	81,374
Additions	1,020	13,756
Acquisitions (Notes 4 and 5)	4,232	2,131
Transfers to oil and gas property and equipment (Note 7)	(817)	(11,044)
Exploration and evaluation expense	(544)	(4,877)
Disposal (Note 5)	(15,520)	(4,069)
Cost Balance – end of year	65,642	77,271
Provision for impairment – beginning of year	(50,851)	(54,937)
Impairment (loss) recovery	(5,109)	17
Disposal (Note 5)	—	4,069
Provision for impairment – end of year	(55,960)	(50,851)
Net book value – beginning of the year	26,420	26,437
Net book value – end of the year	9,682	26,420

As of December 31, 2018, the Company recognized an impairment loss of \$5.3 million against undeveloped land leases in the Wheatland area that were due to expire in the first quarter of 2019 (Note 21). The FVLCD was determined to be zero, using a market approach based on the estimated selling price of land in the related area with similar terms to expiry. Key assumptions included estimated selling prices of assets with similar geographic location,

remaining term and related risk profile. The fair value measurement was non-recurring and was classified as level 3 in the fair value hierarchy (see Note 3(g) for information on the fair value hierarchy). The impairment loss was partially offset by \$0.2 million of impairment recovery for changes in estimates of decommissioning liabilities related to E&E properties with zero carrying value.

For the year ended December 31, 2018, PPR recognized \$0.5 million of E&E expense related to surrendered leases in various areas.

During 2017, PPR recognized \$4.9 million of E&E expense related to surrendered leases at Wheatland as part of the extension of the Lease Acquisition Capital Commitment (Note 21), drilling costs of a dry exploration well at Wheatland and undeveloped land expiries. The exploratory well was drilled in conjunction with the satisfaction of the flow-through share commitment (see Note 21) and the related expenditures qualified as CEE. The nominal impairment recovery incurred in 2017 related to the change in estimates of decommissioning liabilities for properties with zero carrying value.

During the year ended December 31, 2018, PPR capitalized a nominal amount (2017 – \$1.2 million) of directly attributable general administrative expense and \$nil (2017 – a nominal amount) of share-based compensation to E&E assets.

## 7. PROPERTY AND EQUIPMENT

<i>(\$000s)</i>	Production and Development	Office Equipment	Year Ended December 31, 2018
Cost:			
Balance – beginning of year	531,463	4,595	536,058
Additions	58,353	23	58,376
Acquisitions (Notes 4 & 5)	56,417	—	56,417
Disposals (Note 5)	(1,159)	—	(1,159)
Transfer from E&E assets (Note 6)	817	—	817
Balance – end of year	645,891	4,618	650,509
Accumulated impairment, depletion and depreciation:			
Balance – beginning of year	(315,879)	(3,144)	(319,023)
Depletion and depreciation	(29,342)	(374)	(29,716)
Impairment loss	(210)	—	(210)
Disposals	601	—	601
Balance – end of year	(344,830)	(3,518)	(348,348)
Net book value:			
At beginning of year	215,584	1,451	217,035
At end of year	301,061	1,100	302,161

(\$000s)	Production and Development	Office Equipment	Year Ended December 31, 2017
<b>Cost:</b>			
Balance – beginning of year	460,617	4,196	464,813
Additions	22,578	399	22,977
Acquisitions (Notes 4 & 5)	50,500	—	50,500
Disposals (Note 5)	(13,276)	—	(13,276)
Transfer from E&E assets (Note 6)	11,044	—	11,044
<b>Balance – end of year</b>	<b>531,463</b>	<b>4,595</b>	<b>536,058</b>
<b>Accumulated impairment, depletion and depreciation:</b>			
Balance – beginning of year	(258,718)	(2,714)	(261,432)
Depletion and depreciation	(34,534)	(430)	(34,964)
Impairment loss (b)	(34,215)	—	(34,215)
Disposals	11,588	—	11,588
<b>Balance – end of year</b>	<b>(315,879)</b>	<b>(3,144)</b>	<b>(319,023)</b>
<b>Net book value:</b>			
At beginning of year	201,899	1,482	203,381
At end of year	215,584	1,451	217,035

As at December 31, 2018, an estimated \$268.8 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2017 - \$151.2 million).

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

During the year ended December 31, 2018, \$1.7 million (2017 – \$0.9 million) of directly attributable general and administrative expenses, including \$0.2 million (2017 – \$0.1 million) of share-based compensation expenses, were capitalized to property and equipment.

**(b) Impairment Loss**

As at December 31, 2018, the Company conducted an impairment test on the Evi CGU due to technical reserves revisions identified during the year-end reserves evaluation. The impairment test did not result in any impairment loss recognition. During the year ended December 31, 2018, the Company recorded impairment of \$0.2 million related to changes in decommissioning liabilities of certain properties having a zero carrying value.

As at December 31, 2017, the Company conducted impairment tests on its Wheatland and Princess CGUs, which resulted in the recognition of \$30.7 million of impairment loss, comprised of \$16.6 million against the Wheatland CGU and \$14.1 million against the Princess CGU, respectively. These CGUs were written down to their respective recoverable amounts of \$28.0 million and \$26.1 million based on FVLCD for the Wheatland and Princess CGUs. This fair value measurement was non-recurring and classified as level 3 in the fair value hierarchy (see Note 3(g) for information on fair value hierarchy). The FVLCD was estimated using an after-tax discount rate of 11%.

The remaining \$3.5 million of impairment loss recognized in 2017 included a \$3.4 million write-down of assets classified as held for sale to their FVLCD and \$0.1 million of impairment related to changes in decommissioning liability estimates of certain properties with zero carrying value. Assets that were classified as held for sale as at September 30, 2017 were sold in the fourth quarter of 2017 (Note 5).



## 8. LONG-TERM DEBT

(\$000s)	December 31, 2018	December 31, 2017
Revolving Facility (US\$19.0 million and CAD\$39.5 million)	65,398	39,233
Senior Notes (US\$28.5 million plus US\$1.0 million deferred interest)	40,275	20,072
Deferred Financing Fees (net of amortization)	(3,245)	(2,979)
Value Allocated to Warrant Liability (net of accumulated interest)	(1,284)	(566)
Balance – end of year	101,144	55,760

### (a) Revolving Facility

On November 21, 2018, in conjunction with the closing of the Arrangement, PPR amended the borrowing base under its senior secured revolving note facility (“Revolving Facility”) with a maturity date of October 31, 2020. The amended Revolving Facility provided a borrowing base of US\$65 million until January 31, 2019 (CAD\$88.7 million equivalent using the year-end exchange rate of \$1.00 USD to \$1.3642 CAD), an increase of US\$20 million from the June 21, 2018 amended agreement. After January 31, 2019, the borrowing base was automatically reduced by US\$5 million. The US\$5 million was provided to bridge short-term liquidity needs from the Arrangement.

The Company can make further draws on the facility on or before October 31, 2019. The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAD\$54 million or US\$30 million. As at December 31, 2018, the Company had US\$19.0 million of USD denominated notes (CAD\$25.9 million equivalent using the year-end exchange rate) and CAD\$39.5 million of CAD denominated notes under the Revolving Facility. All notes were issued at par by PPR Canada and are guaranteed by Prairie Provident Resources Inc. and certain of its other subsidiaries and secured by a US\$200 million debenture.

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 April 2019.

Amounts borrowed under the Revolving Facility can be drawn in the form of USD or CAD prime advances bearing interest based on reference bank USD and CAD prime lending rates announced from time to time, or LIBOR advances (in the case of USD amounts) or CDOR advances (in the case of CAD amounts) bearing interest based on LIBOR and CDOR rates in effect from time to time, plus an applicable margin:

- (i) for CDOR advances and CAD prime advances, the margins are between 500 and 550 basis points (“bps”);
- (ii) for LIBOR advances and USD prime advances, the margins range from 325 to 475 bps; and
- (iii) standby fees on any undrawn borrowing capacity are between 50 to 87.5 bps per annum.

As at December 31, 2018, \$2.0 million of deferred financing costs related to the Revolving Facility was netted against its carrying value (December 31, 2017 – \$2.0 million).

### (b) Subordinate Senior Notes

Upon closing of the Arrangement, PPR issued an additional US\$12.5 million (CAD \$17.1 million using the year-end exchange rate of \$1.00 USD to \$1.3642 CAD) of subordinated senior notes (“Senior Notes”) due October 31, 2021. In addition to the US\$16 million Senior Notes issued on October 31, 2017 (CAD \$21.8 million using the year-end exchange rate) due October 31, 2021, Senior Notes outstanding as at December 31, 2018 totaled US\$28.5 million (CAD \$38.9 million using the year-end exchange rate). Senior Notes bear interest at 15% per annum, payable quarterly in arrears with up to 5% per annum that is deferrable. The amount of any such deferred payment will

become additional principal owing in respect of the Senior Notes payable at the maturity date. The terms of the Revolving Facility require that PPR Canada make the maximum deferred payment election. At December 31, 2018, the total deferred payment was US\$1.0 million (December 31, 2017 – nil).

As at December 31, 2018, \$1.2 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2017 – \$0.9 million).

### (c) Covenants

The note purchase agreement for the Revolving Facility, the subordinated senior note agreement and related parent and subsidiary guarantees contain various covenants on the part of the Company and its subsidiaries including covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, distributions and mergers and acquisitions. The note purchase agreement for the Revolving Facility and Senior Note purchase agreement include the same financial covenants, with less restrictive thresholds under the Senior Note agreement. The financial covenants are as follows:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement	As at December 31, 2018
<b>Total Leverage</b> – adjusted indebtedness to EBITDAX <sup>1</sup> for the four quarters most recently ended	Cannot Exceed 3.5 to 1.0	Cannot Exceed 3.75 to 1.00	3.4 to 1.0
<b>Senior Leverage</b> – senior adjusted indebtedness to EBITDAX <sup>1</sup> for the four quarters most recently ended	Cannot Exceed 3.0 to 1.0	Cannot Exceed 3.25 to 1.0	2.0 to 1.0
<b>Asset Coverage</b> – adjusted net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) to adjusted indebtedness as of the date of any reserves report	Cannot be less than 1.1 to 1.0	Cannot be less than 1.1 to 1.0	1.2 to 1.0
<b>Current ratio</b> – consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated liabilities at the end of the quarter <sup>2</sup>	Cannot be less than 1.0 to 1.0	Cannot be less than 0.85 to 1.0	1.2 to 1.0

<sup>1</sup> Under the agreements, EBITDAX is defined as 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 (“pro-forma adjustments”).

<sup>2</sup> Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, decommissioning obligations, derivative liabilities and non-cash liabilities.

The Company was in compliance with all covenants as at December 31, 2018.

### Letters of Credit

As at December 31, 2018, PPR had \$5.4 million of outstanding letters of credit. The letters of credit were issued by financial institutions at which PPR had \$5.5 million of cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

### **Amended Credit Facility**

On October 31, 2017, the Company used proceeds from the Revolving Facility and Subordinated Notes to repay and retire its previously outstanding credit facility with a syndicate of banks (the “Amended Credit Facility”). Under the Amended Credit Facility, PPR had a \$55 million syndicated revolving term facility and a \$10 million operating facility.

### **9. WARRANT LIABILITIES**

	Number of Warrants (000s)	Amount (\$000s)
Warrant Liabilities, December 31, 2016	—	—
Issued (expire October 31, 2022)	2,318	533
Warrant Liabilities, December 31, 2017	2,318	533
Issued (expire October 31, 2023)	6,000	840
Fair value adjustment	—	(563)
<b>Warrant Liabilities, December 31, 2018</b>	<b>8,318</b>	<b>810</b>

In conjunction with the issuances of Senior Notes, PPR issued warrants which were classified as financial liabilities as a result of a cashless exercise provision. As such, the warrant liability is measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the consolidated statement of loss. The fair value of these warrants is determined using the Black-Scholes option pricing model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position.

On November 21, 2018, the Company issued 6,000,000 warrants with an exercise price of \$0.282 with a 5-year term expiring on October 31, 2023.

Effective November 21, 2018, the exercise price of the 2,318,000 warrants issued on October 31, 2017 were adjusted down to \$0.473 from \$0.549 pursuant to their terms. These warrants will expire on October 31, 2022. As at December 31, 2018, the value of the warrant liability was \$0.8 million (2017 - \$0.5 million).

The fair value of the warrants as at December 31, 2018 was estimated using the following assumptions:

	Warrants Expiring October 31 2022	Warrants Expiring October 31 2023
<b>December 31, 2018</b>		
Fair value of options	\$0.07	\$0.11
Risk free interest rate	2.34%	2.34%
Expected life of options (years)	3.8	4.8
Expected volatility	67.61%	67.10%
Stock price	\$0.22	\$0.22
Dividends per share	—	—

## 10. DECOMMISSIONING LIABILITIES

(\$000s)	December 31, 2018	December 31, 2017
Balance – beginning of year	112,834	97,720
Liabilities incurred	987	1,074
Liabilities acquired – business combination (Note 4)	10,283	5,263
Liabilities acquired – asset acquisition (Note 5)	38	1,141
Dispositions (Note 5)	(4,713)	(1,208)
Settlements	(2,061)	(5,136)
Change in estimates	28,854	11,973
Accretion of decommissioning liabilities	2,238	2,007
<b>Total balance</b>	<b>148,460</b>	<b>112,834</b>
Current portion – end of year	4,700	2,300
Long-term portion – end of year	143,760	110,534

At December 31, 2018, risk-free rates of 2.0% - 2.3% (December 31, 2017 – 1.7% - 2.2%) and an inflation rate of 1.7% (December 31, 2017 – 1.7%) were used to calculate the net present value of the decommissioning liabilities.

Decommissioning obligations assumed from acquisitions were initially measured at fair value using a credit-adjusted discount rate of 10.0%. After initial recognition, the Company immediately revalued the obligations using the applicable risk-free rates. The revaluation resulted in an increase to the carrying values of decommissioning liabilities by \$41.6 million, which was included in the changes in estimates category. Partially offsetting the increase were a \$3.0 million decrease related to changes in risk-free as of December 31, 2018 and a \$9.8 million decrease resulted from changes in various underlying assumptions.

Changes in estimates in 2017 accounted for an increase in the decommissioning liabilities of \$12.0 million, which included \$11.5 million related to revaluation of acquired liabilities plus an increase of \$1.7 million resulted from changes in various underlying assumptions. Partially offsetting the increase was a \$1.2 million decrease due to changes in discount rates that were recognized as of December 31, 2017.

As of December 31, 2018, the undiscounted amount of estimated inflation-adjusted future cash flows required to settle the decommissioning obligations was \$263.9 million, based on an inflation rate of 1.7% (December 31, 2017 – \$171.5 million). Of the estimated undiscounted future cash flows, \$14.0 million is estimated to be incurred over the next five years, with the remainder spanning over the following 47 years.

## 11. SHARE CAPITAL

### (a) Authorized

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

### (b) Units Outstanding

	Number of Shares (000s)	Amount (\$000s)
<b>Common shares:</b>		
PPR Shares, December 31, 2016	104,153	115,062
Issued	11,651	7,204
Share issuance costs	—	(1,065)
Issued on settlement of RSUs	84	389
Withholding taxes on settlement of RSUs	—	(44)
PPR Shares, December 31, 2017	115,888	121,546
Issued for Marquee Arrangement (Note 4)	38,609	10,618
Issued for settlement of Marquee liabilities (Note 4)	4,400	1,210
Issued for cash	13,341	3,969
Share issuance costs	—	(916)
Issued for DSU settlements	18	20
Issued for PSU settlements	59	79
Withholding taxes on DSU and PSU settlements	—	(16)
Share repurchase under NCIB	(396)	(353)
Share repurchase for PSU settlements	(59)	(12)
<b>PPR Shares, December 31, 2018</b>	<b>171,860</b>	<b>136,145</b>

	Number of Warrants (000s)	Amount (\$000s)
<b>Warrants:</b>		
Warrants, December 31, 2016	—	—
Issued (expiring March 16, 2019)	3,155	337
Warrants, December 31, 2017	3,155	337
Issued (expiring October 11, 2020)	4,795	1,103
<b>Warrants, December 31, 2018</b>	<b>7,950</b>	<b>1,440</b>

On October 11, 2018, PPR closed a bought deal financing and a private placement for total gross proceeds of \$5.5 million (net proceed of \$3.6 million), including exercise of the over-allotment option under the bought deal financing. Pursuant to the bought deal financing, the Company issued 3,750,150 of common shares on a “flow-through” basis under the Income Tax Act (Canada) with respect to Canadian Exploration Expense (“CEE”) at a price of \$0.46 per share and 6,810,200 of subscription receipts at \$0.39 per unit. The difference between cash received from the issuance of flow-through shares and the market value of common shares issued of \$0.4 million was recognized as a flow-through premium liability (see Note 21(b)). Under the private placement, PPR issued 2,780,000 of subscription receipts, also at \$0.39 per unit. Each subscription receipt entitled the holder to receive, in connection with completion of the Arrangement, for no additional consideration, one PPR common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to purchase one PPR share at a price of \$0.50 until October 11, 2020, subject to adjustment in certain circumstances. The proceeds from the subscription receipts issued under both the bought deal financing and private placement were held in escrow until the closing of the Arrangement. The fair value of warrants was \$0.115 per half warrant or \$0.23 per whole warrant, which was

determined as the difference between the trading price of common shares on the closing date and the price for the subscription receipts.

On November 29, 2018, the Toronto Stock Exchange (“TSX”) accepted the Company’s notice to make a normal course issuer bid (“NCIB”) to purchase its outstanding common shares on the open market. The NCIB effectively renewed the previous NCIB, which was scheduled to end on November 30, 2018. Under the Company’s previous bid, the TSX authorized PPR to purchase up to 4,900,000 common shares during the period from December 1, 2017 to November 30, 2018. Under the renewed bid, the TSX authorized the Company to purchase up to 5,000,000 common shares during the period from December 4, 2018 to December 3, 2019. Shares purchased under NCIB will be cancelled. During 2018, the Company purchased and cancelled 395,600 of common shares (2017 – nil) under the NCIB at a weighted average cost of \$0.35 per share. Subsequent to December 31, 2018, the Company purchased and cancelled 643,130 of common shares.

On March 16, 2017, the Company closed a bought-deal financing under which, the Company issued 5,195,000 CEE flow-through common shares at \$0.77 per share and 5,971,000 subscription receipts at \$0.67 per unit for total gross proceeds of \$8.0 million (net proceeds of \$7.0 million). The difference between cash received from the issuance of flow-through shares and the market value of common shares issued of \$0.7 million was recognized as a flow-through premium liability. 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 entitles the holder to acquire one common share at an exercise price of \$0.87 per share until March 16, 2019. The fair value of warrants was determined as the difference between the trading price of common shares on the closing date and the price for the subscription receipts, at \$0.05 per half warrant or \$0.10 per Warrant. On April 12, 2017, the overallotment option pursuant to this equity financing 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 (net proceeds of \$0.3 million). As of December 31, 2018, PPR fulfilled its obligation to incur \$4.1 million of CEE as required pursuant to the 2017 flow-through common share issuance.

**(c) Loss per Share**

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Net loss for the year	(32,965)	(47,802)
Weighted average number of common shares		
Basic & diluted	122,426	113,350
Basic & diluted net loss per share	(0.27)	(0.42)

**12. SHARE-BASED COMPENSATION**

**(a) Stock Options**

Under PPR’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 plan of Arrangement with Arsenal Energy Inc. in 2016, where those options 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, January 1, 2017	752,174	0.96
Granted	1,969,795	0.75
Cancelled	(37,500)	0.80
Balance, December 31, 2017	2,684,469	0.81
Granted	—	—
Forfeited or expired	(527,630)	0.82
<b>Balance, December 31, 2018</b>	<b>2,156,839</b>	<b>0.81</b>
<b>Exercisable at December 31, 2018</b>	<b>883,181</b>	<b>0.84</b>

The weighted average remaining contractual life of options outstanding as at December 31, 2018 was 2.9 years (December 31, 2017 – 4.0 years).

### (b) Performance Share Units

Under the Company's incentive security plan, performance share units vest on a date specified under the grant agreement, in no more than 3 years after the grant date. The number of common shares issued for each PSU is subject to a performance multiplier ranging 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 and historical practice to settle the PSUs in common shares and the plan has been accounted for as equity settled. The following table summarizes the PSUs outstanding under the plan:

	PSUs
Balance, January 1, 2017	116,427
Granted	354,905
Balance, December 31, 2017	471,332
Cancellations – terminations	(93,328)
Settled	(85,934)
<b>Balance, December 31, 2018</b>	<b>292,070</b>
<b>Weighted average fair value per PSU at grant date</b>	<b>0.80</b>

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 was estimated for units granted in 2017. The weighted average fair value of units awarded in 2017 was \$0.80 per unit and will vest on December 15, 2019.

### (c) Deferred Restricted Share Units

Deferred restricted share units are granted under the Company's incentive security plan to non-management directors of the Company. DSUs vest in their entirety on the grant date and will be settled when a director ceases to be a member of the board of directors. DSUs may be settled in common shares or cash at the discretion of the Company; however, it is PPR's intention and historical practice to settle the DSUs in common shares and the plan has been accounted for as equity settled. The following table summarizes the PSUs outstanding under the plan:

	DSUs
Balance, January 1, 2017	—
Granted	243,368
Balance, December 31, 2017	243,368
Granted	431,475
Settled	(39,131)
<b>Balance, December 31, 2018</b>	<b>635,712</b>

The fair value of DSUs issued is determined at the date of the grant using the closing price of common shares. The weighted average fair value at the measurement date was \$0.32 per unit granted during the period ended December 31, 2018.

#### (d) Restricted Share Units

RSUs are granted under the Company's incentive security plan to the Company's employees and management. RSUs vest evenly over a three-year period and will be settled in common shares or cash at the discretion of the Company; however, it is PPR's intention to settle the RSUs in common shares and the plan has been accounted for as equity settled.

	RSUs
Balance, December 31, 2017	—
Granted	1,922,274
Forfeited or expired	(286,467)
<b>Balance, December 31, 2018</b>	<b>1,635,807</b>

The estimated weighted average fair value for the RSUs at the measurement date is \$0.45 per unit granted during the period ended December 31, 2018.

#### (e) Share-based compensation expense

<i>(000s)</i>	December 31, 2018	December 31, 2017
Shared-based compensation expense		
Included in G&A	810	772
Included in operating expense	(13)	31
<b>Share-based compensation expense before capitalization</b>	<b>797</b>	803
Capitalized during the period	(171)	(116)
Share-based compensation expense after capitalization	626	687



### 13. INCOME TAX

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

Years ended

(\$000s)	December 31, 2018	December 31, 2017
Net loss before taxes	(33,717)	(48,272)
Statutory income tax rate	26.97%	26.92%
Expected income tax recovery	(9,094)	(12,995)
Add (deduct):		
Change in unrecognized deferred tax asset	7,066	12,467
Foreign currency translation gains	624	(174)
Accounting gain on business combination	—	(1,051)
Effect of future US statutory rate reduction	—	896
Non-deductible share-based compensation	216	222
Flow-through share renuncements	1,110	1,335
Flow-through share premium adjustments	(773)	(477)
Other	99	(693)
Tax expenses	(752)	(470)

The movements in deferred tax balances during the year ended December 31, 2018 are as follows:

(\$000s)	Balance December 31, 2017	Recognized in Net Loss	Recognized in OCI	Recognized in Equity	Recognized in Other	Business Combination	Balance December 31, 2018
Deferred tax liabilities:							
Unrealized gains on financial instruments	—	(1,792)	—	—	—	—	(1,792)
Total deferred tax liabilities	—	(1,792)	—	—	—	—	(1,792)
Deferred tax assets:							
Petroleum and natural gas assets	48,608	2,721	—	—	—	2,448	53,777
Decommissioning liabilities	30,465	(4,340)	—	—	—	13,959	40,084
Net operating loss carry forwards	1,249	118	—	—	—	—	1,367
Unrealized losses/gains on financial instrument	1,438	(1,062)	—	—	—	(376)	—
Unrealized translation gains	(174)	585	—	—	—	—	411
Flow-through share premium	—	(773)	—	—	773	—	—
Financing and restructuring fees	1,217	(86)	—	—	—	327	1,458
Non-capital losses	48,909	11,294	—	—	—	35,942	96,145
Accruals and other items, net	1,040	(373)	(12)	247	—	466	1,368
Total deferred tax Assets	132,752	8,084	(12)	247	773	52,766	194,610
Net deferred tax asset	132,752	6,292	(12)	247	773	52,766	192,818
Less: Unrecognized deferred tax asset	(132,752)	(7,065)	12	(247)	—	(52,766)	(192,818)
Deferred taxes	—	(773)	—	—	773	—	—

The movements in deferred tax balances during the year ended December 31, 2017 are as follows:

(\$000s)	Balance December 31, 2016	Recognized in Net Loss	Recognized in OCI	Recognized in Equity	Recognized in Other	Business Combination	Balance December 31, 2017
Deferred tax liabilities:							
Unrealized translation gains	—	(174)	—	—	—	—	(174)
Total deferred tax liabilities	—	(174)	—	—	—	—	(174)
Deferred tax assets:							
Petroleum and natural gas assets	35,379	152	—	—	—	13,077	48,608
Decommissioning liabilities	26,385	2,659	—	—	—	1,421	30,465
Net operating loss carry forwards	2,218	(969)	—	—	—	—	1,249
Unrealized gains on financial instrument	1,650	(212)	—	—	—	—	1,438
Flow-through share premium	—	(477)	—	—	477	—	—
Financing and restructuring fees	1,796	(579)	—	—	—	—	1,217
Non-capital losses	41,429	7,480	—	—	—	—	48,909
Accruals and other items, net	899	(227)	(40)	286	—	122	1,040
Total deferred tax assets	109,756	7,827	(40)	286	477	14,620	132,926
Net deferred tax asset	109,756	7,653	(40)	286	477	14,620	132,752
Less: Unrecognized							
deferred tax asset	(109,756)	(8,130)	40	(286)	-	(14,620)	(132,752)
Deferred taxes	-	(477)	-	-	477	-	-

At December 31, 2018, the Company had \$496.4 million (December 31, 2017 – \$403.9 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 \$353.9 million (December 31, 2017 – \$179.9 million), scheduled to expire in the years 2019 to 2038.

As of December 31, 2018 and 2017, 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.

## 14. SUPPLEMENTAL INFORMATION

### Cash Flow Presentation

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

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Source (use) of cash:		
Accounts receivable	2,887	(119)
Prepaid expenses and other current assets	(1,583)	(516)
Accounts payable and accrued liabilities	14,311	(1,025)
Non-cash working capital acquired (Note 4)	(3,554)	—
	<b>12,061</b>	<b>(1,660)</b>
Related to financing activities	(1,210)	—
Related to operating activities	12,623	(501)
Related to investing activities	648	(1,159)
	<b>12,061</b>	<b>(1,660)</b>
Less: Settlement with common shares (Notes 4 & 11)	1,210	—
	<b>13,271</b>	<b>(1,660)</b>
Other:		
Interest paid during the year	4,949	1,838

Changes in liabilities arising from financing activities:

	Amended Credit Facility	Revolving Facility	Senior Notes
Balance as of December 31, 2016	15,047	—	—
Changes in cash flows	(15,458)	39,963	20,049
Debt issuance costs	(56)	(2,149)	(974)
Non-cash changes			
Unrealized foreign exchange gain	—	(730)	(557)
Amortization of debt issuance costs	467	119	39
Balance as of December 31, 2017	—	37,203	18,557
Changes in cash flows	—	35,682	16,588
Deferred interest	—	—	1,325
Debt issuance costs	—	(800)	(1,280)
Payments	—	(11,625)	—
Non-cash changes			
Unrealized foreign exchange gain	—	2,109	2,292
Amortization of debt issuance costs	—	795	299
Balance as of December 31, 2018	—	<b>63,363</b>	<b>37,781</b>

## 15. REVENUE

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Crude oil	77,112	64,966
Natural gas	5,457	11,311
Natural gas liquid	2,253	2,734
Oil and natural gas revenue	84,822	79,011

Included in accounts receivable at December 31, 2018 is \$1.5 million (December 31, 2017 – \$6.2 million related to December 2017) of accrued oil and natural gas sales related to December 2018 production.

## 16. OPERATING EXPENSE

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Lease operating expense	28,289	27,535
Transportation and processing	6,018	7,251
Production and property taxes	3,608	3,864
Total operating expense	37,915	38,650

## 17. GENERAL AND ADMINISTRATIVE COSTS

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Salaries and benefits	6,022	5,930
Share-based compensation	810	772
Office rents and leases	1,540	1,412
Professional fees	1,586	2,960
Other – office and administration	1,011	1,227
	10,969	12,301
Amounts capitalized to property and equipment and E&E assets (Notes 6 & 7)	(1,805)	(2,083)
General and administrative expense	9,164	10,218

## 18. FINANCE COST

Years Ended (\$000s)	December 31, 2018	December 31, 2017
Interest expense	7,495	3,014
Accretion – decommissioning liability (Note 10)	2,238	2,007
Accretion – other liabilities	125	125
Non-cash interest on warrant liabilities	121	14
Finance cost	9,979	5,160

## 19. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

### (a) Fair Value

The fair value of the borrowings under PPR's Revolving Facility and Senior Notes approximates their carrying values (excluding deferred financing charges and the value assigned to the warrant liability) due to their recent issuance. Additionally, the Revolving Facility bears floating market rates.

Cash and derivative instruments are measured and recorded on PPR's statement of financial position at FVPL. Cash, restricted cash, derivative contracts and the warrant liability have been assessed on the fair value hierarchy described in Note 3(g). Cash is classified as Level 1, while restricted cash, derivative contracts and warrant liability are classified as Level 2. During the years ended December 31, 2018 and 2017, there were no transfers among Levels 1, 2 and 3.

Derivative contracts 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 derivative 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 Restricted Cash

The Company limits its exposure to credit risk related to cash by depositing its excess cash only with financial institutions that have investment grade credit ratings. As of December 31, 2018, restricted cash included \$5.5 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2017 – \$4.9 million).

## 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 25<sup>th</sup> 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:

(\$000s)	2018	2017
Oil and natural gas marketing companies	2,447	6,276
Joint operators	2,060	1,878
Government agencies	213	31
Counterparties – derivative instruments	266	67
Other	781	402
Total accounts receivable	5,767	8,654

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

(\$000s)	2018	2017
Current (less than 90 days)	4,124	7,871
Past due (more than 90 days)	1,643	783
Total	5,767	8,654

PPR's allowance for doubtful accounts was \$0.1 million as at December 31, 2018 (December 31, 2017 – \$0.6 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, 2018, all of the derivative counterparties have entered inter-creditor agreements with the Company's lender to eliminate the need to post any collateral. 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, 2018 and 2017. The net asset amounts represented the maximum exposure to credit risks for derivative instruments at each applicable reporting date:

December 31, 2018 (\$000s)	Gross Assets (Liabilities)	Amounts Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	6,888	(1,120)	5,768
Derivative instruments liabilities	—	—	—
Long-term:			
Derivative instruments assets – long-term	1,870	(1,003)	867
Derivative instruments liabilities – long-term	—	—	—

December 31, 2017 (\$000s)	Gross Assets (Liabilities)	Amounts Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	1,072	(177)	895
Derivative instruments liabilities	(4,333)	177	(4,156)
Long-term:			
Derivative instruments assets – long-term	1,736	(1,544)	192
Derivative instruments liabilities – long-term	(3,802)	1,544	(2,258)

**(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, working capital, credit capacity along with its planned capital expenditure program. As outlined in Note 8, at December 31, 2018, the Company had USD \$16.0 million borrowing capacity under the Revolving Facility. In November 2018, PPR closed the Arrangement with Marquee and concurrently increased its borrowing capacity under its existing Revolving Facility and the issuance of additional Senior Notes and repaid in full Marquee's previously outstanding debt with its expanded facilities. In the fourth quarter of 2018, PPR closed a bought deal financing and private placement (Note 11) that raised gross proceeds of \$5.5 million. The funds were used to decrease the Company's outstanding liabilities. PPR also disposed of certain non-core assets for proceeds of \$6.1 million during the year. PPR anticipates its future development to be funded 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 21), are adequately funded from the available borrowing capacity and from working capital derived from operations. Included within the Accounts Payable and Accrued Liabilities balance as of

December 31, 2018 was \$6.0 million of current liabilities residing in one of PPR's subsidiaries. PPR expects the settlement of the liabilities will be limited to the subsidiary's net asset value of approximately \$1.3 million. Under IFRS, such liabilities continue to be measured and presented at their face value until they are legally discharged. Except for the long-term portion of derivative financial instruments and long-term debt, 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. The Company is exposed to currency risk in relation to its US dollar denominated long-term debt. A 10% strengthening or weakening of the US dollar will contribute a \$6.9 million increase or decrease to the Company's net loss before tax (2017 – \$4.6 million). The exposure of realized prices fluctuations of the US dollar and Canadian dollar exchange rate, serves as natural hedges to the US dollar denominated debt. Therefore, the Company has entered into commodity hedges in US dollars to maintain such natural economic hedges.

**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 Revolving 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 Revolving Facility.

A change in prime interest rates by 1% would have changed net loss by approximately \$0.7 million in 2018 (2017 – \$0.5 million) 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, 2018:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/bbl	Weighted Average Price/bbl
<b>Crude Oil Swaps</b>				
January 1, 2019 - March 31, 2019	US\$ WTI	900	—	\$55.68
January 1, 2019 - December 31, 2019	CAD\$ WTI	150	—	\$64.39
April 1, 2019 - June 30, 2019	US\$ WTI	325	—	\$52.75
April 1, 2019 - May 31, 2019	US\$ WTI	250	—	\$52.65
July 1, 2019 - September 31, 2019	US\$ WTI	500	—	\$52.50
October 1, 2019 - December 1, 2019	US\$ WTI	450	—	\$52.00
January 1, 2020 - March 31, 2020	US\$ WTI	450	—	\$51.50
April 1, 2020 - June 30, 2020	US\$ WTI	425	—	\$51.00
July 1, 2020 - September 30, 2020	US\$ WTI	400	—	\$50.75
October 1, 2020 - December 1, 2020	US\$ WTI	400	—	\$50.50
<b>Crude Oil Sold Call Options</b>				
January 1, 2019 – December 31, 2019	CAD\$ WTI	400	—	\$85.00
January 1, 2020 – December 31, 2020	US\$ WTI	400	—	\$60.50
<b>Crude Oil Put Options</b>				
January 1, 2019 - June 30, 2019	US\$ WTI	400	\$4.95	\$45.00
July 1, 2019 - December 31, 2019	US\$ WTI	450	\$6.29	\$55.00
April 1, 2019 - June 30, 2019	CAD\$ WTI	100	\$2.75	\$73.42
January 1, 2020 - March 31, 2020	CAD\$ WTI	400	\$3.65	\$56.05
April 1, 2020 - June 30, 2020	CAD\$ WTI	300	\$6.00	\$71.30
<b>Crude Oil Collars</b>				
January 1, 2019 – December 31, 2019	US\$ WTI	400	—	\$52.50/60.00
January 1, 2019 – December 31, 2019	US\$ WTI	275	—	\$50.00/57.00
January 1, 2020 – December 31, 2020	US\$ WTI	175	—	\$49.00/54.75

Remaining Term	Reference	Total Daily Volume (GJ)	Premium/GJ	Weighted Average Price/GJ
<b>Natural Gas Swaps</b>				
January 1, 2019 - March 31, 2019	AECO 7A Monthly Index	3,000	—	\$2.73
July 1, 2019 - December 31, 2019	US\$ NYMEX	3,000	—	\$3.15
<b>Natural Gas Put Options</b>				
January 1, 2019 - March 31, 2019	AECO 7A Monthly Index	1,700	\$0.13	\$1.05
April 1, 2019 - June 30, 2019	AECO 7A Monthly Index	1,200	\$0.25	\$1.11
January 1, 20120 - March 30, 2020	AECO 7A Monthly Index	4,000	\$0.15	\$1.16
April 1, 2020 - June 30, 2020	AECO 7A Monthly Index	4,600	\$0.25	\$1.11
<b>Natural Gas Collars</b>				
January 1, 2019 - March 31, 2019	AECO 7A Monthly Index	3,000	—	\$2.92/2.40
April 1, 2019 - June 30, 2019	AECO 7A Monthly Index	3,000	—	\$2.14/1.90

The following table summarizes commodity derivative transactions enter subsequent to December 31, 2018:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/bbl	Weighted Average Price/bbl
<b>Crude Oil Swaps</b>				
July 1, 2020 - December 31, 2020	US\$ WTI	500	—	\$55.00
<b>Crude Oil Sold Put Options</b>				
January 1, 2020 - March 31, 2020	US\$ WTI	400	—	\$42.50
January 1, 2020 - March 31, 2020	US\$ WTI	300	—	\$45.00
January 1, 2021 - March 31, 2021	US\$ WTI	200	—	\$42.50
January 1, 2021 - December 31, 2021	US\$ WTI	650	—	\$40.00
<b>Crude Oil Collars</b>				
February 1, 2019 – December 31, 2019	US\$ WTI	300	—	\$50.00/60.00
April 1, 2019 – December 31, 2019	US\$ WTI	150	—	\$52.50/63.10
January 1, 2020 – March 31, 2020	US\$ WTI	400	—	\$52.50/65.00
January 1, 2020 – March 31, 2020	US\$ WTI	300	—	\$55.00/66.15
July 1, 2020 - December 31, 2020	US\$ WTI	500	—	\$50.00/59.00
January 1, 2021 – March 31, 2021	US\$ WTI	200	—	\$52.50/65.00
January 1, 2021 – December 31, 2021	US\$ WTI	650	—	\$50.00/64.25
<b>Crude Oil Differential Swaps</b>				
March 1, 2019 - June 30, 2019	CAD\$ WCS - WTI	500	—	\$17.85
March 1, 2019 - June 30, 2019	CAD\$ Edmonton Sweet - WTI Diff	1,500	—	\$8.25

Remaining Term	Reference	Total Daily Volume (GJ)	Premium/ GJ	Weighted Average Price/GJ
<b>Natural Gas Swaps</b>				
April 1, 2019 - October 31, 2019	US\$ NYMEX	1,800	—	\$2.70
July 1, 2019 - December 31, 2019	US\$ NYMEX	1,420	—	\$2.70

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

December 31, 2018 (\$000s)	Crude Oil	Natural Gas	Total
Derivative instruments – current assets	5,087	681	5,768
Derivative instruments – long-term assets	708	159	867
<b>Total</b>	<b>5,795</b>	<b>840</b>	<b>6,635</b>

December 31, 2017 (\$000s)	Crude Oil	Natural Gas	Total
Derivative instruments – current assets	—	895	895
Derivative instruments – current liability	(4,156)	—	(4,156)
Derivative instruments – long-term assets	—	192	192
Derivative instruments – long-term liability	(2,258)	—	(2,258)
<b>Total</b>	<b>(6,414)</b>	<b>1,087</b>	<b>(5,327)</b>

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type in the fiscal years 2018 and 2017:

Year ended December 31, 2018 (\$000s)	Crude Oil	Natural Gas	Total
Unrealized gain (loss) on derivative instruments	11,273	(704)	10,569
Realized gain on derivative instruments	(10,047)	1,027	(9,020)
<b>Total gain</b>	<b>1,226</b>	<b>323</b>	<b>1,549</b>

Year ended December 31, 2017 (\$000s)	Crude Oil	Natural Gas	Total
Unrealized loss on derivative instruments	(1,079)	1,862	783
Realized gain on derivative instruments	3,776	1,150	4,926
<b>Total loss</b>	<b>2,697</b>	<b>3,012</b>	<b>5,709</b>

An increase of Canadian dollar WTI by \$1.00 per bbl from the expected forward prices as at December 31, 2018 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, 2018 would result in a decrease in the unrealized gain on derivative instruments of approximately \$0.1 million, assuming all other variables remain constant.

### (c) Capital Management

PPR's objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its planned capital expenditure program. The Company considers its capital structure to include shareholders' equity, the available borrowing under outstanding debt agreements, adjusted funds flow and working capital.

The Company monitors its current and forecasted capital structure in response to changes in economic conditions and the risk characteristics of its oil and gas properties. Adjustments are made on an ongoing basis in order to meet its capital management objectives. Modifications to PPR's capital structure can be accomplished through issuing common shares, issuing new debt or replacing existing debt, adjusting capital spending and acquiring or disposing of assets, though there is no certainty that any of these additional sources of capital would be available if required.

In light of continued volatility in benchmark oil prices and Canadian crude oil differentials, PPR's short-term capital management objective is to fund its capital expenditures necessary for the replacement of production declines using adjusted funds flow. Value-creating activities may be financed with a combination of adjusted funds flow and other sources of capital. 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 adjusted funds flow.

## 20. KEY MANAGEMENT COMPENSATION

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

<i>Years ended</i> <i>(\$000s)</i>	<b>December 31, 2018</b>	December 31, 2017
Salary, bonus and fees	<b>2,551</b>	2,532
Termination payments	<b>402</b>	—
Share based compensation	<b>397</b>	499
<b>Total remuneration</b>	<b>3,350</b>	3,031

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

## 21. COMMITMENTS AND CONTINGENCIES

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

	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Thereafter</b>	<b>Total</b>
Debt	<b>7,783</b>	<b>72,777</b>	<b>48,728</b>	—	—	—	<b>129,288</b>
Leases – net	<b>4,400</b>	<b>4,860</b>	<b>4,477</b>	<b>2,470</b>	<b>381</b>	—	<b>16,588</b>
Firm transportation agreements	<b>2,636</b>	<b>450</b>	<b>269</b>	<b>44</b>	<b>29</b>	<b>50</b>	<b>3,478</b>
Capital commitments	—	<b>750</b>	—	—	—	—	<b>750</b>
Flow-through share commitment	<b>1,453</b>	—	—	—	—	—	<b>1,453</b>
Other agreements	<b>187</b>	<b>85</b>	<b>27</b>	<b>28</b>	<b>28</b>	<b>234</b>	<b>589</b>
<b>Total</b>	<b>16,459</b>	<b>78,922</b>	<b>53,501</b>	<b>2,542</b>	<b>438</b>	<b>284</b>	<b>152,146</b>

Included in 'Leases – net' are sublease recoveries in the amount of \$1.1 million over the contractual period.

The flow-through share commitment relates to flow-through shares issued by PPR in 2018 and will be met by incurring CEE as defined in the *Income Tax Act* and renouncing the related income tax deductions to investors.

The 2020 capital commitment relates to land acquired in 2017 and is comprised of a remaining three well drilling commitment. The costs included in the schedule above represent estimated drilling costs in the area.

**(a) Lease Acquisition Capital Commitment**

Under the Wheatland lease acquisition agreement, the Company committed total capital expenditures of \$45.0 million. The agreement was amended in 2017, such that the lease term and capital commitment may be extended from March 31, 2019 to September 30, 2019, should PPR incur at least \$37.5 million of the \$45.0 million total commitment by March 31, 2019. As of December 31, 2018, PPR has incurred a total of \$27.7 million towards the total capital commitment. Subsequent to year end 2018, the Company and lessor reached agreement to terminate further commitments, thereby eliminating further drilling expenditure obligations for an immaterial cash consideration. A current liability was recorded on the balance sheet as at December 31, 2018 for the cash payable to the lessor. As such, the previous capital commitment has been excluded from the commitments table above. In conjunction with eliminate of the capital commitment, PPR did not renew its leases on the undeveloped lands; accordingly, PPR recognized \$5.3 million of E&E impairment at December 31, 2018.

**(b) Flow-through Share Commitment**

Pursuant to the bought deal financing which closed on October 11, 2018 and the related over-allotment option, the Company issued 3,750,150 flow-through common shares with respect to CEE at \$0.46 per share. As defined by the Income Tax Act, the Company has until December 31, 2019 to incur \$1.8 million of CEE costs related to this flow-through common share issuance. As at December 31, 2018, PPR incurred a total of \$0.3 million towards this commitment.

During 2018, the Company fully met its remaining commitment related to the March 16, 2017 flow-through share issuance and related overallotment.

**(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.