PRAIRIE PROVIDENT RESOURCES

Prairie Provident Resources Inc.

Consolidated Financial Statements

As at and for the Year Ended December 31, 2019

Dated: March 26, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Prairie Provident Resources Inc.

Opinion

We have audited the consolidated financial statements of Prairie Provident Resources Ltd. and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, 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, 2019 and 2018, 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.

Material uncertainty related to going concern

We draw attention to Note 2(b) in the consolidated financial statements, which indicates that there is uncertainty in the Company's ability to maintain the credit facility at levels that support the ongoing business and forecasted breaches in debt covenants in the next twelve months. As stated in Note 2(b) these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

Auditor's 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 26, 2020

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at *($000s)*	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash		2,873	1,867
Restricted cash	10	4,917	7,083
Accounts receivable	18,22	8,667	5,767
Inventory		958	887
Prepaid expenses and other assets		3,282	3,462
Derivative instruments – current	22	11	5,768
Total current assets		20,708	24,834
Exploration and evaluation	7	10,183	9,682
Property and equipment	8	293,549	302,161
Right-of-use assets	4,9	6,119	—
Derivative instruments	22	332	867
Other assets		634	189
Total assets		331,525	337,733
LIABILITIES			
Accounts payable and accrued liabilities		18,479	35,205
Flow-through share premium		—	332
Lease liabilities – current portion	4,12	2,520	—
Derivative instruments – current	22	4,325	—
Current portion of decommissioning liability	13	4,000	4,700
Warrant liability	11	84	810
Total current liabilities		29,408	41,047
Long-term debt	10	113,595	101,144
Lease liabilities – non-current portion	4,12	5,121	—
Decommissioning liabilities	13	163,805	143,760
Other liabilities		6,018	4,731
Total liabilities		317,947	290,682
Commitments and contingencies	24		
SHAREHOLDERS' EQUITY			
Share capital	14	135,958	136,145
Warrants	14	1,103	1,440
Contributed surplus		2,919	1,859
Accumulated deficit	4	(126,872)	(92,861)
Accumulated other comprehensive income ("AOCI")		470	468
Total equity		13,578	47,051
Total liabilities and shareholders' equity		331,525	337,733

Going concern (note 2b)
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, 2019	December 31, 2018
REVENUE			
Oil and natural gas revenue	18	97,891	84,822
Royalties		(10,086)	(13,060)
Oil and natural gas revenue, net of royalties		87,805	71,762
Unrealized (loss) gain on derivative instruments	22	(10,618)	10,569
Realized loss on derivative instruments	22	(2,169)	(9,020)
		75,018	73,311
EXPENSES			
Operating	19	46,626	37,915
General and administrative	20	8,277	9,164
Depletion and depreciation	8	39,826	29,686
Exploration and evaluation	7	996	544
Depreciation on right-of-use assets	9	2,743	—
Gain (loss) on property dispositions	6	(263)	4,810
Gain on warrant liability	11	(726)	(563)
Impairment (recovery) loss	7,8	(436)	5,319
(Gain) Loss on foreign exchange		(3,826)	5,684
Change in other liabilities		(3,283)	—
Finance costs	21	17,588	9,979
Transaction, restructuring and other costs	5	888	4,490
Total expenses – net		108,410	107,028
Net loss before taxes		(33,392)	(33,717)
Current tax	16	19	21
Deferred tax recovery	16	(332)	(773)
Net tax recovery		(313)	(752)
Net loss		(33,079)	(32,965)
Other comprehensive loss			
Items that will not be reclassified to net loss:			
Actuarial gain on employee post-retirement benefit plan		2	43
Comprehensive loss		(33,077)	(32,922)

Net loss per share			
Basic	14	(0.19)	(0.27)
Diluted	14	(0.19)	(0.27)

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)

($000s)	Note	Share Capital Amount	Warrants	Contributed Surplus	Accumulated Deficit	AOCI	Total Equity
Balance at January 1, 2019		136,145	1,440	1,859	(92,861)	468	47,051
Impact on transition to IFRS 16	4	—	—	—	(853)	—	(853)
Balance at January 1, 2019		136,145	1,440	1,859	(93,714)	468	46,198
Share issuance costs		(57)	—	—	—	—	(57)
Normal course issuer bid ("NCIB")	14	(509)	—	377	—	—	(132)
Share-based compensation	15	—	—	825	—	—	825
Settlement of restricted share units ("RSU") and performance share units ("PSU"), net of withholding tax	14	405	—	(479)	—	—	(74)
Purchase of common shares for RSU settlement	14	(26)	—	—	—	—	(26)
Actuarial gain on post-retirement benefit plan		—	—	—	—	2	2
Warrant expiries		—	(337)	337	—	—	—
IFRS 16 impact	9				(79)		(79)
Net loss		—	—	—	(33,079)	—	(33,079)
Balance at December 31, 2019		135,958	1,103	2,919	(126,872)	470	13,578

($000s)	Note	Share Capital Amount	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 shares		15,797	1,103	—	—	—	16,900
Share issuance costs		(916)	—	—	—	—	(916)
Normal course issuer bid ("NCIB")	14	(353)	—	233	—	—	(120)
Share-based compensation	15	—	—	797	—	—	797
Settlement of deferred share units ("DSU"), net of withholding tax	14	10	—	(20)	—	—	(10)
Settlement of performance share units ("PSU"), net of withholding tax	14	73	—	(79)	—	—	(6)
Purchase of common shares for PSU settlement	14	(12)	—	—	—	—	(12)
Actuarial gain on post-retirement benefit plan		—	—	—	—	43	43
Net loss		—	—	—	(32,965)	—	(32,965)
Balance at December 31, 2018		136,145	1,440	1,859	(92,861)	468	47,051

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended *($000s)*	Note	December 31, 2019	December 31, 2018
OPERATING ACTIVITIES			
Net loss		(33,079)	(32,965)
Adjustments for non-cash items:			
Impairment (recovery) loss	7,8	(436)	5,319
Unrealized loss (gain) on derivative instruments	22	10,618	(10,569)
Depletion and depreciation	8	39,826	29,686
Depreciation on right-of-use asset	9	2,743	—
Exploration and evaluation expense	7	996	544
Accretion and non-cash finance costs	21	6,244	3,457
Unrealized foreign exchange (gain) loss		(3,624)	4,710
Change in other liabilities		(3,283)	—
(Gain) loss on sale of properties		(263)	4,810
Gain on warrant liability	11	(726)	(563)
Deferred tax recovery		(332)	(773)
Share-based compensation	15	679	626
Settlements of decommissioning liabilities	13	(3,801)	(2,061)
Deferred interest on Senior Notes	10	1,999	1,323
Other, net		(528)	386
Change in non-cash working capital	17	(12,653)	12,623
Net cash from operating activities		4,380	16,553
FINANCING ACTIVITIES			
Debt issuance costs		(408)	(1,240)
Issuance of common shares and warrants for cash		—	5,465
Share issuance costs		(57)	(916)
Purchase of common share under NCIB	14	(133)	(120)
Purchase of common share for RSU settlement	14	(26)	(12)
Withholding taxes on settlement of share-based compensations	14	(60)	(16)
Finance lease payments	12	(3,803)	—
Change in Senior Note borrowings		—	16,588
Change in Revolving Facility borrowings	10	12,456	23,766
Repayment of Marquee's debt facilities		—	(37,300)
Net cash from financing activities		7,969	6,215
INVESTING ACTIVITIES			
Exploration and evaluation expenditures	7	(2,678)	(1,190)
Property and equipment expenditures	8	(9,317)	(28,194)
Cash acquired on business combination	5	—	1,394
Proceeds from dispositions (net of acquisitions)	6	285	5,079
Change in non-cash working capital	17	(1,799)	648
Net cash used in investing activities		(13,509)	(22,263)
Change in cash and restricted cash		(1,160)	505
Cash and restricted cash beginning of period		8,950	8,445
Cash and restricted cash end of period		7,790	8,950

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019 and 2018

1. REPORTING ENTITY

Prairie Provident Resources Inc. ("PPR" or the "Company") was incorporated under the laws of the province of Alberta on July 29, 2016. Its principal office is located at 640 – 5th Avenue S.W., Calgary, Alberta. The Company's common shares are listed on the Toronto Stock Exchange under the symbol "PPR".

PPR is an independent oil and natural gas exploration, development and production company. PPR's reserves, producing properties and exploration prospects are located primarily in the provinces of Alberta, British Columbia, Saskatchewan and in the Northwest Territories. The Company conducts certain of its operating activities jointly with others through unincorporated joint arrangements and these consolidated financial statements reflect only the Company's share of assets, liabilities, revenues and expenses under these arrangements. The Company conducts all of its principal business in one reportable segment.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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 26, 2020 (the "Financial Statements").

(b) Going Concern

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that PPR will be able to realize its assets and discharge its liabilities in the normal course of business.

The oil and natural gas commodity price environment has been extremely volatile and depressed over the last few years. PPR has, to the best of its ability, managed through this low commodity price environment by maintaining an active risk management program and by managing a capital program with cash flows, debt and equity capital. However, the recent downfalls in global oil prices resulted in deterioration in the fair value of its reserves and the Company's projected cash flows over the next 12 months. Such forecasts may change based upon actual revenue received during the year, changes in future oil and natural gas pricing and future business plans.

At December 31, 2019, the amount outstanding on the Revolving Facility aggregated to USD$56.5 million (Note 10). The maximum amount available on lines of credit at December 31, 2019 was USD$60 million. The Company also has Senior Notes of USD$31.0 million which are due on October 31, 2021. The Revolving Facility is subject to semi-annual reviews of the borrowing base, with the next review scheduled to conclude on or around April 30, 2020. The lenders have sole discretion on the determination of the borrowing base, which is based predominately on the amount of the Company's proved developed producing oil and natural gas reserves. The current state of the Canadian energy industry coupled with significant declines in commodity prices since December 31, 2019 have negatively impacted the available amount of credit facilities within the industry. Both the Revolving Facility and Senior Notes have financial covenants as more fully described in Note 10. At forward prices for crude oil being traded in the futures market subsequent to March 5, 2020, Management is forecasting a breach in covenants within the next 12 months.

PPR forecasts that it continues to meet its obligations including interest payments, capital spending and abandonment and remediation expenses with its internally generated cash flows and available borrowing capacity. However, there are no assurances that the lenders will maintain the borrowing base at current levels, which may result in a borrowing base shortfall. If the Company cannot repay a borrowing base shortfall, it would represent an event of default under both the Revolving Facility and the Senior Notes. In such case, the lenders have the right to demand immediate repayment of all amounts owed under both facilities.

Due to these factors, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded asset and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

(c) 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.

(d) Functional and Presentation Currency

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

(e) Use of Estimates and Judgments

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 valuation 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 valuation 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 judgments and is by its nature subject to measurement uncertainty.

- Management applies judgment in reviewing each of its contractual arrangements to determine whether the arrangement contains a lease within the scope of IFRS 16. Leases that are recognized are subject to further management judgment and estimation in various areas specific to the arrangement. The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company applies judgment in evaluating whether it is reasonably certain to exercise the option to renew by considering all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy). Where the rate implicit in a lease is not readily determinable, the discount rate of lease obligations are estimated using a discount rate similar to PPR's company-specific incremental borrowing rate. This rate represents the rate that PPR would incur to obtain the funds necessary to purchase an asset of a similar value, with similar payment terms and security in a similar economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

(a) Basis of Consolidation

At December 31, 2019, 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) and comprehensive 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. While the transaction price is variable under the terms of the contract, at the time of delivery, there is only a minimal risk of a change in the transaction price to be allocated to the volume sold. Accordingly, at the point of sale there is not a significant risk of revenue reversal relative to the cumulative revenue recognized, and there is no need to constrain any variable consideration. The amount of revenue recognized is based on the agreed upon transaction price, whereby any variability in revenue is related specifically to the Company's efforts to deliver production. Therefore, the resulting revenue is allocated to the production delivered in the period during which the variability occurs.

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.

(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, 2019, 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 subsequent changes recognized through net income (loss). 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 consolidated 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.

(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. Once the Company has pursued collection activities and it has been determined that the incremental cost of pursuing collection outweighs the benefits, PPR derecognizes the gross carrying amount of the financial asset and the associated allowance from the consolidated balance sheets

(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 22. 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 valuation 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

When PPR is party to a lease arrangement as the lessee, it recognizes a right-of-use asset ("ROU asset") and a corresponding lease obligation on the balance sheets on the date that a leased asset becomes available for use.

ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The ROU asset is depreciated over the lease term on a straight-line basis over the shorter of its estimated useful life and the lease term. ROU assets are subject to impairment.

Lease liabilities include the net present value of fixed payments (including in-substance fixed payments), less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. These lease payments are discounted using the Company's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Lease payments on short-term leases or leases on low-value assets are expensed in the consolidated statements of operations on a straight-line basis over the lease term.

4. ADOPTION OF NEW ACCOUNTING STANDARDS AND NEW ACCOUNTING PRONOUNCEMENTS

New and Amended Accounting Standards and Interpretations Adopted

IFRS 16 – Leases

Effective January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaces IAS 17 – Leases, using the modified retrospective method. Under this method, the cumulative effect of initially applying the standard recognized at the date of initial application without any restatement to the prior period financial information. The Company elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. PPR elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). At January 1, 2019, the provision for onerous contracts previously recognized was applied to the value of the associated ROU asset. In this case, no impairment assessment was performed under IAS 36 – *Impairment of Assets*.

Before the adoption of IFRS 16, a lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. The Company did not have any finance leases as of December 31, 2018. In an operating lease, the leased property was not capitalized and the lease payments were recognized in profit or loss on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. ROU assets and corresponding lease liabilities are recognized at the date of which the leased assets are available for use by the Company.

Summary of lease accounting policy

The Company has revised Note 3(o) – Significant Accounting Policies to reflect the new lease accounting policy.

a. Significant judgment

The Company has updated Note 2(e) to reflect the new significant judgment applied to leases.

b. Adoption impact

The effects of adopting IFRS 16, as at January 1, 2019 (increase/(decrease)) are as follows:

($000s)	As reported as December 31, 2018	Adjustments	**As at January 1, 2019**
Right-of use assets	—	10,056	**10,056**
Onerous contract	(622)	622	**—**
Lease liabilities – current portion	—	(2,775)	**(2,775)**
Lease liabilities – non-current portion	—	(8,756)	**(8,756)**
Accumulated deficit	(92,861)	(853)	**(93,714)**

On adoption of IFRS 16, PPR recognized lease liabilities for all operating leases. Such liabilities were measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases (service agreements), short-term and low-value leases, and discounted using the Company's incremental borrowing rate of 10.0% as of January 1, 2019:

($000s)	**Total**
Operating lease commitments, disclosed as at December 31, 2018	16,588
Others[(1)]	**174**
	16,762
Less commitments relating to:	
Sublease classified as operating lease	**542**
Short-term leases	**(16)**
Low-value leases	**(5)**
Variable lease payments	**(3,350)**
Net lease liabilities commitments	**13,933**
Impact from discounting	**2,402**
Balance lease liabilities – January 1, 2019	**11,531**

(1) Includes office equipment leases that were disclosed in the Other Agreements commitment category at December 31, 2018.

New Accounting Pronouncements

As at December 31, 2019 there were no new standards or interpretations applicable to the Company.

5. BUSINESS COMBINATION

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.

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

($000s)	
Allocation:	
Property and equipment	55,382
Exploration and evaluation assets	4,172
Derivative assets	1,394
Cash	1,394
Accounts receivable	4,696
Prepaid expenses and other current assets	1,395
Accounts payable and accrued liabilities	(9,891)
Provision	(640)
Bank debt	(7,300)
Term loan	(30,000)
Decommissioning obligations	(9,984)
Net assets acquired	10,618

Consideration:	
Shares exchanged (38,609,416 common shares at $0.275/share)	10,618

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(e) 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 10 – Long Term Debt). The fair value of consideration issued was calculated with reference to PPR's closing price on November 21, 2018. As part of finalizing the purchase price allocation, PPR reduced its estimate of decommissioning obligations acquired by $0.3 million and increased accrued liabilities by $0.2 million during 12 months after the acquisition date.

Transaction costs incurred to effect the Arrangement for the year ended December 31, 2019 of $0.9 million (2018 – $2.7 million) were expensed in the consolidated statement of loss. Transaction costs included primarily legal fees, professional fees, and change of control settlements.

6. ASSET ACQUISITIONS AND DISPOSITIONS

During 2019, PPR disposed of certain non-core properties and undeveloped land for the total proceeds of $0.3 million. The associated exploration and evaluation asset and decommissioning liabilities were derecognized, resulting in a net gain of $0.3 million on disposition.

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.

7. EXPLORATION AND EVALUATION ASSETS

($000s)	**December 31, 2019**	December 31, 2018
Cost Balance – beginning of year	65,642	77,271
Additions	**3,334**	1,020
Acquisitions (Notes 5 and 6)	**(59)**	4,232
Transfers to oil and gas property and equipment (Note 8)	**(1,122)**	(817)
Exploration and evaluation expense	**(996)**	(544)
Disposals (Note 6)	**—**	(15,520)
Cost Balance – end of year	**66,799**	65,642
Provision for impairment – beginning of year	**(55,960)**	(50,851)
Impairment (loss) recovery	**(656)**	(5,109)
Provision for impairment – end of year	**(56,616)**	(55,960)
Net book value – beginning of year	9,682	26,420
Net book value – end of year	**10,183**	9,682

Exploration and evaluation ("E&E") assets consist of the Company's undeveloped land and exploration and pilot projects which are pending the determination of proven or probable reserves.

The Company's E&E assets were assessed for impairment as at December 31, 2019, and it was concluded that no indicators of impairment were present. However, PPR recognized a non-cash E&E impairment related to changes in estimates used in decommissioning liabilities.

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. 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, 2019, PPR recognized $1.0 million (2018 - $0.5 million) of E&E expense related to surrendered leases in various areas.

During the year ended December 31, 2019, PPR did not capitalize any directly attributable general and administrative expenses or share-based compensation to E&E assets (December 31, 2018 - nominal amount).

8. PROPERTY AND EQUIPMENT

($000s)	Production and Development	Office Equipment	Year Ended December 31, 2019
Cost:			
Balance – beginning of year	645,891	4,618	650,509
Additions	9,654	36	9,690
Acquisitions (Note 6)	(7)	—	(7)
Adjustments due to change in estimates in decommissioning liabilities (Note 13)	19,271	—	19,271
Transfers from exploration and evaluation assets (Note 7)	1,122	—	1,122
Balance – end of year	675,931	4,654	680,585
Accumulated impairment, depletion and depreciation:			
Balance – beginning of year	(344,830)	(3,518)	(348,348)
Depletion and depreciation	(39,472)	(308)	(39,780)
Impairment recovery	1,092	—	1,092
Balance – end of year	(383,210)	(3,826)	(387,036)
Net book value – beginning of year	301,061	1,100	302,161
Net book value – end of year	292,721	828	293,549

($000s)	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 5 and 6)	56,417	—	56,417
Disposals (Note 5)	(1,159)	—	(1,159)
Transfers from exploration and evaluation assets (Note 7)	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 – beginning of year	215,584	1,451	217,035
Net book value – end of year	301,061	1,100	302,161

As at December 31, 2019, an estimated $304.0 million in future development costs associated with proved plus probable undeveloped reserves were included in the calculation of depletion (December 31, 2018 - $268.8 million).

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

During the year ended December 31, 2019, $1.6 million (2018 – $1.7 million) of directly attributable general and administrative expenses, including $0.1 million (2018 – $0.2 million) of share-based compensation expenses, were capitalized to property and equipment.

(b) Impairment

At December 31, 2019, the decreases in crude oil and natural gas benchmark prices as compared to December 31, 2018 were considered potential indicators of impairment for the assets. As a result, the Company completed impairment tests on all of its cash generating units ("CGU's") in accordance with IAS 36 and determined that the carrying amounts of the CGUs did not exceed their fair value less costs of sale.

Neither a 4 percentage point increase in the discount rate nor a 4% decrease in the forward price estimates used in the impairment assessments would result in any impairment loss.

In the year ended December 31, 2019, PPR recognized a non-cash P&D impairment recovery of $1.1 million related to changes in estimates used in decommissioning liabilities.

During the year ended December 31, 2018, the Company recorded impairment recovery of $0.2 million related to changes in decommissioning liabilities of certain properties having a zero carrying value.

9. RIGHT-OF-USE ASSETS

($000s)	**Office Leases**	**Facility Lease**	**Other Leases**	**Total**
Cost:				
Balance – January 1, 2019 (Note 4)	3,056	6,687	313	10,056
Additions and adjustments	(1,115)	—	—	(1,115)
Disposition/Derecognition	(79)	—	—	(79)
Balance – December 31, 2019	1,862	6,687	313	8,862
Accumulated depreciation:				
Balance – January 1, 2019 (Note 4)	—	—	—	—
Depreciation	(990)	(1,605)	(148)	(2,743)
Balance – December 31, 2019	(990)	(1,605)	(148)	(2,743)
Net book value – January 1, 2019	3,056	6,687	313	10,056
Net book value – December 31, 2019	872	5,082	165	6,119

10. LONG-TERM DEBT

($000s)	December 31, 2019	December 31, 2018
Revolving Facility (including US$27.6 million and CAN$40.5 million of borrowings)	76,377	65,398
Senior Notes (US$28.5 million of principal plus US$2.5 million of deferred interest)	40,300	40,275
Unamortized deferred financing fees	(2,154)	(3,245)
Unamortized value allocated to Warrant Liability	(928)	(1,284)
Balance - end of year	113,595	101,144

(a) Revolving Facility

In the fourth quarter of 2019, the Company confirmed continuation of the borrowing base under its senior secured revolving note facility ("Revolving Facility") at US$60.0 million, extended the maturity date of the Revolving Facility from October 31, 2020 to April 30, 2021, and removed the "term out" feature so as to keep the facility as a revolving facility for the remaining of the term. Financial covenants remain unchanged. The next borrowing base re-determination date for the Revolving Facility will be on or about April 30, 2020.

The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAN$54 million or US$30 million. As at December 31, 2019, the Company had US$57.6 million (CAN$76.4 million equivalent) drawn under the US$60.0 million facility, comprised of US$27.6 million of USD denominated notes (CAN$35.8 million equivalent using the December 31, 2019 month end exchange rate of $1.00 USD to $1.30 CAD) and CAN$40.5 million of CAD denominated notes (US$30.0 million equivalent using exchange rate at the time of borrowing) under the Revolving Facility. As at December 31, 2019, the Company had US$2.4 million (CAN$3.1 million equivalent) borrowing capacity 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. If a borrowing base deficiency exists because of a re-determination, the lender is required to notify the Company of such shortfall. The Company may repay the shortfall amount by either making one installment within 90 days or six equal consecutive monthly installments beginning within 30 days after the Company's receipt of the borrowing base deficiency notice.

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

(i) for CDOR advances and CAD prime advances, the margins are between 350 and 500 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.

During the fourth quarter of 2019, the note agreement was further amended as such that for the period between December 1, 2019, and March 31, 2020, the Applicable Margin for CDOR and LIBOR advances was set at 500 bps.

As at December 31, 2019, PPR had outstanding letters of credit of $4.9 million. The letters of credit are issued by a financial institution at which PPR posted cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

As at December 31, 2019, $1.3 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2018 – $2.0 million).

(b) Subordinated Senior Notes

On October 31, 2017 the Company issued US$16.0 million Senior Notes (CAN$20.8 million using the December 31, 2019 month end exchange rate of $1.00 USD to $1.30 CAD) due October 31, 2021. In addition, upon closing of the Arrangement on November 21, 2018, PPR issued an additional US$12.5 million (CAN$16.2 million using the December 31, 2019 month end exchange rate of $1.00 USD to $1.30 CAD) of Senior Notes due October 31, 2021. Senior Notes outstanding as at December 31, 2019 totaled US$28.5 million (CAN$37.0 million using the December 31, 2019 month end exchange rate of $1.00 USD to $1.30 CAD).

Senior Notes bear interest at 15% per annum, payable quarterly in arrears with up to 5% per annum deferrable at the election of PPR. The terms of the Revolving Facility require that PPR Canada make the maximum deferred payment election. The amount of any such deferred payment will become additional principal owing in respect of the Senior Notes payable at maturity on October 31, 2021. As at December 31, 2019, US$2.5 million (CAN$3.3 million using the December 31, 2019 month end exchange rate of $1.00 USD to$1.30 CAD) (December 31, 2018 - US$1.0 million) of interests were deferred and will be repaid upon maturity of the Senior Notes.

As at December 31, 2019, $0.9 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2018 – $1.2 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.

During the second quarter of 2019, PPR finalized the amending agreement terms with its lender related to its Revolving Facility and Senior Notes, which eased certain financial covenant thresholds and were effective for the quarter ending March 31, 2019 through to the quarter ending December 31, 2019. The threshold easing was intended to accommodate the continuing impact from widened Canadian crude oil price differentials during the fourth quarter of 2018 on the computation of PPR's financial covenants for 2019.

The Company was in compliance with all covenants as at December 31, 2019:

Financial Covenant	Revolving Facility	Senior Note Requirement	As at December 31, 2019
Total Leverage – adjusted indebtedness to EBITDAX [1]	Cannot Exceed 3.75 to 1.0	Cannot Exceed 4.00 to 1.00	3.6 to 1.0
Senior Leverage – senior adjusted indebtedness to EBITDAX [1]	Cannot Exceed 3.25 to 1.0	Cannot Exceed 3.50 to 1.0	2.3 to 1.0
Asset Coverage – 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 0.9 to 1.0 [3]	Cannot be less than 0.9 to 1.0 [3]	1.1 to 1.0
Current ratio – consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities [2]	Cannot be less than 0.85 to 1.0	Cannot be less than 0.85 to 1.0	1.3 to 1.0

1. 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").
2. Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, lease liabilities, decommissioning obligations, derivative liabilities and non-cash liabilities.
3. The Asset Coverage covenant was amended to 0.9x to 1.0 from 1.3x to 1.0 for December 31, 2019.

Subsequent to the quarter ending December 31, 2019 PPR's financial covenants will revert back to their original levels:

Financial Covenant	Revolving Facility Requirement	Senior Note Requirement
Total Leverage – adjusted indebtedness to EBITDAX [1]	Cannot Exceed 3.5 to 1.0	Cannot Exceed 3.75 to 1.00
Senior Leverage – senior adjusted indebtedness to EBITDAX [1]	Cannot Exceed 3.0 to 1.0	Cannot Exceed 3.25 to 1.0
Asset Coverage – 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 1.3 to 1.0	Cannot be less than 1.3 to 1.0
Current ratio – consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities [2]	Cannot be less than 1.0 to 1.0	Cannot be less than 0.85 to 1.0

1. 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").
2. Under the agreements, current assets exclude derivative assets while current liabilities excludes the current portion of long-term debt, lease liabilities, decommissioning obligations, derivative liabilities and non-cash liabilities.

11. WARRANT LIABILITY

	Warrant Expiring October 31, 2022		Warrant Expiring October 31, 2023	
	Number of Warrants	Amount	Number of Warrants	Amount
PPR Warrant Liability, December 31, 2018	2,318	150	6,000	660
Fair value adjustment	—	(126)	—	(600)
PPR Warrant Liability, December 31, 2019	**2,318**	**24**	**6,000**	**60**

In conjunction with the issuances of the Senior Notes, the Company issued a total of 8,318,000 warrants. The Senior Notes issued on October 31, 2017, the Company issued 2,318,000 warrants with an exercise price of $0.549 with a five-year term expiring October 31, 2022. Effective November 29, 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. The Senior Notes issued on November 21, 2018, the Company issued 6,000,000 warrants with an exercise price of $0.282 expiring on October 31, 2023.

The warrants issued under both tranches were classified as financial liabilities due to a cashless exercise provision and are measured at fair value upon issuance and at each subsequent reporting period, with the changes in fair value recorded in the consolidated statement of loss and comprehensive loss. The fair value of these warrants is determined using the Black-Scholes option valuation model. These warrants are exercisable any time and thus the value of these warrants is presented as current liability in the consolidated statement of financial position. The value of the warrant liability as at December 31, 2019 was $0.1 million (December 31, 2018 - $0.8 million).

The fair value of the warrants as at December 31, 2019 was estimated using the following assumptions:

December 31, 2019		Warrants Expiring October 31 2022		Warrants Expiring October 31 2023
Fair value of options	$	0.01	$	0.01
Risk free interest rate		1.69 %		1.69 %
Expected life of options (years)		2.8		3.8
Expected volatility		88.71 %		88.71 %
Stock price	$	0.05	$	0.05
Dividends per share		—		—

12. LEASE LIABILITIES

($000s)	December 31, 2019
Opening balance – January 1, 2019	11,531
Additions and adjustments	(1,115)
Finance expense	1,028
Lease payments	(3,803)
Ending balance – December 31, 2019	7,641
Less: current portion	2,520
Ending balance – long-term portion	5,121

($000s)	December 31, 2019
Variable lease payments	1,189
Sublease income	(758)
Balance	431

The Company incurs lease payments related to vehicles, head office facilities, surface leases and gas processing facility. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets. The Company has recognized lease liabilities in relation to all lease arrangements measured at the present value of the remaining lease payments at an incremental borrowing rate of 10.0%.

Short-term leases are leases with a lease term of twelve months or less while low-value assets comprised of information technology and miscellaneous equipment. Such items are charged to operating expenses and general and administrative expenses in the condensed consolidated statements of operations and are immaterial.

The following table details the undiscounted cash flows of PPR's lease obligations, as at December 31, 2019:

($000s)	**Under 1 Year**	**1-3 Years**	**4-5 years**	**Beyond 5 years**	**Total Contractual Cash Flows**	**Carrying Amount**
Lease obligations	**3,165**	**393**	**8,871**	**—**	**12,429**	**7,641**

13. DECOMMISSIONING LIABILITIES

($000s)	**December 31, 2019**	December 31, 2018
Total Balance – beginning of year	148,460	112,834
Liabilities incurred	**883**	987
Liabilities acquired – business combination (Note 5)	**(292)**	10,283
Liabilities acquired – asset acquisition (Note 6)	**—**	38
Dispositions (Note 6)	**—**	(4,713)
Settlements	**(3,801)**	(2,061)
Change in estimates	**19,271**	28,854
Accretion of decommissioning liabilities	**3,284**	2,238
Total Balance – end of year	**167,805**	148,460
Current portion – end of year	**4,000**	4,700
Long-term portion – end of year	**163,805**	143,760

The Company estimated the undiscounted and inflated total future liabilities to be approximately $266.4 million, based on an inflation rate of 1.7% (December 31, 2018 – $263.9 million). Liability payments are estimated over the next 52 years with the majority of costs expected to be incurred over the next 26 years, of which $20.0 million is estimated to be incurred over the next five years.

Decommissioning liabilities at December 31, 2019 were determined using risk-free rates of 1.5% - 1.7% (December 31, 2018 – 2.0% - 2.3%) and an inflation rate of 1.7% (December 31, 2018 – 1.7%).

In 2019, change in estimates was comprised of a $22.6 million increase resulted from lower risk-free rates applied as at December 31, 2019 and a $3.4 million decrease in cost estimates related to the properties acquired from the Arrangement.

As at December 31, 2018 decommissioning obligations assumed from the Arrangement 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.

14. SHARE CAPITAL

(a) Authorized

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

(b) Units Outstanding

	Number of Shares *(000s)*	Amount *($000s)*
Common shares:		
PPR Shares, December 31, 2017	115,888	121,546
Issued for Marquee Arrangement (Note 5)	38,609	10,618
Issued for settlement of Marquee liabilities (Note 5)	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)
PPR Shares, December 31, 2018	171,860	136,145
Share issuance costs	—	(57)
Issued for RSU settlement	217	231
Issued for PSU settlement	114	234
Withholding taxes on RSU settlement	—	(54)
Withholding taxes on PSU settlement	—	(6)
Share repurchase for RSU settlement	(121)	(26)
Share repurchase under normal course issuer bid	(643)	(509)
PPR Shares, December 31, 2019	**171,427**	**135,958**

	Number of Warrants *(000s)*	Amount *($000s)*
Warrants:		
Warrants, December 31, 2017	3,155	337
Issued (expiring October 11, 2020)	4,795	1,103
Warrants, December 31, 2018	7,950	1,440
Expired March 16, 2019	(3,155)	(337)
Warrants, December 31, 2019	**4,795**	**1,103**

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. 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 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. During 2019, the Company purchased and cancelled 643,130 of common shares (2018 – 395,600) under the NCIB at a weighted average cost of $0.21 (2018 - $0.35) per share. The Company has not renewed the NCIB since December 2019.

(c) Loss per Share

Years Ended *(000s)*	**December 31, 2019**	December 31, 2018
Net loss for the period	**(33,079)**	(32,965)
Weighted average number of common shares		
Basic & diluted[1]	**171,349**	122,426
Basic & diluted net loss per share	**(0.19)**	(0.27)

In calculating the weighted-average number of diluted common shares outstanding for the year ended December 31, 2019, all equity-settleable share-based instruments (see Notes 14 and 15) are excluded from the diluted weighted average shares calculation (December 31, 2018 – nil).

15. SHARE-BASED COMPENSATION

(a) Stock Options

Under the Company's stock option plan, options granted vest evenly over a three-year period and expire 5 years after the grant date. 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, 2018	2,684,469	0.81
Forfeited or expired	(527,630)	0.82
Balance, December 31, 2018	2,156,839	0.81
Granted	**2,373,633**	0.21
Forfeited or expired	**(598,153)**	0.61
Balance, December 31, 2019	**3,932,319**	0.48
Exercisable at December 31, 2019	**1,325,458**	0.82

The weighted average remaining contractual life of options outstanding as at December 31, 2019 was 3.2 years (December 31, 2018 – 2.9 years). The fair value of options granted in 2019 was estimated on the date of grant using the Black-Scholes option valuation model with the following assumptions and resulting fair value:

Fair value of options per unit	$0.09
Exercise price of option	$0.21
Risk free interest rate	1.8%
Expected life of options (years)	3.5
Expected volatility	67.9%
Estimated forfeiture rate	1.8%
Dividend per share	—

(b) Performance Share Units

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

	PSUs
Balance, January 1, 2018	471,332
Cancellations - terminations	(93,328)
Settled	(85,934)
Balance, December 31, 2018	292,070
Settled	(292,070)
Balance, December 31, 2019	**—**

(c) Deferred Restricted Share Units

Deferred restricted share units ("DSUs") 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 to settle the DSUs in common shares and the plan has been accounted for as equity settled.

The following table summarizes the DSUs outstanding under the plan:

	DSUs
Balance, January 1, 2018	243,368
Granted	431,475
Settled	(39,131)
Balance, December 31, 2018	635,712
Granted	1,701,369
Balance, December 31, 2019	**2,337,081**

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 grant date of the DSUs awarded during the year ended December 31, 2019 was $0.07 per unit.

(d) Restricted Share Units

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, January 1, 2018	—
Granted	1,922,274
Forfeited or expired	(286,467)
Balance – December 31, 2018	1,635,807
Granted	**2,373,633**
Settled	**(545,264)**
Forfeited or expired	**(273,073)**
Balance – December 31, 2019	**3,191,103**

The fair value at grant date for the RSUs awarded during the year ended December 31, 2019 was $0.17 per unit.

(e) Share-based compensation expense

Years Ended *($000s)*	**December 31, 2019**	December 31, 2018
Shared based compensation expense:		
Included in G&A	**825**	810
Included in operating expense	**—**	(13)
Share-based compensation expense before capitalization	**825**	797
Capitalized during the period	**(146)**	(171)
Share-based compensation expense after capitalization	**679**	626

16. 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, 2019**	December 31, 2018
Net loss before taxes	**(33,392)**	(33,717)
Statutory income tax rate [1]	**26.50 %**	26.97 %
Expected income tax recovery	**(8,849)**	(9,094)
Add (deduct):		
Change in unrecognized deferred tax asset	**(20,536)**	7,066
Foreign currency translation gains	**(442)**	624
Alberta Income Tax Rate Adjustment	**30,486**	—
Non-deductible share-based compensation	**219**	216
Flow-through share renouncements	**457**	1,110
Flow-through share premium adjustments	**(332)**	(773)
Other	**(1,316)**	99
Tax expenses	**(313)**	(752)

1. The tax rate consists of the combined federal and provincial statutory tax rates for the Company for the years ended December 31, 2019 and 2018. The combined federal and provincial rate decrease to 26.5 per cent in 2019 from 26.97 per cent in 2018 reflects the Alberta corporate income tax rate decrease from 12 per cent to 11 per cent effective July 1, 2019.

The movements in deferred tax balances during the year ended December 31, 2019 are as follows:

($000s)	Balance December 31, 2018	Recognized in Net Loss	Recognized in OCI	Recognized in Equity	Recognized in Other	Business Combination	Balance December 31, 2019
Deferred tax liabilities:							
Financing fee	—	(34)	—	—	—	—	(34)
Unrealized gains on financial instruments	(1,792)	1,792	—	—	—	—	—
Total deferred tax liabilities	(1,792)	1,758	—	—	—	—	(34)
Deferred tax assets:							
Petroleum and natural gas assets	53,777	(13,471)	—	—	—	—	40,306
Decommissioning liabilities	40,084	(1,422)	—	—	—	—	38,662
Net operating loss carry forwards	1,367	(57)	—	—	—	—	1,310
Unrealized losses/gains on financial instrument	—	916	—	—	—	—	916
Unrealized translation gains	411	(411)	—	—	—	—	—
Flow-through share premium	—	(332)	—	—	332	—	—
Financing and restructuring fees	1,458	(218)	—	—	—	—	1,240
Non-capital losses	96,145	(7,256)	—	—	—	—	88,889
Accruals and other items, net	1,368	(395)	—	15	—	—	988
Total deferred tax assets	194,610	(22,646)	—	15	332	—	172,311
Net deferred tax asset	192,818	(20,888)	—	15	332	—	172,277
Less: Unrecognized deferred tax asset	(192,818)	20,888	—	(15)	(332)	—	(172,277)
Deferred taxes	—	(332)	—	—	332	—	—

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	—	—

At December 31, 2019, the Company had $467.6 million (December 31, 2018 – $496.4 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 $382.8 million (December 31, 2018 – $353.9 million), scheduled to expire in the years 2020 to 2039.

As of December 31, 2019 and 2018, 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.

17. SUPPLEMENTAL INFORMATION

(a) Cash Flow Presentation

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

Years Ended *($000s)*	December 31, 2019	December 31, 2018
Source (use) of cash:		
Accounts receivable	(2,900)	2,887
Prepaid expenses and other current assets	109	(1,583)
Accounts payable and accrued liabilities	(16,726)	14,311
Non-cash working capital acquired (Note 5)	(247)	(3,554)
Less: reclassification to long-term liabilities	5,312	—
	(14,452)	12,061
Related to financing activities	—	(1,210)
Related to operating activities	(12,653)	12,623
Related to investing activities	(1,799)	648
	(14,452)	12,061
Less: Settlement with common shares (Notes 5 & 14)	—	1,210
	(14,452)	13,271
Other:		
Interest paid during the year	9,150	4,949

(b) Financial Liabilities Reconciliation

Changes in liabilities arising from financing activities:

	Revolving Facility	Senior Notes
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	63,363	37,781
Changes in cash flows	12,456	—
Deferred interest	—	1,999
Debt issuance costs	(408)	—
Non-cash changes		
Unrealized foreign exchange gain	(1,479)	(1,973)
Amortization of debt issuance costs	1,162	694
Balance as of December 31, 2019	75,094	38,501

18. REVENUE

Years Ended *($000s)*	December 31, 2019	December 31, 2018
Crude oil	88,732	77,112
Natural gas	7,312	5,457
Natural gas liquid	1,847	2,253
Oil and natural gas revenue	97,891	84,822

Included in accounts receivable at December 31, 2019 was $6.5 million (December 31, 2018 – $1.5 million related to December 2018 production) of accrued oil and natural gas sales related to December 2019 production.

19. OPERATING EXPENSE

Years Ended *($000s)*	December 31, 2019	December 31, 2018
Lease operating expense	35,716	28,289
Transportation and processing	4,735	6,018
Production and property taxes	6,175	3,608
Operating expense	46,626	37,915

20. GENERAL AND ADMINISTRATIVE COSTS

Years Ended *($000s)*	December 31, 2019	December 31, 2018
Salaries and benefits	5,694	6,022
Share-based compensation (Note 15)	825	810
Office rents and leases	609	1,540
Professional fees	1,525	1,586
Other – office	1,246	1,011
	9,899	10,969
Amounts capitalized to PP&E, E&E assets and other	(1,622)	(1,805)
General and administrative expense	8,277	9,164

21. FINANCE COSTS

Years Ended ($000s)	December 31, 2019	December 31, 2018
Interest expense	11,344	6,522
Amortization of financing costs	1,499	973
Non-cash interest on financing lease (Note 12)	1,028	—
Non-cash interest on warrant liabilities	357	121
Accretion – decommissioning liabilities (Note 13)	3,284	2,238
Accretion – other liabilities	76	125
Finance cost	17,588	9,979

22. FINANCIAL INSTRUMENTS, FAIR VALUES AND RISK MANAGEMENT

(a) Fair Values of financial instruments

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, 2019 and 2018, 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, 2019, restricted cash included $4.9 million of guaranteed investment certificates with maturity dates of one year or less (December 31, 2018 – $5.5 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 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with a number of large purchasers and by entering into sales contracts with only established, credit-worthy counterparties. 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.

For the year ended December 31, 2019, PPR had three external customer that constituted more than 10 per cent of commodity sales from production with sales of $63.5 million. At December 31, 2018, PPR had two external customer that constituted more than 10 per cent of commodity sales from production, with sales of $62.1 million.

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

($000s)	**December 31, 2019**	December 31, 2018
Oil and natural gas marketing companies	**6,601**	2,447
Joint operators	**1,091**	2,060
Government agencies	**484**	213
Counterparties – derivative instruments	**33**	266
Other	**458**	781
Total accounts receivable	**8,667**	5,767

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

($000s)	**December 31, 2019**	December 31, 2018
Current (less than 90 days)	**6,574**	4,124
Past due (more than 90 days)	**2,093**	1,643
Total	**8,667**	5,767

PPR's allowance for doubtful accounts was $0.05 million as at December 31, 2019 (December 31, 2018 – $0.1 million). Based on industry experience, the Company considers its joint interest accounts receivable to be in default when the receivable is more than 90 days past due. 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, 2019, 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.

Financial assets and financial liabilities are only offset if PPR has the current legal right to offset and intends to settle on a net basis. PPR's derivative instruments are subject to master netting agreements that create a legally enforceable right to offset by counterparty. The following is a summary of PPR's financial assets and financial liabilities that were subject to offsetting as at December 31, 2019 and December 31, 2018. The net asset amounts represent the maximum exposure to credit risk for derivative instruments at each reporting date.

December 31, 2019 ($000s)	Gross Assets (Liabilities)	Amount Offset Gross Assets (Liabilities)	Net Amount Presented
Current:			
Derivative instruments assets	11	—	11
Derivative instruments liabilities	(4,793)	468	(4,325)
Long-term:			
Derivative instruments assets – long-term	1,368	(1,037)	332

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

(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 facility capacity, equity issuance along with its planned capital expenditure program. As outlined in Note 10, at December 31, 2019, the Company had US$2.4 million borrowing capacity under the Revolving Facility.

In the next twelve months, PPR's Revolving Facility will undergo two borrowing base redeterminations. With the recent downfall in oil prices, there is uncertainty over PPR's ability to maintain its borrowing base (see Note 2(b)). The Company has determined that its current financial obligations, including current commitments (Note 24), are adequately funded from the available borrowing capacity and from working capital derived from operations. However, any reduction in the borrowing base could result in material impact to PPR's liquidity. PPR’s improvement in the working capital from December 31, 2018 was primarily the result of paying down accounts payable and accrued liabilities with adjusted funds flows and debt borrowing, combined with increase in accrued revenue at higher oil prices.

Except for the long-term portion of derivative financial instruments, long-term lease liabilities, long-term other liabilities and long-term debt, all of the Company’s financial liabilities are due within one year.

(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.

(iv) 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 $7.6 million increase or decrease to the Company’s net loss before tax (2018 – $6.9 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.

(v) 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 2019 (2018 – $0.7 million) assuming all other variables remain constant.

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

December 31, 2019	**Crude Oil**	**Natural Gas**	**Total**
($000s)			
Derivative instruments – current asset	**—**	**11**	**11**
Derivative instruments – current liabilities	**(4,325)**	**—**	**(4,325)**
Derivative instruments – long-term assets	**332**	**—**	**332**
Total liabilities	**(3,993)**	**11**	**(3,982)**

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

The following table summarizes commodity derivative transactions as at December 31, 2019:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Swaps				
January 1, 2020 - March 31, 2020	US$ WTI	450		$51.50
January 1, 2020 - June 30, 2020	US$ WTI	800		$55.10
January 1, 2020 - June 30, 2020	US$ WTI	200		$57.00
April 1, 2020 - June 30, 2020	US$ WTI	425		$51.00
April 1, 2020 - June 30, 2020	US$ WTI	600		$57.30
July 1, 2020 - September 30, 2020	US$ WTI	400		$50.75
October 1, 2020 - December 1, 2020	US$ WTI	400		$50.50
July 1, 2020 - December 31, 2020	US$ WTI	500		$55.00
Crude Oil Sold Call Options				
January 1, 2020 – December 31, 2020	US$ WTI	400		$60.50
Crude Oil Put Options				
January 1, 2020 - March 31, 2020	CDN$ WTI	400	$3.65	$56.05
April 1, 2020 - June 30, 2020	CDN$ WTI	300	$6.00	$71.30
Crude Oil Collars				
January 1, 2020 – December 31, 2020	US$ WTI	175		$49.00/54.75
July 1, 2020 - December 31, 2020	US$ WTI	500		$50.00/59.00
Crude Oil Three-way Collars				
January 1, 2020 – March 31, 2020	US$ WTI	400		$42.50/52.50/65.00
January 1, 2020 – March 31, 2020	US$ WTI	300		$45.00/55.00/66.15
January 1, 2021 – March 31, 2021	US$ WTI	200		$45.50/52.50/65.00
January 1, 2021 – December 31, 2021	US$ WTI	650		$40.00/50.00/64.25

Remaining Term	Reference	Total Daily Volume (GJ)	Premium/ GJ	Weighted Average Price/GJ
Natural Gas Put Options				
January 1, 2020 - 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

Subsequent to December 31, 2019 the Company entered into the following commodity derivative contracts

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Collars				
July 1, 2020 – December 31, 2020	US$ WTI	700		$50.00/65.00

The following shows the breakdown of realized and unrealized gains and losses recognized by commodity type for the year ended December 31, 2019 and 2018:

Year ended December 31, 2019	Crude Oil	Natural Gas	Total
($000s)			
Realized (loss) gain on derivative instruments	(3,249)	1,080	(2,169)
Unrealized loss on derivative instruments	(9,789)	(829)	(10,618)
Total (loss) gain	(13,038)	251	(12,787)

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

The Company's operational results and financial condition are largely dependent on the commodity price received for its oil and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, economic and geopolitical factors.

PPR manages the risks associated with changes in commodity prices by entering into a variety of risk management contracts. The Company assesses the effects of movement in commodity prices on income before tax. When assessing the potential impact of these commodity price changes, the Company believes a ten percent volatility is a reasonable measure. A ten percent increase or decrease in commodity prices would have resulted in the following impact to unrealized gains (losses) on risk management contracts and net income before tax, assuming all other variables, including the Canadian/United States dollar exchange rate, remain constant:

	December 31, 2019	
($000s)	Increase 10%	Decrease 10%
Crude oil	(6,385)	4,086
Natural gas	—	—

(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.

23. KEY MANAGEMENT COMPENSATION

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

Years Ended *($000s)*	December 31, 2019	December 31, 2018
Salary, bonus and fees	2,332	2,551
Termination payments	—	402
Share based compensation	502	397
Total remuneration	2,834	3,350

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

24. COMMITMENTS AND CONTINGENCIES

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

	2020	2021	2022	2023	2024	Thereafter	Total
Debt	9,447	127,757	—	—	—	—	137,204
Leases - variable	1,117	909	76	—	—	—	2,102
Firm transportation agreements	1,459	368	190	96	30	30	2,173
Other agreements	176	88	42	43	29	217	595
Total	12,199	129,122	308	139	59	247	142,074

(a) Flow-through Share Commitment

Pursuant to the bought deal financing which closed on October 11, 2018 and the related over-allotment option (Note 14), 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 had until December 31, 2019 to incur $1.8 million of CEE costs related to this flow-through common share issuance, which PPR fully fulfilled before December 31, 2019.

(b) 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.