Prairie Provident Resources Inc.

Management's Discussion and Analysis
For the Three Months Ended March 31, 2020

Dated: May 14, 2020

Advisories

In this management's discussion and analysis ("MD&A"), unless otherwise indicated or the context otherwise requires, the terms "we", "us", "our", "PPR", "Prairie Provident" and "the Company" refers to Prairie Provident Resources Inc., as parent corporation, together with its wholly-owned subsidiaries, Prairie Provident Resources Canada Ltd., Lone Pine Resources Inc., Lone Pine Resources (Holdings) Inc., Arsenal Energy USA Inc. and Arsenal Energy Holding Ltd.

The following MD&A of PPR provides management's analysis of the Company's results of operations, financial position and outlook as at and for the three months ended March 31, 2020. This MD&A is dated May 14, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020 (the "Interim Financial Statements"), the audited combined and consolidated financial statements of PPR as at and for the year ended December 31, 2019 (the "2019 Annual Financial Statements") and the 2019 annual MD&A (the "Annual MD&A"). Additional information relating to PPR, including the Company's December 31, 2019 Annual Information Form, is available on SEDAR at www.sedar.com.

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

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

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

Abbreviations

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

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

Financial and Operational Summary

($000s except per unit amounts)	Three Months Ended March 31, 2020	2019
Production Volumes		
Crude oil (bbl/d)	3,456	3,892
Natural gas (Mcf/d)	10,186	11,568
Natural gas liquids (bbl/d)	127	142
Total (boe/d)	5,281	5,962
% Liquids	68 %	68 %
Average Realized Prices		
Crude oil ($/bbl)	41.35	56.70
Natural gas ($/Mcf)	2.10	2.44
Natural gas liquids ($/bbl)	27.52	38.65
Total ($/boe)	31.78	42.67
Operating Netback ($/boe)[1]		
Realized price	31.78	42.67
Royalties	(2.67)	(3.36)
Operating costs	(22.45)	(23.47)
Operating netback	6.66	15.84
Realized gain (loss) on derivatives	4.15	(0.24)
Operating netback, after realized gain (loss) on derivatives	10.81	15.60

First Quarter 2020 Financial & Operational Highlights

- Production averaged 5,281 boe/d[1] (68% liquids) in the quarter, which was 11% or 681 boe/d lower than Q1 2019, with the decrease mainly due to natural declines and the shut-in of certain non-core gas production, partially offset by new production coming on-stream from our 2019/2020 drilling program. Further, in light of the oil price downturns that have continued since early March 2020, uneconomic workovers have been deferred to preserve reserves value and liquidity.
- Operating netback in Q1 2020 was $3.2 million ($6.66/boe) before the impact of derivatives, and $5.2 million ($10.81/boe) after the realized gains on derivatives, a 62% and 38% decrease, respectively, relative to Q1 2019. Operating netback decreased in Q1 2020 compared to the same quarter of last year, reflecting lower production and lower realized oil and natural gas prices, partially offset by lower royalties and operating expenses and higher realized gains on derivatives.
- Adjusted funds flow ("AFF")[2] totaled $0.9 million ($0.01 per basic and diluted share), excluding $0.7 million of decommissioning settlements, reflecting the lower production and operating netback.
- Net loss totaled $68.1 million in Q1 2020, compared to a net loss of $21.3 million in Q1 2019, driven primarily by a non-cash impairment charge of $76.6 million related to the sharp decline in forward crude oil and natural gas prices.
- During the quarter, PPR's capital spending was directed to the drilling and completion of one development well in our Michichi area which came on production in late March 2020. The well averaged 242 boe/d (weighted 84% to liquids) in initial production.
- Net debt[2] at March 31, 2020 totaled $124.0 million, up $12.6 million from December 31, 2019. The increase was due to $7.0 million of unrealized foreign exchange impact, driven by a weaker Canadian dollar relative to the US dollar on the Company's US-dollar denominated debt, as well as capital expenditures in the quarter that exceeded AFF[2].

1 Q1 2020 average production is comprised of 3,456 bbl/d of oil, 10,186 Mcf/d of natural gas, and 127bbl/d of natural gas liquids. Q1 2019 average production included 3,892 bbl/d oil,11,568 Mcf/d of natural gas, and 142 bbl/d of natural gas liquids.

2 Non-IFRS measure – see below under "Non-IFRS Measures"

- At March 31, 2020, PPR had US$57.0 million of borrowings drawn against the US$60.0 million Revolving Facility, comprised of US$30.0 million (CAN$40.5 million equivalent using the exchange rate at the time of borrowing) of CAD-denominated borrowing and US$27.0 million of USD-denominated borrowing (CAN$38.3 million equivalent using the March 31, 2020 exchange rate of $1.00 USD to $1.42 CAD). In addition, US$31.4 million (CAN$44.6 million equivalent using the March 31, 2020 exchange rate) of senior subordinated notes (defined herein) due October 31, 2021 were outstanding at March 31, 2020, for total borrowings of US$88.4 million (CAN$123.4 million using the March 31, 2020 exchange rate).

Q1 2020 Corporate Highlights:

- Subsequent to Q1 2020, a lender redetermination of the Revolving Facility borrowing base, originally scheduled for the Spring of 2020, was temporarily deferred. The Company agreed to direct excess funds, after payment of all operating, G&A and other costs of conducting our business, to the repayment of borrowings on our senior secured revolving note facility (“Revolving Facility”) and to not make any requests for further advances under that facility.

- In addition, the holders of our outstanding USD$28,500,000 original principal amount of 15% subordinated unsecured notes due October 31, 2021 ("Senior Notes"), on which a portion of quarterly interest payments are currently paid in cash, agreed to payment-in-kind of all interest for the next payment date of April 30, 2020 and thereafter.

OUTLOOK

The COVID-19 pandemic has resulted in a sharp decline in global economic activity, and consequently, a significant drop in energy demand. As countries around the world start easing physical distancing and reopening their economies, it is anticipated that a corresponding increase in energy demand will be experienced, though the timing and extent of such economic recovery remains highly uncertain.

The downturn in oil prices has adversely affected PPR's operating results and financial position, although the impact has been somewhat muted given 80% of our 2020 forecast base oil production (net of royalties) is protected by hedges. Our hedges have shielded the Company against the severe price deterioration that has occurred during these unprecedented times, underpinning the importance of maintaining liquidity and financial resilience. After completing the Michichi well in March 2020, PPR has suspended our capital program to preserve liquidity and protect development economics.

Operationally, PPR has conducted a bottom-up review of all of our operating expenses and has identified immediate reduction opportunities totaling $2.9 million with an additional $2.1 million of target reductions over the balance of 2020. Cost reductions are expected to be realized through rate negotiations, workforce optimizations, shutting-in of uneconomic production and the deferral of activities.

In addition, effective April 2020, annual salaries for all executives and non-executives have been reduced by 20% and 10%, respectively, while the Board of Directors' annual remuneration has also been reduced by 25%. Certain employee benefit programs have also been suspended. These measures are expected to result in $2.0 million of expense reductions for 2020.

PPR is actively pursuing various COVID-19 relief programs announced by the Government of Canada and the Government of Alberta. PPR will assess the still-emerging details of the Business Development Bank of Canada (“BDC”) oil and gas sector financing program announced in April 2020, which contemplates loans of between $15 million and $60 million at commercial rates for operating cash flow and business continuity purposes, repayable within 4 years. In late April, the Government of Alberta also announced its Site Rehabilitation Program aimed at incenting abandonment and reclamation activity. PPR will assess the cost and benefits of directing spending towards decommissioning activities, with our participation decision dependent upon the incentives available and capital requirements from PPR.

As a result of the impacts caused by COVID-19, the Company expects the remainder of 2020 to be a challenging time for our industry and for the global economy in general. While PPR cannot control or influence the macro environment, we are committed to maintaining our balance sheet and liquidity through active cost reduction efforts and will continue to work closely with our lenders.

Results of Operations

Production

	Three Months Ended March 31,	
	2020	2019
Crude oil (bbls/d)	**3,456**	3,892
Natural gas (Mcf/d)	**10,186**	11,568
Natural gas liquids (bbls/d)	**127**	142
Total (boe/d)	**5,281**	5,962
Liquids Weighting	**68 %**	68 %

Average production for the three months ended March 31, 2020 was 5,281 boe/d (68% liquids), a decrease of 11%, compared to the same period in 2019. The decrease is mainly due to natural declines and shut-in of certain non-core gas production, partially offset by new production from our 2019/2020 drilling program. Furthermore, in light of oil price downturns since early March 2020, uneconomic workovers have been deferred to preserve reserves and liquidity. The Company drilled a Banff development well in the Michichi area which came on production on March 30, 2020, averaging 242 boe/d (weighted 84% to liquids) in initial production.

Revenue

	Three Months Ended March 31,	
($000s, except per unit amounts)	**2020**	2019
Revenue		
Crude oil	**13,004**	19,860
Natural gas	**1,950**	2,541
Natural gas liquids	**318**	494
Oil and natural gas revenue	**15,272**	22,895
Average Realized Prices		
Crude oil ($/bbl)	**41.35**	56.70
Natural gas ($/Mcf)	**2.10**	2.44
Natural gas liquids ($/bbl)	**27.52**	38.65
Total ($/boe)	**31.78**	42.67
Benchmark Prices		
Crude oil - WTI ($/bbl)	**61.52**	73.05
Crude oil - Edmonton Light Sweet ($/bbl)	**51.20**	66.08
Crude oil - WCS ($/bbl)	**34.05**	56.89
Natural gas - AECO monthly index-7A ($/Mcf)	**2.02**	1.94
Natural gas - AECO daily index - 5A ($/Mcf)	**1.93**	2.60
Exchange rate - US$/CDN$	**0.74**	0.75

PPR's first quarter 2020 revenue decreased by 33% or $7.6 million from the first quarter of 2019, principally due to a decrease in realized oil prices. Crude oil revenue for the first quarter of 2020 decreased by 35%, compared to the corresponding period in 2019, primarily due to realized crude oil prices decreasing 27%, coupled with an 11% decrease in crude oil production volumes. PPR's product prices generally correlate to changes in the benchmark prices. While the average WTI price decreased by 16% or $11.53/bbl from the first quarter of 2019, Canadian oil differentials have widened as compared to the first quarter of last year. In Q1 2019, production curtailments mandated by the Alberta Government resulted in narrowing of Canadian oil differentials. In the first quarter of 2020, the WCS to WTI differential widened to $27.47/bbl (Q1 2019 - $16.16/bbl), and the Edmonton Light Sweet to WTI differential widened to $10.32/bbl (Q1 2019 - $6.97/bbl). First quarter 2020 natural gas revenue decreased by 23% or $0.6 million, compared to the same quarter in 2019, reflecting a 12% decrease in production volumes and a 14% decrease in realized natural gas prices.

Average realized prices per boe for the first quarter of 2020 decreased by 26% or $10.89/boe compared to the same period in 2019, correlating to decreases in the realized prices for each underlying commodity.

Royalties

	Three Months Ended March 31,	
($000s, except per boe)	**2020**	2019
Royalties	**1,285**	1,801
Per boe	**2.67**	3.36
Percentage of revenue	**8.4 %**	7.9 %

The Company pays royalties to respective provincial governments and landowners in accordance with the established royalty regime. A large portion of PPR's royalties are paid to the Crown, which are based on various sliding scales that are dependent on incentives, production volumes and commodity prices.

First quarter 2020 royalties decreased by $0.5 million, compared to the corresponding period in 2019, due to lower production. On a percentage of revenue basis, royalties for the three months ended March 31, 2020 increased slightly compared to the corresponding period in 2019 due to higher portion of the Company's overall production coming from the Princess and Wheatland areas. Production in the Princess and Wheatland areas is subject to flat freehold royalty rates (range: 15% - 21%), which are higher than the Company's average royalty rate.

Commodity Price and Risk Management

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

	Three Months Ended March 31,	
($000s)	**2020**	2019
Realized gain (loss) on derivatives	**1,996**	(127)
Unrealized gain (loss) on derivatives	**27,605**	(14,509)
Total gain (loss) on derivatives	**29,601**	(14,636)

Per boe		
Realized gain (loss) on derivatives	**4.15**	(0.24)
Unrealized gain (loss) on derivatives	**57.45**	(27.04)
Total gain (loss) on derivatives	**61.60**	(27.28)

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

The unrealized gain on derivatives recognized for the three months ended March 31, 2020 was due to a significant decrease in WTI futures prices at March 31, 2020 relative to the underlying prices of the derivative contracts.

The Company's realized prices are exposed to fluctuations in the US dollar and Canadian dollar exchange rate, which serve as natural hedges to the US dollar denominated debt. Therefore, the Company has entered into commodity hedges predominantly in US dollars to maintain such economic hedges.

As at March 31, 2020, the Company held the following outstanding derivative contracts:

Remaining Term	Reference	Total Daily Volume (bbl)	Premium/ bbl	Weighted Average Price/bbl
Crude Oil Swaps				
April 1, 2020 - June 30, 2020	US$ WTI	800		$55.10
April 1, 2020 - June 30, 2020	US$ 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		$55.00
Crude Oil Sold Call Options				
April 1, 2020 – December 31, 2020	US$ WTI	400		$60.50
Crude Oil Put Options				
April 1, 2020 - June 30, 2020	CDN$ WTI	300	$6.00	$71.30
Crude Oil Collars				
April 1, 2020 – December 31, 2020	US$ WTI	175		$49.00/54.75
July 1, 2020 - December 31, 2020	US$ WTI	500		$50.00/59.00
July 1, 2020 – December 31, 2020	US$ WTI	700		$50.00/65.00
Crude Oil Three-way Collars				
January 1, 2021 – March 31, 2021	US$ 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				
April 1, 2020 - June 30, 2020	AECO 7A Monthly Index	4,600	$0.25	$1.11

Derivative contract counterparties have entered into inter-creditor agreements with the Company’s lender to eliminate cash margin requirements.

Operating Expenses

	Three Months Ended March 31,	
($000s, except per boe)	**2020**	2019
Lease operating expense	**8,597**	9,289
Transportation and processing	**686**	1,551
Production and property taxes	**1,505**	1,755
Total operating expenses	**10,788**	12,595
Per boe	**22.45**	23.47

During the three months ended March 31, 2020, lease operating expenses decreased by 7% or $0.7 million, from the same period in 2019, mostly as a result of the Company's concerted effort to reduce operating costs and defer workover activities due to current economic conditions.

Transportation and processing expenses for the three months ended March 31, 2020 decreased by 56% or $0.9 million compared to the same period in 2019. The decrease was due to lower natural gas production in the Wheatland and Princess areas, resulting in lower third-party natural gas processing and natural gas transportation costs. In addition, during the first half of 2019 PPR incurred additional trucking costs to reach further oil markets in an effort to diversify its oil differential exposures.

Production and property tax expenses for the three months ended March 31, 2020 decreased by 14% or $0.3 million compared to the same period in 2019. The decrease is primarily related to lower municipal taxes and a lower Alberta Energy Regulator administration fee.

On a per boe basis, total operating expense for the three months ended March 31, 2020 decreased by 4% or $1.02/boe compared to the same period in 2019. The decrease was largely due to lower per unit transportation and processing expenses.

Operating Netback

	Three Months Ended March 31,	
($ per boe)	**2020**	2019
Revenue	**31.78**	42.67
Royalties	**(2.67)**	(3.36)
Operating costs	**(22.45)**	(23.47)
Operating netback	**6.66**	15.84
Realized gains (losses) on derivatives	**4.15**	(0.24)
Operating netback, after realized gains (losses) on derivatives	**10.81**	15.60

PPR's operating netback after realized gains on derivatives was $10.81/boe for the three months ended March 31, 2020, representing a decreases of $4.79/boe compared with the same period of 2019.

The operating netback decrease was due to average realized prices declining by $10.89/boe, partially offset by a $4.39/boe increase in the realized gains on derivatives, a decrease in royalties of $0.69/boe and operating expenses of $1.02/boe, compared to the corresponding three-month period in 2019.

General and Administrative Expenses ("G&A")

	Three Months Ended March 31,	
($000s, except per boe)	**2020**	2019
Gross cash G&A expenses	**2,055**	2,468
Gross share-based compensation expense	**101**	224
Less amounts capitalized	**(139)**	(579)
Net G&A expenses	**2,017**	2,113
Per boe	**4.20**	3.94

For the three months ended March 31, 2020, gross cash G&A decreased by $0.4 million or 17% , compared to the same period in 2019 mostly due to a 34% decrease in employee salaries and benefits as part of the Company's cost reduction initiatives.

Changes in gross share-based compensation expense relate to the number of units granted, the timing of grants, the fair value of units on the grant date, the vesting period over which the related expense is recognized and timing and quantity of forfeitures. Gross stock-based compensation decreased by 55% for the three months end March 31, 2020 compared with the same periods in 2018.

Capitalized G&A varies with the composition and compensation levels of technical departments and their time attributed to capital projects. Capitalized G&A decreased in Q1 2020 as compared to the same period last year as the Company's capital program has been deferred until economic conditions improve.

Finance Costs

	Three Months Ended March 31,	
($000s, except per boe)	**2020**	2019
Interest expense	**2,916**	2,702
Amortization of financing costs	**356**	365
Non-cash interest on financing lease	**194**	284
Non-cash interest on warrant liabilities	**104**	81
Accretion – decommissioning liabilities	**693**	838
Accretion – other liabilities	**3**	31
Total finance cost	**4,266**	4,301
Interest expense per boe	**6.07**	5.04
Non-cash interest and accretion expense per boe	**2.81**	2.98

Interest expense is primarily comprised of interest incurred related to the Company's outstanding borrowings. The increase in interest expense of $0.2 million for the three months ended March 31, 2020, compared to the same period in 2019 related to increased average borrowings.

Of the $2.9 million (2019 – $2.7 million) of interest expense incurred in the three months ended March 31, 2020, $0.5 million (2019 – $0.5 million) was deferred interest on the Senior Notes which will be repaid upon maturity (see Subordinated Senior Notes section below). The weighted average effective interest rate for the three months ended March 31, 2020 was 9.7% (2019 – 9.9%).

Accretion – decommissioning liabilities decreased by $0.1 million during the three months ended March 31, 2020, compared to the same period in 2019, due to a decrease in the risk free discount rate.

Gain (Loss) on Foreign Exchange

	Three Months Ended March 31,	
($000s)	**2020**	2019
Realized gain on foreign exchange	**4**	80
Unrealized (loss) gain on foreign exchange	**(7,020)**	1,321
(Loss) gain on foreign exchange	**(7,016)**	1,401

Foreign exchange gains (losses) incurred in the three months ended March 31, 2020 related largely to the translation impact on US dollar denominated borrowings (see "Capital Resources and Liquidity" section below).

Exploration and Evaluation ("E&E") Expense

	Three Months Ended March 31,	
($000s, except per boe)	**2020**	2019
Exploration and evaluation expense	**948**	96
Per boe	**1.97**	0.18

E&E expenses are comprised of undeveloped land expiries.

Depletion and Depreciation

	Three Months Ended March 31,	
($000s, except per boe)	2020	2019
Depletion and depreciation	8,969	9,294
Depreciation on right-of-use assets	600	686
Total depletion expense	9,569	9,980
Per boe	19.91	18.60

Depletion and depreciation rates are subject to change based on changes in the carrying value of the asset base, changes in future development costs, reserve updates and changes in production by area. Depletion expenses are calculated using depletion rates and production volumes applicable to each depletable asset. The decrease in the depletion expenses during the three months ended March 31, 2020 compared to the same period of 2019 was due to lower production volume, partially offset by an increase in the depletable base. The higher per boe expense was primarily due to lower production volume compared to the same period of last year.

Impairment Loss

	Three Months Ended March 31,	
($000s)	2020	2019
EVI CGU	51,719	—
Princess CGU	5,790	—
Provost CGU	12,982	—
Other CGU	6,096	—
P&D impairment	76,587	—
Inventory impairment	681	—
Total impairment loss	77,268	—

At March 31, 2020, the significant downturn in crude oil benchmark prices was considered an indicator of impairment for the P&D assets. As a result, the Company completed impairment tests on all of its cash generating units ("CGU's") in accordance with IAS 36. As a result of the impairment test at March 31, 2020, and the Company's operational decisions, PPR recognized a non-cash P&D impairment charge of $76.6 million (2019 – nil) for the three months ended March 31, 2020.

As at March 31, 2020, there was no indicator of impairment for PPR's E&E assets.

Net Loss

	Three Months Ended March 31,	
($000s except per share)	2020	2019
Net loss	(68,068)	(21,260)
Per share – basic	(0.40)	(0.12)
Per share – diluted	(0.40)	(0.12)

Net loss for the first quarter of 2020 was $68.1 million, compared to a net loss of $21.3 million in the same quarter of 2019. The net loss increased by $46.8 million primarily due to non-cash items including a $77.3 million impairment loss and a $8.3 million increase in unrealized foreign exchange losses, partially offset by a $42.1 million increase in unrealized gain on open derivative contracts, combined with a $3.3 million decrease in AFF.

Net Capital Expenditures[1,2]

($000s)	Three Months Ended March 31, 2020	2019
Drilling and completion	2,573	2,530
Equipment, facilities and pipelines	712	570
Land and seismic	93	169
Capitalized overhead and other	127	486
Total capital expenditures	3,505	3,755
Asset dispositions (net of acquisitions)	(157)	(70)
Net capital expenditures	3,348	3,685

[1] Net capital expenditures include expenditures on E&E assets.
[2] Net capital expenditures are non-IFRS measures and are defined below under "Other Advisories"

Capital expenditures prior to acquisitions or dispositions for the three months ended March 31, 2020 were $3.5 million. The Company focused its capital activities during the first three months of 2020 on the Michichi area where it incurred $2.9 million for the drilling and completion of one gross (1.0 net) development well, the installation of a water injection facility and the conversion of one well to injection for a pilot waterflood project. The Michichi well came on production March 30, 2020 and averaged 242 boe/d (weighted 84% to liquids) in initial production. Water injection for the pilot waterflood project will commence in May 2020.

In the first quarter of 2019 capital expenditures, prior to acquisitions or dispositions were $3.8 million. PPR focused its capital activities mainly in the Evi area where the Company incurred $2.8 million related to the completion, equipping and tie-in of two gross (2.0 net) Slave Point wells, both of which came on production in late February 2019.

Capitalized overhead decreased in Q1 2020 as compared to the same period last year as the Company's capital program has been deferred until economic conditions improve.

Transaction, Restructuring and Other Costs

Nominal amount of transaction, restructuring and other costs were incurred for the three months ended March 31, 2020. For the three months ended March 31, 2019, $0.5 million were incurred, primarily related to the Arrangement with Marquee in Q4 2018.

Decommissioning Liabilities

PPR's decommissioning liabilities at March 31, 2020 were $167.9 million (December 31, 2019 - $167.8 million) to provide for future remediation, abandonment and reclamation of PPR's oil and gas properties. The increase of $0.1 million from year-end 2019 was due to $0.7 million of accretion of decommissioning liabilities and $0.1 million liabilities incurred relating to the newly drilled well. The increase was partially offset by settlements of decommissioning obligations of $0.7 million.

Changes in estimates result in a corresponding increase or decrease in the carrying amount of the related assets except for certain assets with a zero carrying value, in which case, the amount is immediately recognized in the income statement.

The Company estimated the undiscounted and inflation-adjusted future liabilities of approximately $265.8 million spanning over the next 56 years, based on an inflation rate of 1.7%. Of the estimated undiscounted future liabilities, $20.0 million is estimated to be settled over the next five years. While the provision for decommissioning liabilities is based on management's best estimates of future costs, discount rates, timing and the economic lives of the assets, there is uncertainty regarding the amount and timing of incurring these costs.

Capital Resources and Liquidity

Capital Resources

Working Capital

At March 31, 2020, the Company had negative working capital (as defined in "Other Advisories" below) of $3.3 million (December 31, 2019 – $2.2 million surplus). The decrease in working capital from December 31, 2019 resulted from capital expenditures exceeding AFF, which reflected the lower oil prices during the three months ended March 31, 2020.

Revolving Facility

The Revolving Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAN$54 million or US$30 million. As of March 31, 2020, PPR had US$57.0 million (December 31, 2019 – US$57.6 million) of borrowings drawn against the US$60.0 million Revolving Facility, including US$30.0 million (CAN$40.5 million equivalent using the exchange rate at the time of borrowing; December 31, 2019 – US$30.0 million or CAN$40.5 million) of CAD denominated borrowing and US$27.0 million (CAN$38.3 million equivalent using the March 31, 2020 exchange rate of $1.00 USD to $1.42 CAD; December 31, 2019 – US$27.6 million or CAN$35.8 million using the December 31, 2019 exchange rate of $1.00USD to $1.30 CAD) of USD denominated borrowing.

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.

Subsequent to March 31, 2020, a lender redetermination of the Revolving Facility borrowing base, originally scheduled for the Spring of 2020, has been temporarily deferred. The lenders are, however, entitled to proceed with a redetermination at their discretion. Furthermore, the Company agreed to direct excess funds, after payment of all operating, G&A and other costs of conducting our business, to the repayment of borrowings on our Revolving Facility and to not make any requests for further advances under that facility.

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 of 500 bps for the three months ended March 31, 2020. Subsequent to March 31, 2020, PPR also agreed to a 200 bps margin increase on outstanding advances, bringing the total margin on the secured debt to 700 bps until the borrowing base is determined. The 200 bps margin increase will be paid-in-kind and added to the outstanding principal of the Revolving Facility.

As at March 31, 2020, PPR had outstanding letters of credit of $4.9 million. The letters of credit are issued by a financial institution at which PPR posted a cash deposit to cover letters of credit. The related deposit is classified as restricted cash on the statement of financial position and the balance is invested in short-term market deposits with maturity dates of one year or less when purchased.

As at March 31, 2020, $1.2 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2019 – $1.3 million).

Subordinate Senior Notes

Original principal amount of Senior Notes outstanding as at March 31, 2020 totaled US$28.5 million (CAN$40.4 million using the March 31, 2020 month end exchange rate of $1.00 USD to $1.42 CAD; December 31, 2019 – US$28.5 million or CAN$37.0 million using the December 31, 2019 month end exchange rate of $1.00 USD to $1.30 CAD), bearing interest at 15% per annum. Until March 31, 2020, 10% per annum of interest on the Senior Notes was payable in cash, with the remaining 5% per annum deferred and added to the principal payable at maturity on October 31, 2021. As at March 31, 2020, total deferred interest was US$2.9 million (CAN$4.1 million using the March 31, 2020 month-end exchange rate of $1.00 USD to$1.42 CAD; December 31, 2019 - US$2.5 million or CAN$3.3 million using the December 31, 2019 month-end exchange rate of $1.00 USD to $1.30 CAD), which is payable upon maturity of the Senior Notes. Subsequent to March 31, 2020, the Senior Note holders agreed to payment-in-kind of all interest for the next payment date of April 30, 2020 and thereafter, such that the entire 15% per annum of interest will be deferred and become payable upon the maturity date.

As at March 31, 2020, $0.8 million of deferred costs related to PPR's Senior Notes was netted against its carrying value (December 31, 2019 – $0.9 million).

Covenants

The lenders under both the Revolving Facility and the Senior Notes agreed to waive application of the total leverage ratio, senior leverage ratio and asset coverage ratio for March 31, 2020. As such, the only financial covenant in effect at March 31, 2020 was the current ratio (whereby the ratio cannot be less than 1.0 to 1.0), with which the Company was in compliance.

Shareholders' Equity

At March 31, 2020, PPR had consolidated share capital of $136.3 million (December 31, 2019 – $136.0 million) and had 172.1 million (December 31, 2019– 171.4 million) outstanding common shares. The Company also had 4.8 million (December 31, 2019 – 4.8 million) warrants outstanding from a bought deal financing and a private placement completed in October 11, 2018. Each warrant entitles the holder to purchase one PPR share at a price of $0.50 until October 11, 2020, subject to adjustment in certain circumstances.

In the first quarter of 2020, the Company granted 2.6 million options to officers and employees. As at March 31, 2020, 6.6 million (December 31, 2019 – 3.9 million) options were outstanding with a weighted average strike price of $0.31 per share, of which 2.5 million were exercisable at a weighted average strike price of $0.63 per share. Options vest evenly over a three-year period and expire five years after the grant date. During the first quarter of 2020, the Company also granted 1.0 million restricted share units ("RSUs") to officers and employees. RSUs vest evenly over a three-year period. As at March 31, 2020, 2.9 million (December 31, 2019 – 3.2 million) RSUs were outstanding. 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. As at March 31, 2020, 2.3 million (December 31, 2019 – 2.3 million) DSUs were outstanding. During the first quarter of 2020, the board of directors agreed to reduce their future remuneration by the amount that would be otherwise issuable in DSUs.

As of the date of this MD&A, there are 172.1million common shares, 2.9 million RSUs, 6.6 million stock options, 2.3 million DSUs, and 4.8 million outstanding warrants.

Capital Management and Liquidity

PPR's objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its business plans. The Company considers its capital structure to include shareholders' equity, long-term debt and working capital.

PPR's objective when managing capital is to maintain a flexible capital structure and sufficient liquidity to meet its financial obligations and to execute its business plans. The Company considers its capital structure to include shareholders' equity, long-term debt 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, especially in the current economic environment.

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 from March 31, 2020. At March 31, 2020, PPR's total current assets exceeded total current liabilities. The Company believes that our derivative contracts, combined with our initiatives to reduce our capital, operating and G&A expenses, will provide the necessary liquidity to meet our short-term operational needs. However, further or prolonged deterioration in commodity prices, credit and equity markets due to COVID-19 will negatively impact the Company's liquidity. As such, the Company continues to pursue additional opportunities to access additional credit, credit support from recently announced programs from the Federal Government of Canada and is evaluating other sources of liquidity during the uncertain times created by the COVID-19 crisis.

This MD&A has 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 March 31, 2020, the amount outstanding on the Revolving Facility aggregated to USD$$57.0 million. The maximum amount available on lines of credit at March 31, 2020 was USD$60 million. The Company also had Senior Notes of USD$31.4 million which are due on October 31, 2021. The Revolving Facility is subject to semi-annual reviews of the borrowing base. A lender redetermination of the Revolving Facility borrowing base, originally scheduled for March 31, 2020, has been temporarily deferred. The lenders are, however, entitled to proceed with a redetermination at their discretion. The lenders also 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. At current forecasted forward prices for crude oil Management is forecasting a breach in covenants within the next 12 months. Furthermore, 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. This MD&A does 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.

Off Balance Sheet Transactions

There were no off-balance sheet transactions entered into during the period, nor are there any outstanding as of the date of this MD&A.

Contractual Obligations and Commitments

For the three months ended March 31, 2020, there was no material change to the Company's commitments or contractual obligations as disclosed in the Annual Financial Statements.

Supplemental Information

Financial – Quarterly extracted information

($000 except per unit amounts)	**2020 Q1**	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 Q4	2018 Q3	2018 Q2
Production Volumes								
Crude oil (bbl/d)	**3,456**	3,715	4,029	4,230	3,892	4,042	4,044	3,513
Natural gas (Mcf/d)	**10,186**	11,169	12,092	11,709	11,568	10,523	9,607	9,175
Natural gas liquids (bbl/d)	**127**	149	169	204	142	141	131	104
Total (boe/d)	**5,281**	5,725	6,214	6,386	5,962	5,937	5,776	5,146
% Liquids	**68 %**	67 %	68 %	69 %	68 %	70 %	72 %	70 %
Financial								
Oil and natural gas revenue	**15,272**	23,076	24,589	27,331	22,895	13,542	27,810	24,187
Royalties	**(1,285)**	(2,367)	(2,770)	(3,148)	(1,801)	(1,902)	(4,806)	(3,815)
Unrealized gain (loss) on derivatives	**27,605**	(6,619)	5,194	5,316	(14,509)	26,968	(1,884)	(9,316)
Realized gain (loss) on derivatives	**1,996**	(448)	(167)	(1,427)	(127)	(1,269)	(3,596)	(2,943)
Revenue net of realized and unrealized gains (losses) on derivatives	**43,588**	13,642	26,846	28,072	6,458	37,339	17,524	8,113
Net (loss) earnings	**(68,068)**	(12,734)	(2,320)	3,235	(21,260)	(3,532)	(2,627)	(15,064)
Per share – basic and diluted	**(0.40)**	(0.07)	(0.01)	0.02	(0.12)	(0.02)	(0.02)	(0.13)
AFF [(1)]	**231**	4,684	6,196	6,321	1,248	(5,346)	5,533	4,625
Per share – basic and diluted	**0.00**	0.03	0.04	0.04	0.01	(0.04)	0.05	0.04
AFF excluding decommissioning settlements [(1)]	**935**	4,810	6,570	6,626	4,244	(4,691)	6,112	4,792
Per share – basic and diluted	**0.01**	0.03	0.04	0.04	0.02	(0.03)	0.05	0.04

[1] AFF and AFF excluding decommission settlements are non-IFRS measures and are defined below under "Other Advisories".

Over the past eight quarters, the Company's oil and natural gas revenue has fluctuated primarily due to changes in production and movement in commodity prices. The Company's production has varied due to its capital development program at its core areas, the Arrangement with Marquee and natural declines. Movements in oil and natural gas revenue attributable to fluctuations in commodity prices were partially offset by realized gains/losses on derivatives. Significant swings in unrealized gains/losses on derivatives occurred due to fluctuations in forward prices at each period end. With the exception of the second quarter of 2019, the Company incurred net losses in several quarters due to non-cash expenses, including unrealized derivative losses, impairments to D&P and E&E assets, DD&A, accretion expense and foreign exchange losses related to the US dollar denominated borrowings. The Company has maintained positive AFF in all the quarters, with the exception of the fourth quarter of 2018. Negative AFF in the fourth quarter of 2018 was the result of significant widening in Canadian oil differentials which resulted in a substantial reduction in realized revenue.

First quarter of 2020 oil and natural gas revenue decreased from the prior quarter mainly due to lower realized prices per boe coupled with decreased production volumes. Though the Company realized $0.9 million of AFF (before decommissioning settlements of $0.7 million), a net loss of $68.1 million was recorded in the first quarter of 2020 due to non-cash items including an asset impairment of $77.3 million, a $7.0 million unrealized foreign exchange loss, a $1.4 million non-cash finance costs and a $9.6 million of depletion and depreciation expense, partially offset by a gain on derivatives of $27.6 million.

Fourth quarter 2019 oil and natural gas revenue decreased from the prior quarter primarily due to lower production volumes, partially offset by higher realized average realized prices per boe. Though the Company realized $4.8 million of AFF (before decommissioning settlements of $0.1 million), a net loss of $12.7 million was recorded in the fourth quarter of 2019 due to non-cash items including an unrealized loss on derivatives of $6.6 million, $2.0 million non-cash finance costs and $10.5 million of depletion and depreciation expense, partially offset by a $1.5 million unrealized foreign exchange gain and an impairment recovery of $0.4 million.

Third quarter 2019 oil and natural gas revenue decreased from the prior quarter primarily due to lower realized oil and natural gas prices as a result of falling benchmark prices. Though the Company realized $6.6 million of AFF (before decommissioning settlements of $0.4 million), a net loss of $2.3 million was recorded in the third quarter of 2019 due to non-cash items including a $1.0 million unrealized foreign exchange loss, $2.1 million non-cash finance costs and $10.9 million of depletion and depreciation expense, partially offset by an unrealized gain on derivatives of $5.2 million.

Second quarter 2019 oil and natural gas revenue increased from the prior quarter primarily due to a full quarter of production from the Arrangement, the Company's successful drilling program and a rise in crude oil prices. Realized losses on derivatives incurred in the second quarter of 2019 were attributed to the strengthening in oil prices. Net earnings of $3.2 million in the second quarter of 2019 were attributable to AFF of $6.6 million (before decommissioning settlements of $0.3 million), partially offset by the aggregate impact from non-cash items including $5.3 million of unrealized gain on derivatives, $1.8 million of unrealized foreign exchange gain, a $3.3 million reduction in other liabilities, $2.1 million of non-cash finance costs and $11.2 million of depletion and depreciation expense.

First quarter 2019 oil and natural gas revenue increased significantly from the prior quarter primarily due to a full quarter of production from the Arrangement and the recovery of crude oil prices. Net loss of $21.3 million in the first quarter of 2019 was largely the result of non-cash items including an unrealized loss on derivatives of $14.5 million and $10.0 million of depletion and depreciation expense.

Fourth quarter 2018 oil and natural gas revenue decreased significantly from the prior quarter due to lower realized oil and natural gas prices as a result of falling benchmark prices and widened Canadian crude oil differentials, partially offset by higher production. The net loss of $3.5 million in the quarter was attributable to non-cash items including losses on property dispositions of $7.8 million, impairment losses of $5.5 million and $5.1 million of depletion and depreciation expense.

Third quarter 2018 oil and natural gas revenue increased from the prior quarter due to higher production and higher realized oil prices. Higher production was attributable to the successful 2018 drilling program. Realized losses on derivatives incurred in the third, second and first quarters of 2018 were attributed to the continued strengthening in oil prices. The net loss of $2.6 million incurred in the third quarter of 2018 relates to non-cash items including $1.9 million of unrealized losses on derivatives and $8.9 million of depletion and depreciation expense.

Second quarter 2018 oil and natural gas revenue increased from the prior quarter due to higher production and higher realized oil prices. The net loss of $15.1 million incurred in the second quarter of 2018 related to non-cash items including $9.3 million of unrealized losses on derivatives and $8.3 million of depletion and depreciation expense.

Internal Control over Financial Reporting and Officer Certifications

Other than PPR's response to COVID-19, there have been no changes to internal control over financial reporting ("ICFR") during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect ICFR.

Due to the COVID-19 pandemic, PPR has implemented social distancing measures which require office employees to work remotely. Although these measures may affect the performance of internal controls throughout the Company, they will be monitored to mitigate any risks associated with changes in its control environment with a view to maintaining the effectiveness of ICFR.

Internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Accounting Policies

PPR did not adopt any new accounting standards and pronouncements during the three months ended March 31, 2020.

Operational and Other Risk Factors

PPR's operations are conducted in the same business environment as most other oil and gas operators and the business risks are very similar. Significant risks are summarized in the Annual MD&A and have remained unchanged during the first quarter of 2020. Additional risks are provided in the "Risk Factors" section of the 2019 Annual Information Form filed on SEDAR at www.sedar.com.

Forward-Looking Statements

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

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

- estimates of the Company’s oil and natural gas reserves;
- estimates of the Company’s future oil, natural gas and NGL production, including estimates of any increases or decreases in the Company’s production;
- estimates of future capital expenditures;
- estimates and judgements related to common shares and preferred shares valuations;
- the Company’s future financial condition and results of operations;
- liquidity and financial resilience going-forward;
- cost reduction opportunities and the company's ability to achieve them;
- the source of funding for the Company's activities, including development costs;
- the Company’s ability to meet its capital commitment;
- the Company’s future revenues, cash flows and expenses;
- the Company’s access to capital and expectations with respect to liquidity and capital resources, including the anticipated financing upon completion of the Arrangement under the terms proposed by PPR’s creditors and accepted by the Company;
- the Company’s future business strategy and other plans and objectives for future operations;
- the Company’s future development opportunities and production mix;
- the Company’s outlook on oil, natural gas and NGL prices;
- the anticipated benefits of merger and acquisitions, including prospective operating synergies, G&A cost savings, improved economies of scale, risk of drilling opportunities and marketplace liquidity;
- the anticipated timeframe for the closing of mergers and acquisitions;
- the Company’s ability to incur CEE;
- the amount, nature and timing of future capital expenditures, including future development costs;
- the Company’s ability to access the capital markets to fund capital and other expenditures;
- the Company’s expectations regarding the Company's ability to raise capital and to add reserves and grow production through acquisitions, exploration and development;
- the Company’s assessment of the Company’s counterparty risk and the ability of the Company’s counterparties to perform their future obligations; and
- the impact of federal, provincial, territorial and local political, legislative, regulatory and environmental developments in Canada.

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

- the volatility of oil, natural gas and NGL prices, and the related differentials between realized prices and benchmark prices;
- the economic impacts of the COVID-19 pandemic, including the adverse effect on global energy demand, and the oversupply of oil production;
- the availability of capital on economic terms to fund the Company’s future capital expenditures and acquisitions;
- the Company’s ability to obtain adequate financing to pursue business opportunities;
- the Company's ability to reach an agreement with counterparties to new financing arrangements on terms and conditions that are acceptable to the Company or at least as favorable to the Company than those of the existing credit facilities, or will improve PPR's liquidity profile;
- the Company’s ability to generate sufficient cash flow from operations or obtain adequate financing to fund the Company’s capital expenditures and meet its financial obligations;

- the Company’s ability to replace and sustain production;
- results from development activities, and their consistency with past operations; the quality of the reservoirs in which Prairie Provident operates and continued performance from existing wells, including production profile, decline rate and product mix;
- the accuracy of the estimates of Prairie Provident's reserves volumes;
- operating and other costs, including the ability to achieve and maintain cost improvements;
- a lack of available drilling and production equipment, and related services and labor;
- requisite shareholder support for the Arrangement and the issuance of common shares thereunder by the Company;
- the likelihood of satisfying all conditions to completion of the Arrangement;
- the Company's ability to successfully integrate the acquired assets;
- increases in costs of drilling, completion and production equipment and related services and labor;
- unsuccessful exploration and development drilling activities;
- regulatory and environmental risks associated with exploration, drilling and production activities;
- declines in the value of the Company’s oil and natural gas properties, resulting in impairments;
- the adverse effects of changes in applicable tax, environmental and other regulatory legislation;
- a deterioration in the demand for the Company’s products;
- the risks and uncertainties inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and the timing of expenditures;
- the risks of conducting exploratory drilling operations in new or emerging plays;
- intense competition with companies with greater access to capital and staffing resources;
- the risks of conducting operations in Canada and the impact of pricing differentials, fluctuations in foreign currency exchange rates and political developments on the financial results of the Company’s operations; and
- the uncertainty related to the pending litigation against the Company.

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

Other Advisories

Volumetric Conversion

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

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

Non-IFRS Measures

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

Working Capital

Working capital (deficit) is calculated as current assets excluding the current portion of derivative instruments, less accounts payable and accrued liabilities. This measure is used to assist management and investors in understanding liquidity at a specific point in time. The current portion of derivatives instruments is excluded as management intends to hold derivative contracts through to maturity rather than realizing the value at a point in time through liquidation. The current portion of decommissioning expenditures is excluded as these costs are discretionary and the current portion of warrant liabilities are excluded as it is a non-monetary liability. Lease liabilities have historically been excluded as they were not recorded on the balance sheet until the adoption of IFRS 16 – Leases on January 1, 2019.

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

($000s)	**March 31, 2020**	December 31, 2019
Current assets	**38,964**	20,708
Less: current derivative instrument assets	**(22,038)**	(11)
Current assets excluding current derivatives instruments	**16,926**	20,697
Less: Accounts payable and accrued liabilities	**20,244**	18,479
Working capital (deficit)	**(3,318)**	2,218

Operating Netback

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

Adjusted Funds Flow

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

Note that in this MD&A, AFF includes decommissioning liability settlements, which were previously excluded from the calculation in accordance with common industry practice, to conform to recent direction expressed by Alberta Securities Commission staff regarding funds flow disclosure by oil and gas issuers. By including the cost of decommissioning liability settlements in AFF, the current calculation results in a correspondingly lower AFF amount than under the previous methodology. With many oil and gas issuers continuing to exclude decommissioning settlements from their own funds flow calculations, the Company emphasizes that its AFF measurement may not be comparable with the calculation of similar measurements used by other companies.

PPR has restated prior period AFF to include decommissioning settlements that were previously excluded from the calculation. The revised AFF numbers incorporate more seasonal variability into previously disclosed numbers as a significant portion of PPR's decommissioning settlements incurred in the last few years has been in winter access only areas, with considerably higher spend incurred in the winter months.

The following table reconciles cash flow from operating activities to AFF under the current and previous methodologies:

	Three Months Ended March 31,	
($000s)	**2020**	2019
Cash flow from operating activities	**2,282**	(6,893)
Changes in non-cash working capital	**(2,059)**	7,704
Other	**3**	(15)
Transaction, restructuring and other costs	**5**	452
Adjusted funds flow ("AFF")	**231**	1,248
Decommissioning settlements	**704**	2,996
AFF - excluding decommissioning settlements	**935**	4,244

Bank Adjusted EBITDAX

The Company monitors its capital structure and liquidity based on the ratio of Debt to Bank Adjusted EBITDAX as defined below. The ratio provides a measure of the Company's ability to manage its debt levels under current operating conditions. "Debt" refers to the Company's borrowings under its Revolving Facility and Subordinated Notes (for the periods prior to October 31, 2017, the "Amended Credit Facility"). "Bank Adjusted EBITDAX" corresponds to defined terms in the Company's debt agreements and means net earnings (loss) before financing charges, foreign exchange gain (loss), E&E expense, income taxes, depreciation, depletion, amortization, other non-cash items of expense and non-recurring items, adjusted for major acquisitions and material dispositions assuming that such transactions had occurred on the first day of the applicable calculation period. As transaction costs related to business combinations are non-recurring costs, Adjusted EBITDAX has been calculated, excluding transaction costs, as a meaningful measure of continuing net income. For purposes of calculating covenants under long-term debt, Bank Adjusted EBITDAX is determined using financial information from the most recent four consecutive fiscal quarters.

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

	Three Months Ended March 31,	
($000s)	**2020**	2019
Net loss before income tax	**(68,130)**	(21,311)
Add (deduct):		
Interest	**3,570**	3,432
Depletion and depreciation	**8,969**	9,294
Depreciation on right-of-use assets	**600**	686
Exploration and evaluation expense	**948**	96
Unrealized (gain) loss on derivatives	**(27,605)**	14,509
Impairment loss	**77,268**	—
Accretion	**696**	869
Loss (gain) on foreign exchange	**7,016**	(1,401)
Share – based compensation	**86**	112
Gain on sale of properties	**(75)**	(70)
Gain on warrant liability	**(84)**	(297)
Transaction costs, reorganization and other costs[1]	**5**	452
Bank Adjusted EBITDAX	**3,264**	6,371

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

Net Capital Expenditures

Net capital expenditures is a non-IFRS measure commonly used in the oil and gas industry. The measurement assists management and investors to measure PPR's investment in the Company's existing asset base.

Net capital expenditures is calculated by taking total capital expenditures, which is the sum of property and equipment and exploration and evaluation expenditures from the Consolidated Statement of Cash Flows, plus capitalized stock-based compensation, plus acquisitions from business combinations, which is the outflow cash consideration paid to acquire oil and gas properties, less asset dispositions (net of acquisitions), which is the cash proceeds from the disposition of producing properties and undeveloped lands.

Net Debt

Net debt is a non-IFRS measure, defined as long-term debt plus working capital surplus or deficit. Net debt is a measure commonly used in the oil and gas industry for assessing the liquidity of a company.

The following table provides a calculation of net debt:

($000s)	**March 31, 2020**	December 31, 2019
Working capital (deficit)[1]	**(3,318)**	2,218
Long-term debt	**(120,651)**	(113,595)
Total net debt	**(123,969)**	(111,377)

[1] Working capital (deficit) is a non-IFRS measure and is defined above under "Other Advisories".