



Prairie Provident Resources Inc.

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

Dated: March 25, 2021

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 and year ended December 31, 2020. This MD&A is dated March 25, 2021 and should be read in conjunction with the audited combined and consolidated financial statements of PPR as at and for the year ended December 31, 2020 (the "2020 Annual Financial Statements"). Additional information relating to PPR, including the Company's December 31, 2020 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	P&D	production and development
bbl/d	barrels per day	PSU	performance share unit
boe	barrels of oil equivalent	DSU	deferred restricted share unit
boe/d	barrels of oil equivalent per day	RSU	restricted share unit
Mboe	thousands of barrels of oil equivalent	WTI	West Texas Intermediate
MMboe	millions of barrels of oil equivalent	USD	U.S. dollars
Mcf	thousand cubic feet	CAD	Canadian dollars
Mcf/d	thousand cubic feet per day	US	United States
mmbtu	million British Thermal Units	CDN	Canadian
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		

Financial and Operational Summary

	Three Months Ended December 31,		Year Ended December 31,	
(\$000s except per unit amounts)	2020	2019	2020	2019
Production Volumes				
Light & medium crude oil (bbl/d)	2,639	3,436	2,881	3,716
Heavy crude oil (bbl/d)	163	278	210	251
Conventional natural gas (Mcf/d)	9,080	11,169	9,328	11,635
Natural gas liquids (bbl/d)	140	149	136	166
Total (boe/d)	4,455	5,725	4,781	6,071
% Liquids	66 %	67 %	67 %	68 %
Average Realized Prices				
Light & medium crude oil (\$/bbl)	45.04	60.04	38.05	61.83
Heavy crude oil (\$/bbl)	40.91	54.70	35.26	53.33
Conventional natural gas (\$/Mcf)	2.71	2.21	2.25	1.72
Natural gas liquids (\$/bbl)	30.98	31.08	24.59	30.48
Total (\$/boe)	34.67	43.81	29.56	44.18
Operating Netback (\$/boe)²				
Realized price	34.67	43.81	29.56	44.18
Royalties	(3.18)	(4.49)	(2.87)	(4.55)
Operating costs	(22.93)	(21.62)	(21.30)	(21.04)
Operating netback	8.56	17.70	5.39	18.59
Realized gains (losses) on derivatives	5.64	(0.85)	8.71	(0.98)
Operating netback, after realized gains (losses) on derivatives	14.20	16.85	14.10	17.61

2020 Corporate Highlights:

- During the fourth quarter of 2020, PPR entered into agreements with its lender providing for the renewal of its credit facilities, an issuance of US\$11.4 million 6-year senior subordinated notes ("Senior Notes due 2026") with proceeds applied against its revolving facility ("Revolving Facility"), amendments to its existing credit agreements to reduce overall cash interest costs and reset financial covenants, and an issuance of warrants to purchase up to 34,292,360 common shares (representing 19.9% of the total number of shares then outstanding) at a price of \$0.0192 per share. The agreements extended the maturity date of the Revolving Facility from April 30, 2021 to December 31, 2022 and reduced the borrowing base from US\$60.0 million to US\$57.7 million. Additionally, the maturity date of the existing US\$28.5 million principal of senior subordinated notes ("Senior Notes due 2023", together with "Senior Notes due 2026" are hereinafter referred as "Senior Notes") was extended from October 31, 2021 to June 30, 2023 and the coupon rate was reduced. Contemporaneously, outstanding warrants to purchase up to an aggregate of 8,318,000 common shares, which were previously issued in conjunction with the closings of the Senior Notes due 2023 were cancelled in full. See "Capital Resources" section below for further information on the debt refinancing transaction.

Annual Financial & Operational Highlights

- Due to the ongoing adverse effects of the COVID-19 pandemic and OPEC+ supply issues, oil prices were significantly depressed throughout the second quarter of 2020, and despite some moderate improvements in the second half of 2020 remain significantly lower than 2019 levels. PPR's 2020 cash flows were partially protected by our hedging program, which brought in \$15.2 million of realized gains for the year.

- For the year ended December 31, 2020, production averaged 4,781 boe/d¹ (67% liquids), which was 21% or 1,290 boe/d lower than 2019, primarily driven by natural declines and production shut-ins, partially offset by production from our 2019/2020 drilling program. In response to weak oil prices, beginning the second quarter of 2020, PPR permanently shut-in approximately 130 boe/d of uneconomic oil production, suspended our capital program and deferred its workover activities to preserve reserves value and liquidity. As oil prices have partially recovered, PPR resumed workover activities in the second half of 2020 on select projects that met our current economic thresholds of less than one-year payout. A number of projects remained uneconomic at the end of 2020, which continued contributing to temporary production loss.
- Operating netback¹ was \$24.7 million (\$14.10/boe) after realized gains on derivatives and \$9.4 million (\$5.39/boe) before the impact of derivatives for 2020, a 37% and 77% decrease from 2019, respectively. Our hedging program provided \$15.2 million of realized gains in 2020 which partially mitigated a 38% and 34% drop in realized light & medium and heavy crude oil prices, respectively, from 2019.
- In addition to shutting in uneconomic production, PPR implemented various other cost reduction initiatives including the realignment of field structure, negotiating rate reductions with vendors and suspending workover activities. These cost savings initiatives together with lower production, resulted in a decrease in operating expenses of \$9.4 million compared to 2019.
- Effective April 2020, annual salaries for all executives and non-executives were reduced. Certain employee benefit programs have also been suspended. Collectively, these measures resulted in approximately \$2.1 million of gross G&A reductions for 2020. Combined with other cost savings initiatives and \$0.9 million of grants under the Canadian Emergency Wage Subsidy program ("CEWS"), gross cash G&A expenses decreased by \$3.4 million year-over-year.
- Adjusted funds flow ("AFF")¹, excluding \$1.9 million of decommissioning settlements, was \$12.3 million (\$0.07 per basic and diluted share) for 2020, a 45% decrease from 2019. Primary contributors to the decrease were lower production volumes and lower operating netbacks, which were partially offset by an increase in realized hedging gains and a reduction in G&A expenses and cash interest expenses.
- Net loss totaled \$90.8 million for the year ended December 31, 2020, compared to a net loss of \$33.1 million from last year, driven primarily by non-cash items such as, impairment loss, depletion and amortization, partially offset by gains on the modification of debt related to the refinancing transaction described above.
- Exited December 31, 2020 with positive working capital¹ of \$5.3 million (December 31, 2019 – \$2.2 million), including cash and restricted cash of \$8.9 million. The increase in working capital was primarily due to lower accounts payable and accrued liabilities as a result of cost savings initiatives, the suspension of the capital program and the deferral and reduction of cash interest payments on bank debt.
- Net capital expenditures¹ for 2020 totaled \$3.8 million, primarily focused in the Michichi area where the Company drilled, completed and brought on production one gross (1.0 net) development well prior to the suspension of the capital program in the second quarter of 2020. 2020 net capital expenditures were fully funded by AFF.
- As at December 31, 2020, net debt¹ totaled \$115.9 million which was up \$1.5 million from December 31, 2019. The increase is primarily attributed to \$7.2 million of deferred interest recognized on the Company's bank debt, partially offset by the excess of year-to-date AFF¹ over capital expenditures and lease payments, and an unrealized foreign exchange gain of \$1.5 million that was driven by a stronger Canadian dollar relative to the US dollar on the Company's US-dollar denominated debt.
- At year-end 2020, PPR had US\$11.2 million (CAN\$14.3 million equivalent) of borrowing capacity under the Revolving Facility. PPR had US\$46.5 million of borrowings drawn against the US\$57.7 million Revolving Facility, comprised of US\$30.5 million of CAD-denominated borrowing (equivalent to CAN\$41.1 million using the exchange rate at the time of borrowing) and US\$16.0 million of USD-denominated borrowing (equivalent to CAN\$20.4 million of principal using the December 31, 2020 exchange rate of \$1.00 CAD to \$1.27 CAD). In addition, US\$47.0 million of Senior Notes (equivalent to CAN\$50.8 million of principal and CAN\$9.0 million of deferred interest using the December 31, 2020 exchange rate) were outstanding at December 31, 2020, for total borrowings of US\$93.4 million (CAN\$121.3 million equivalent).

¹ Operating netback, AFF, working capital (deficit), net debt and net capital expenditures are non-IFRS measures and are defined below under "Other Advisories".

Fourth Quarter 2020 Financial & Operational Highlights

- Production averaged 4,455 boe/d (66% liquids) for the fourth quarter of 2020, a 22% decrease from the same period in 2019 primarily driven by natural declines, production shut-ins and the suspension of the capital program beginning in the second quarter of 2020 as described above.
- Fourth quarter 2020 operating netback¹ before the impact of derivatives was \$3.5 million (\$8.56/boe), and \$5.8 million (\$14.20/boe) after realized gains on derivatives, a \$5.8 million and \$3.1 million decrease from the fourth quarter of 2019, respectively. Our hedging program provided \$2.3 million of realized gains in the fourth quarter of 2020 which partially mitigated a 25% and 25% drop in realized light & medium and heavy crude oil prices, respectively, from the corresponding period in 2019.
- Net capital expenditures¹ for the fourth quarter of 2020 were nominal, as PPR suspended its capital program as a result of the current economic environment.
- Adjusted funds flow ("AFF")¹, excluding \$0.4 million of decommissioning settlements, was \$2.3 million (\$0.01 per basic and \$0.01 diluted share) for the fourth quarter of 2020, a 53% decrease from the same quarter in 2019. Primary contributors to the decrease were lower production volumes and lower realized oil prices, which were partially offset by an increase in realized hedging gains and a reduction in operating expenses, royalties, G&A expenses and cash interest expenses.
- Net income totaled \$3.1 million in the fourth quarter of 2020 compared to a net loss of \$12.7 million in the same period last year, primarily driven by non-cash items including a \$15.9 million gain recognized in the fourth quarter of 2020 related to the December 2020 debt refinancing, a \$3.8 million decrease in depletion, depreciation and amortization, a \$2.0 million increase in unrealized foreign exchange gain, and a \$2.7 million decrease in unrealized derivative losses due to changes in the marked-to-market value of derivative contracts, partially offset by a \$1.9 million increase in exploration and evaluation expenses, a \$2.3 million increase in impairment loss and a \$1.8 million increase in changes in other liabilities.

¹ Operating netback, AFF and net capital expenditures are non-IFRS measures and are defined below under "Other Advisories".

Outlook

Subsequent to December 31, 2020, PPR cancelled 44,711,330 common shares, representing approximately 25.9% of the total number of common shares previously outstanding, that were surrendered by a shareholder to the Company for nominal consideration.

PPR enters 2021 with optimism propelled by additional liquidity, rebounding commodity prices and a lower cost structure. Our 2021 business strategy focuses on maintaining production and reserves while prudently investing to meet our abandonment and reclamation obligations ("ARO"). As commodity markets improve, PPR is positioned to upscale our capital program providing torque to stakeholders' return.

- Forecast average 2021 production is estimated at approximately 4,400 boe/d (65% liquids) through the year and to achieve a target exit rate of approximately 4,370 boe/d (67% liquids). Target average production contemplated is comprised of approximately 2,480 bbl/d of light and medium crude oil, 270 bbl/d of heavy oil, 9,220 Mcf/d of conventional natural gas and 115 bbl/d of natural gas liquids.
- Our 2021 capital budget totals \$16.9 million, \$11.0 million of which is dedicated to drill, complete and tie-in of four wells at the Princess area and \$2.4 million is allocated to capitalized G&A, land, seismic and capital maintenance.
- The remaining \$3.5 million of the 2021 capital budget is allocated to abandon and reclaim inactive wells. Gross investment in ARO is expected to be approximately \$6.5 million, \$3.0 million of which is expected to be covered by grants under the government-sponsored site rehabilitation program (SRP). The scale of our 2021 ARO program is dependent on the ultimate level of SRP funding approved by the regulators.

- Forecast 2021 operating expenses are \$34.4 million or \$21.42/boe.
- Gross cash general and administrative ("G&A") expenses (before capitalized G&A and stock-based compensation expense) for 2021 are forecast to be \$7.0 million or \$4.36/boe.
- The Company continues to proactively hedge volumes in order to protect economics and currently has approximately 59% of 2021 forecast oil production hedged with an average swap and put option strike price of US\$47.52 per bbl. To enhance upside protection, 75% of our oil hedges for 2021 are in three-way collars with an average cap of US\$61.56/bbl.
- PPR's 2021 capital program is expected to be funded from cash flows from operations and US\$12.7 million of liquidity currently available under the Company's revolving note facility.

Results of Operations

Production

	Three Months Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
Light & medium crude oil (bbl/d)	2,639	3,436	2,881	3,716
Heavy crude oil (bbl/d)	163	278	210	251
Conventional natural gas (Mcf/d)	9,080	11,169	9,328	11,635
Natural gas liquids (bbl/d)	140	149	136	166
Total (boe/d)	4,455	5,725	4,781	6,071
Liquids Weighting	66 %	67 %	67 %	68 %

Average production for the three months and year ended December 31, 2020 was 4,455 boe/d (66% liquids) and 4,781 boe/d (67% liquids), a decrease of 22% and 21%, respectively, compared to the corresponding periods in 2019. Production decreases resulted from natural declines and production shut-ins, partially offset by production from our 2019/2020 drilling program. In light of the weak oil prices, PPR permanently shut-in approximately 130 boe/d of uneconomic oil production and suspended its capital program beginning in the second quarter of 2020, and also deferred workover activities to preserve reserves value and liquidity which resulted in temporary production loss. As oil prices have partially recovered, PPR resumed workover activities in the third and fourth quarters of 2020 on select projects that meet our current economic thresholds of less than one-year payout. A number of projects remained uneconomic at the end of 2020, which continued contributing to temporary production loss.

During the first quarter of 2020, the Company drilled a Banff development well in the Michichi area which came on production on March 30, 2020, and averaged production of approximately 55 boe/d (72% liquids weighting) and 75 boe/d (78% liquids weighting) for the three months and year ended December 31, 2020, respectively. No new wells were drilled during the remainder of 2020.

Revenue

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s, except per unit amounts)</i>	2020	2019	2020	2019
Revenue				
Light & medium crude oil	10,934	18,979	40,119	83,853
Heavy crude oil	612	1,399	2,710	4,879
Natural gas	2,266	2,272	7,667	7,312
Natural gas liquids	399	426	1,224	1,847
Oil and natural gas revenue	14,211	23,076	51,720	97,891
Average Realized Prices				
Light & medium crude oil (\$/bbl)	45.04	60.04	38.05	61.83
Heavy crude oil (\$/bbl)	40.91	54.70	35.26	53.33
Conventional natural gas (\$/Mcf)	2.71	2.21	2.25	1.72
Natural gas liquids (\$/bbl)	30.98	31.08	24.59	30.48
Total (\$/boe)	34.67	43.81	29.56	44.18
Benchmark Prices				
Crude oil - WTI (\$/bbl)	55.50	75.18	52.51	75.72
Crude oil - Edmonton Light Sweet (\$/bbl)	49.84	67.60	44.63	68.75
Crude oil - WCS (\$/bbl)	43.44	54.27	35.62	58.42
Natural gas - AECO monthly index-7A (\$/Mcf)	2.62	2.21	2.12	1.58
Natural gas - AECO daily index - 5A (\$/Mcf)	2.50	2.35	2.11	1.71
Exchange rate - US\$/CDN\$	0.77	0.76	0.75	0.75

PPR's fourth quarter 2020 revenue decreased by 38% or \$8.9 million from the fourth quarter of 2019, principally due to a significant decrease in oil revenue. Light & medium crude oil revenue for the fourth quarter of 2020 decreased by 42%, compared to the corresponding period in 2019, primarily due to realized light & medium crude oil prices declining by 25%, coupled with a 23% decrease in light & medium crude oil production volumes. Heavy crude oil revenue decreased by 56% in the fourth quarter of 2020 compared to the fourth quarter of 2019 due to a decrease in heavy oil realized prices of 25% and a decrease in heavy oil production volumes of 41%. PPR's product prices generally correlate to changes in the benchmark prices. For the fourth quarter of 2020, the average WTI price decreased by 26% or \$19.68/bbl and Canadian oil differentials narrowed in comparison to the fourth quarter of 2019. In the fourth quarter of 2020, the WCS to WTI differential decreased to \$12.06/bbl (Q4 2019 - \$20.91/bbl) and the Edmonton Light Sweet to WTI differential decreased to \$5.66/bbl (Q4 2019 - \$7.58/bbl). Fourth quarter 2020 conventional natural gas revenue remained consistent compared to the same quarter in 2019, reflecting a 19% decrease in production volumes offset by a 23% increase in realized natural gas prices.

Average realized prices per boe for the fourth quarter of 2020 decreased by 21% or \$9.14/boe compared to the same period in 2019, correlating to decreases in the underlying crude oil and natural gas liquids realized prices.

On a year-over-year basis, revenue decreased by 47% or \$46.2 million. The 52% decrease in light & medium crude oil revenue reflected a 38% decline in realized light & medium crude oil prices and a 22% decrease in light & medium crude oil production volumes. The 44% decrease in heavy crude oil revenue reflected a 34% decline in realized heavy crude oil prices and a 16% decrease in heavy crude oil production volumes. For the year ended December 31, 2020, the average WTI price decreased by 31% or \$23.21/bbl, compared to 2019. For the year ended December 31, 2020, the WCS to WTI differential decreased to \$16.89/bbl (2019 - \$17.30/bbl) and the Edmonton Light Sweet to WTI differential increased to \$7.87/bbl (2019 - \$6.97/bbl). The 5% increase in conventional natural gas revenue reflected a 31% increase in realized conventional natural gas prices, partially offset by a 20% production decrease.

Average realized prices per boe for the year ended December 31, 2020 decreased by 33% or \$14.62/boe, compared to the same period in 2019, resulting from lower crude oil and natural gas liquids realized prices, partially offset by a increases in realized conventional natural gas prices.

Royalties

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s, except per boe)</i>	2020	2019	2020	2019
Royalties	1,305	2,367	5,027	10,086
Per boe	3.18	4.49	2.87	4.55
Percentage of revenue	9.2 %	10.3 %	9.7 %	10.3 %

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.

Fourth quarter and annual 2020 royalties decreased by \$1.1 million and \$5.1 million, respectively, compared to the corresponding periods in 2019 due to production volume decreases of 22% and 21%, respectively, and lower crude oil and natural gas liquids prices. On a percentage of revenue basis, royalties for the three months and year ended December 31, 2020 decreased compared to the corresponding periods in 2019 due to an overall decline in average realized price.

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. In addition, PPR's credit facilities require the Company to maintain certain level of hedges on a rolling 24 month basis. PPR considers these derivative contracts to be an effective means to manage cash flows from operations.

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s)</i>	2020	2019	2020	2019
Realized gain (loss) on derivatives	2,313	(448)	15,241	(2,169)
Unrealized (loss) gain on derivatives	(3,917)	(6,619)	4,780	(10,618)
Total (loss) gain on derivatives	(1,604)	(7,067)	20,021	(12,787)
<i>Per boe</i>				
Realized gain (loss) on derivatives	5.64	(0.85)	8.71	(0.98)
Unrealized (loss) gain on derivatives	(9.55)	(12.57)	2.73	(4.79)
Total (loss) gain on derivatives	(3.91)	(13.42)	11.44	(5.77)

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 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 loss on derivatives recognized for the three months ended December 31, 2020 is primarily related to gains becoming realized in the quarter coupled with a rise in near term WTI futures pricing as at December 31, 2020, compared to September 30, 2020.

The unrealized gain on derivatives recognized for the year ended December 31, 2020 is primarily due to a significant decrease in WTI futures pricing as at December 31, 2020, compared to December 31, 2019, coupled with outstanding contracts that were in a liability position as of December 31, 2019 becoming realized during the year.

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 December 31, 2020, the Company held the following outstanding derivative contracts:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price/ bbl
Crude Oil Swaps			
January 01, 2021 - June 30, 2021	US\$ WTI	500	\$47.60
Crude Oil Three-way Collars			
January 01, 2021 - December 31, 2021	US\$ WTI	650	\$40.00/50.00/64.25
January 01, 2021 - March 31, 2021	US\$ WTI	200	\$42.50/52.50/65.00
July 01, 2021 - December 31, 2021	US\$ WTI	300	\$30.00/40.00/55.00

Remaining Term	Reference	Total Daily Volume (MMBtu)	Weighted Average Price/ MMBtu
Natural Gas Swaps			
January 01, 2021 - June 30, 2021	US\$ AECO	2,000	\$1.95

Subsequent to December 31, 2020 the Company entered into the following commodity derivative contracts:

Remaining Term	Reference	Total Daily Volume (bbl)	Weighted Average Price/bbl
Crude Oil Three-way Collars			
July 01, 2021 - December 31, 2021	US\$ WTI	725	\$35.00/42.50/60.10
January 01, 2022 - June 30, 2022	US\$ WTI	300	\$30.00/40.00/58.50
January 01, 2022 - June 30, 2022	US\$ WTI	1,150	\$35.00/45.00/64.00
July 01, 2022 - December 31, 2022	US\$ WTI	1,250	\$32.00/42.00/64.00
Crude Oil Swaps			
February 01, 2021 - June 30, 2021	US\$ WTI	575	\$52.25

Remaining Term	Reference	Total Daily Volume (MMBtu)	Weighted Average Price/ MMBtu
Natural Gas Three-way Collars			
April 01, 2022 - December 31, 2022	US\$ NYMEX	3,600	\$1.75/2.00/3.32
Natural Gas Collars			
July 01, 2021 - September 30, 2021	US\$ NYMEX	1,500	\$2.50/3.42
October 01, 2021 - December 31, 2021	US\$ NYMEX	2,100	\$2.25/3.90
January 01, 2022 - March 31, 2022	US\$ NYMEX	2,350	\$2.75/3.90
November 01, 2021 - March 31, 2022	US\$ NYMEX	2,200	\$2.50/3.99
Natural Gas Swaps			
March 01, 2021 - October 31, 2021	US\$ AECO	3,500	\$2.15
Natural Gas Basis Swaps			
November 01, 2021 - March 31, 2022	US\$ NYMEX/AECO	2,200	(\$0.67)

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

Operating Expenses

	Three Months Ended December 31,		Year Ended December 31,	
(\$000s, except per boe)	2020	2019	2020	2019
Lease operating expense	7,562	8,805	29,458	35,716
Transportation and processing	736	1,085	2,474	4,735
Production and property taxes	1,101	1,495	5,339	6,175
Total operating expenses	9,399	11,385	37,271	46,626
Per boe	22.93	21.62	21.30	21.04

During the three months and year ended December 31, 2020, lease operating expenses decreased by 14% or \$1.2 million and 18% or \$6.3 million, respectively, from the corresponding periods in 2019 largely as a result in decreases in production volumes. Additionally, in light of weak commodity prices in early 2020, PPR took swift action to implement various cost reduction initiatives including re-aligning field structure, negotiating rate reduction with vendors, shutting in uneconomic production and suspending workover activities, leading to significant lease operating cost reductions in the second quarter of 2020. As oil prices began stabilizing in the third quarter of 2020, PPR resumed certain workover activities that met economic thresholds of payout in less than one year resulting in higher workover expenses incurred in the third and fourth quarters of 2020 than in the comparative periods in 2019.

Transportation and processing expenses for the three months and year ended December 31, 2020 decreased by 32% or \$0.3 million and 48% or \$2.3 million, respectively, compared to the same periods 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 and year ended December 31, 2020 decreased by 26% or \$0.4 million and 14% or \$0.8 million, respectively, compared to the corresponding periods in 2019. The decreases primarily related to decreased property taxes as a result of our ongoing projects to remove unused equipment from field locations and to update operating statuses with municipal authorities to reduce the related tax burden, coupled with reduced provincial administration fees paid to the Alberta Energy Regulator as a result of COVID-19 relief provided by the Government of Alberta and reduced freehold mineral taxes as a result of lower production on freehold properties in the Wheatland and Princess areas.

On a per boe basis, total operating expense for the three months ended December 31, 2020 increased by 6% or \$1.31/boe compared to the same period in 2019. The increase was largely due to the fixed component of operating costs distributed over a lower production volume and increased workover costs per boe in the fourth quarter of 2020 as project economics improved. For the year ended December 31, 2020, total operating expenses increased by 1% or \$0.26/boe compared to the 2019 annual period as gains from cost savings initiatives as described above were fully offset by the fixed component of operating costs being distributed over lower production volumes.

Operating Netback

	Three Months Ended December 31,		Year Ended December 31,	
(\$ per boe)	2020	2019	2020	2019
Revenue	34.67	43.81	29.56	44.18
Royalties	(3.18)	(4.49)	(2.87)	(4.55)
Operating expenses	(22.93)	(21.62)	(21.30)	(21.04)
Operating netback	8.56	17.70	5.39	18.59
Realized gains (losses) on derivatives	5.64	(0.85)	8.71	(0.98)
Operating netback, after realized gains (losses) on derivatives	14.20	16.85	14.10	17.61

PPR's operating netback after realized gains on derivatives was \$14.20/boe and \$14.10/boe for the three months and year ended December 31, 2020, respectively, representing decreases of \$2.65/boe and \$3.51/boe, respectively, compared with the corresponding periods of 2019.

For the three months ended December 31, 2020, the operating netback decrease was due to average realized prices declining by \$9.14/boe and increased operating expenses of \$1.31/boe, partially offset by increased realized gains on derivatives of \$6.49/boe and decreased royalties of \$1.31/boe, as compared to the corresponding three-month period in 2019.

For the year ended December 31, 2020, the operating netback decrease was due to average realized prices declining by \$14.62/boe and increased operating expenses of \$0.26/boe, partially offset by an increase in realized gains on derivatives of \$9.69/boe and a decrease in royalties of \$1.68/boe, as compared to 2019.

General and Administrative Expenses ("G&A")

	Three Months Ended December 31,		Year Ended December 31,	
(\$000s, except per boe)	2020	2019	2020	2019
Gross cash G&A expenses	953	2,148	5,687	9,074
Gross share-based compensation (recovery) expense	(28)	215	240	825
Less amounts capitalized	(1)	(388)	(185)	(1,622)
Net G&A expenses	924	1,975	5,742	8,277
Per boe	2.25	3.75	3.28	3.74

For the three months and year ended December 31, 2020, gross cash G&A decreased by \$1.2 million and \$3.4 million, or 56% and 37%, respectively, compared to the same periods in 2019. A reduction in employee salaries and benefits as part of the Company's cost reduction initiatives, contributed to a 36% decrease in salaries and benefits for each of the three months and year ended December 31, 2020 compared to the same periods in 2019. In addition, PPR qualified for \$0.5 million and \$0.9 million of grants under the CEWS for the fourth quarter of 2020 and the 2020 annual period, respectively, which further contributed to the decrease in G&A expenses in these periods.

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 113% and 71% for the three months and year ended December 31, 2020, respectively, compared with the same periods in 2019. Fourth quarter 2020 gross share-based compensation expense was a recovery as a result of forfeitures in the period.

Capitalized G&A varies with the composition and compensation levels of technical departments and their time attributed to capital projects. Capitalized G&A decreased for the three months and year ended December 31, 2020 by 100% and 89%, respectively, as compared to the same periods in 2019, given that the Company's capital program was deferred, resuming in the first quarter of 2021.

Finance Costs

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s, except per boe)</i>	2020	2019	2020	2019
Cash interest expense	1,198	2,372	5,282	9,345
Deferred interest expense	1,866	506	7,193	1,999
Non-cash interest on debt modification	153	—	153	—
Amortization of financing costs	395	323	1,499	1,499
Non-cash interest on leases	139	231	658	1,028
Non-cash interest on warrant liabilities	108	98	424	357
Accretion – decommissioning liabilities	695	811	2,776	3,284
Accretion – other liabilities	2	3	10	76
Total finance cost	4,556	4,344	17,995	17,588
Interest expense per boe	7.48	5.46	7.13	5.12
Non-cash interest and accretion expense per boe	3.64	3.74	3.15	3.72

Cash interest expense and deferred interest expense (collectively, "Interest Expense") is primarily comprised of interest incurred related to the Company's outstanding borrowings. The increase in Interest Expense of \$0.2 million and \$1.1 million for the three months and year ended December 31, 2020, respectively, compared to the corresponding periods in 2019 related to increased average borrowings and higher effective interest rates on the Company's Revolving Facility. Despite lower benchmark interest rates in 2020 compared to 2019, the Company's effective interest rates were higher in 2020 primarily due to a 200 bps payment-in-kind margin increase starting in April 2020 until the debt refinancing transaction in late December 2020 (see the "Capital Resources" section below for further description of the debt refinancing). The refinancing transaction is expected to result in a reduction of cash interest costs in future periods as interest incurred on the Senior Notes will be deferred until certain conditions are met. PPR will, however, incur additional non-cash interest under the effective interest rate method, as the fair value of the Senior Notes recognized upon the refinancing transaction in December 2020 was lower than their face value (see "Subordinated Senior Notes" section).

The weighted average effective interest rates for the three months and year ended December 31, 2020 were 9.9% and 10.3% respectively (2019 – 9.6% and 9.7%, respectively).

Accretion – decommissioning liabilities decreased by \$0.1 million and \$0.5 million during the three months and year ended December 31, 2020, respectively, compared to the same periods in 2019, due to lower risk-free discount rates.

(Gain) Loss on Foreign Exchange

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s)</i>	2020	2019	2020	2019
Realized (gain) loss on foreign exchange	(116)	(102)	87	(202)
Unrealized (gain) loss on foreign exchange	(3,533)	(1,514)	(1,512)	(3,624)
(Gain) loss on foreign exchange	(3,649)	(1,616)	(1,425)	(3,826)

Foreign exchange (gains) losses incurred in the three months and year ended December 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 December 31,		Year Ended December 31,	
<i>(\$000s, except per boe)</i>	2020	2019	2020	2019
Exploration and evaluation expense	2,372	460	4,183	996
Per boe	5.79	0.87	2.39	0.45

E&E expenses are comprised of undeveloped land expiries and surrendered leases.

Depletion and Depreciation

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s, except per boe)</i>	2020	2019	2020	2019
Depletion and depreciation	6,237	9,822	27,887	39,826
Depreciation on right-of-use assets	518	685	2,170	2,743
Total depletion expense	6,755	10,507	30,057	42,569
Per boe	16.48	19.95	17.18	19.21

Depletion and depreciation rates are subject to change based on changes in the carrying value of the asset base, changes in future development costs, reserve updates and changes in production by area. The decrease in the depletion expenses during 2020 from 2019 reflects lower production volumes and a decrease in depletable base as a result of the P&D impairment recognized in the first quarter of 2020 (see "Impairment Loss (Recovery)" section below).

Impairment Loss (Recovery)

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s)</i>	2020	2019	2020	2019
E&E impairment	486	—	486	—
E&E impairment – decommissioning asset (recovery) loss	(343)	656	(343)	656
Total E&E impairment	143	656	143	656
P&D impairment	—	—	76,587	—
P&D impairment – decommissioning asset loss (recovery)	1,729	(1,092)	1,729	(1,092)
Total P&D impairment (recovery)	1,729	(1,092)	78,316	(1,092)
Total impairment loss (recovery)	1,872	(436)	78,459	(436)

Fourth quarter and annual 2020 E&E impairment of \$0.5 million related to undeveloped lands expected to expire in the near term that are not expected to be renewed. For the three months and year ended December 31, 2020, PPR also recognized impairment recovery related to changes in decommissioning liabilities of certain properties that had zero carrying value.

Fourth quarter 2020 P&D impairment of \$1.7 million related to changes in decommissioning liabilities of certain properties that had zero carrying value. Additionally, annual 2020 P&D impairment includes \$76.6 million of impairment recorded in Q1 2020 as a result of impairment tests performed on all CGUs due to the significant downturn in crude oil benchmark prices. Impairment was recorded in the Evi, Princess, Provost and Other CGUs. PPR assessed P&D assets for indicators of impairment or impairment reversal as at December 31, 2020 and concluded that there were no indicators.

Fourth quarter and annual 2019 E&E and P&D impairment losses/recoveries related to changes in decommissioning liabilities of certain properties that had zero carrying value.

Net Earnings (Loss)

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s except per share)</i>	2020	2019	2020	2019
Net earnings (loss)	3,130	(12,734)	(90,773)	(33,079)
Per share – basic & diluted	0.02	(0.07)	(0.53)	(0.19)

Net earnings for the fourth quarter of 2020 were \$3.1 million, compared to a net loss of \$12.7 million in the same quarter of 2019. Despite a decrease in AFF (excluding decommissioning settlements) of \$2.5 million in the fourth quarter of 2020 compared to the same quarter of 2019, net income increased by \$15.9 million due to non-cash items, including a \$15.9 million gain recognized in the fourth quarter of 2020 related to the December 2020 debt refinancing, a \$3.8 million decrease in depletion, depreciation and amortization, a \$2.0 million increase in unrealized foreign exchange gain, and a \$2.7 million decrease in unrealized derivative losses due to changes in the marked-to-market value of derivative contracts, partially offset by a \$1.9 million increase in exploration and evaluation expenses, a \$2.3 million increase in impairment loss and a \$1.8 million increase in changes in other liabilities.

Net loss was \$90.8 million for the year ended December 31, 2020, compared to a net loss of \$33.1 million in the same period of 2019. The \$57.7 million increase in net loss was primarily due to non-cash items, including a \$78.9 million increase in impairment loss, a \$4.6 million increase in expense related to a change in other liabilities, a \$3.2 million increase in exploration and evaluation expense, and a \$2.1 million decrease in unrealized foreign exchange gain, partially offset by a \$15.4 million increase in unrealized derivative gains due to changes in the marked-to-market value of derivative contracts, a \$15.9 million gain recognized in the fourth quarter of 2020 related to the December 2020 debt refinancing and a \$12.5 million decrease in depletion, depreciation and amortization. In addition to the non-cash items, there was a \$9.9 million decrease in AFF (excluding decommissioning settlements).

Net Capital Expenditures^{1,2}

	Three Months Ended December 31,		Year Ended December 31,	
<i>(\$000s)</i>	2020	2019	2020	2019
Drilling and completion	76	1,596	2,718	5,907
Equipment, facilities and pipelines	43	693	892	1,970
Land and seismic	121	483	271	2,717
Capitalized overhead and other	1	519	163	1,547
Total capital expenditures	241	3,291	4,044	12,141
Asset dispositions (net of acquisitions)	(65)	(193)	(249)	(285)
Net capital expenditures	176	3,098	3,795	11,856

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 and year ended December 31, 2020 were \$0.2 million and \$4.0 million, respectively. During 2020, the Company focused its capital activities on the Michichi area where it incurred \$3.1 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. Water injection for the pilot waterflood project commenced in May 2020. Minor capital expenditure in 2020 included recompletions in the Evi and Provost areas and the purchase of undeveloped land in the Princess area.

During the fourth quarter of 2019, PPR completed a well in the Princess area which it brought on production in December 2019. The Company incurred total capital expenditures of \$2.1 million to drill, complete, equip and tie-in this well. In the Princess area, the Company acquired undeveloped lands and mineral rights for \$0.3 million and one CEE stratigraphic well was drilled and abandoned for total capital expenditures of \$0.4 million.

Additionally, during the first three quarters of 2019 PPR focused its capital activities in the Evi and Princess areas. In Evi, PPR incurred expenditures of \$2.8 million during the first quarter of 2019 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. During the second quarter of 2019,

one gross (1.0 net) well in southern Princess was drilled and brought on production in mid-June 2019. The Company incurred total capital expenditures of \$1.6 million to drill, complete, equip and tie-in this well. During the third quarter of 2019, the Company recompleted one well in the Provost area, undertook facility work at Evi and spent \$0.9 million on 3D seismic in the Princess area. Further, PPR acquired undeveloped lands in the Wayne, Michichi and Princess areas through the period.

Decommissioning Liabilities

PPR's decommissioning liabilities at December 31, 2020 were \$166.2 million (December 31, 2019 - \$167.8 million) to provide for future remediation, abandonment and reclamation of PPR's oil and gas properties. The decrease of \$1.6 million from year-end 2019 was primarily due to changes in estimates of \$2.1 million which reduced decommissioning liabilities as a result of a reduction in the inflation rate partially offset by lower risk-free rates applied as at year-end 2020, and settlements of \$1.9 million during 2020, partially offset by \$2.8 million of accretion of decommissioning liabilities.

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 \$221.2 million (December 31, 2019 - \$263.9 million) spanning over the next 55 years, based on an inflation rate of 1.1% (December 31, 2019 - 1.7%). Of the estimated undiscounted future liabilities, \$18.0 million is estimated to be settled over the next five years. Funding received from under the government sponsored Site Rehabilitation Program may increase estimated settlements 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.

Income Tax

At December 31, 2020, the Company had \$474.8 million (December 31, 2019 - \$467.6 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 \$383.1 million (December 31, 2019 - \$382.8 million), scheduled to expire in the years 2021 to 2040.

As at December 31, 2020 and December 31, 2019, the Company did not recognize any deferred tax assets in excess of taxable temporary differences due to insufficient evidence of the likelihood 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.

Capital Resources and Liquidity

Capital Resources

Working Capital

At December 31, 2020, the Company had working capital (as defined in "Other Advisories" below) of \$5.3 million (December 31, 2019 - \$2.2 million). The increase in working capital from December 31, 2019 was the result of lower accounts payable and accrued liabilities as a result of cost savings initiatives, suspension of the capital program and the deferral and reduction of cash interest payments on bank debt (see "Revolving Facility" and "Subordinated Senior Notes" sections below), partially offset by lower accounts receivable and inventory balances due to lower oil prices at December 31, 2020.

Revolving Facility

On December 21, 2020, PPR renewed and amended its Revolving Facility with a borrowing base of US\$57.7 million (December 31, 2020 - US\$60.0 million) and extended the maturity date of the Revolving Facility from April 30, 2021 to December 31, 2022. The borrowing base is subject to a reduction to US\$53.8 million on December 31, 2021 and to semi-annual redeterminations thereafter, without limiting the lenders' right to require a redetermination at any time. The next borrowing base re-determination date will be around April 2022 based on a year-end 2021 reserves evaluation.

Borrowings under the Revolving Facility are repayable at the Company's election at par plus accrued interest and any applicable breakage costs. Repayments generally will not affect the aggregate commitment or borrowing base under the Revolving Facility, except in certain extraordinary circumstances where a repayment will reduce the borrowing base. The Revolving

Facility is denominated in USD, but accommodates CAD advances up to the lesser of CAN\$54 million or US\$30 million. 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 following table provides a breakdown of borrowings drawn against the US\$57.7 million Revolving Facility:

(\$000s)	December 31, 2020	December 31, 2019
USD Advances (USD \$16.0 million (December 31, 2019 - USD \$27.6 million)) ¹	20,371	35,847
CAD Advances (USD \$30.0 million (December 31, 2019 - USD \$30.0 million)) ²	40,530	40,530
CAD Deferred Interest (US\$0.5 million (December 31, 2019 - USD \$nil)) ¹	590	—
Revolving Facility (USD \$46.5 million (December 31, 2019 - USD \$57.6 million))	61,491	76,377

¹ Converted using the month end exchange rate of \$1.00 USD to \$1.27 CAD as at December 31, 2020 and \$1.00 USD to \$1.30 CAD as at December 31, 2019.

² Converted using the exchange rate at the time of borrowing of \$1.00 USD to \$1.35 CAD.

The decrease in borrowings from year-end 2019 was largely due to the repayment under the Revolving Facility with proceeds from Senior Notes due 2026 issued on December 21, 2020 (see "Subordinated Senior Notes" section below). As at December 31, 2020, the Company had US\$11.2 million (CAN\$14.3 million equivalent) borrowing capacity under the Revolving Facility.

The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of PPR's oil and natural gas properties in accordance with the lenders' customary practices for oil and gas loans. 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 for CDOR, CAD prime, LIBOR and USD prime advances are 650 basis points and standby fees on any undrawn borrowing capacity are 87.5 basis points per annum.

As at December 31, 2020, PPR had outstanding letters of credit of \$4.2\$4.2 million. The letters of credit are issued by a financial institution at which PPR posted a cash deposits as collateral. The related deposits are 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, 2020, \$0.7 million of deferred costs related to the Revolving Facility was netted against its carrying value (December 31, 2019 – \$1.3 million).

Subordinated Senior Notes

On December 21, 2020, PPR amended its agreements for Senior Notes that were originally issued on October 31, 2017 and November 21, 2018, with total principal outstanding of US\$28.5 million and original maturity date of October 31, 2021. Under the amendments, the maturity date was extended to June 30, 2023. The annual interest rate on the notes was reduced from 15% per annum to nil until June 30, 2021, and will thereafter rise to 4% at the earlier of 15 months after closing (March 2022) and the last day of the fiscal quarter for which the Company's trailing 12-month senior leverage ratio is 2.5 or less, and to 8% at the earlier of 20 months after closing (August 2022) and the last day of the fiscal quarter for which the Company's trailing 12-month senior leverage ratio is 2.0 or less.

Additionally, on December 21, 2020 PPR purchased US\$11.4 million of Senior Notes due 2026 (CAN\$14.5 million using the December 31, 2020 month-end exchange rate of \$1.00 USD to \$1.27 CAD) bearing interest at 12% per annum. Net proceeds from the issuance of Senior Notes due 2026 were applied against borrowings under the Revolving Facility upon issuance.

Interest on Senior Notes is payable quarterly. The Senior Note agreements provide that, until certain criteria are met, including compliance with original financial covenant ratios on the Revolving Facility as at October 31, 2017 (when the facility was first

implemented), the absence of any borrowing base deficiency, and a projected ability to meet any scheduled payment obligations under the Revolving Facility for the next 12-month period, PPR may elect to defer all interests due on the Senior Notes. The terms of the Revolving Facility require that the Company make this election and not pay cash interest on the Senior Notes until these criteria are satisfied. PPR will thereafter be permitted to elect to defer up to 4.00% per annum of interest on the Senior Notes. At the date of this MD&A, PPR expects to defer future interest for the respective terms of the Senior Notes.

The following table provides a breakdown of Senior Notes principal and deferred interest balances at the dates presented. The borrowings which are denominated in USD have been converted to CAD using the month-end exchange rate as at the respective dates presented of \$1.00 USD to \$1.27 CAD as at December 31, 2020 and \$1.00 USD to \$1.30 CAD as at December 31, 2019.

(\$000s)	December 31, 2020	December 31, 2019
Senior Notes Issued October 31, 2017		
Principal (US\$16.0 million)	20,371	20,780
Deferred interest (US\$4.4 million (December 31, 2019 - US\$1.8 million))	5,611	2,363
Total Principal and Deferred Interest - October 31, 2017 Senior Notes	25,982	23,143
Senior Notes Issued November 21, 2018		
Principal (US\$12.5 million)	15,915	16,235
Deferred interest (US\$2.6 million (December 31, 2019 - US\$0.7 million))	3,338	922
Total Principal and Deferred Interest - November 21, 2018 Senior Notes	19,253	17,157
Senior Notes Issued December 21, 2020		
Principal (US\$11.4 million)	14,500	—
Deferred interest (US\$0.04 million (December 31, 2019 - US\$ nil))	48	—
Total Principal and Deferred Interest - December 21, 2020 Senior Notes	14,548	—
Total Principal and Deferred Interest - Senior Notes	59,783	40,300

In conjunction with the issuance of the Senior Notes due 2026, the Company issued a total of 34,292,360 warrants with an exercise price of \$0.0192 per share for an eight-year term expiring on December 21, 2028. Warrants issued concurrent with the Senior Note issuances on October 31, 2017 and November 21, 2018 totaling 2,318,000 warrants with an exercise price of \$0.549 expiring October 31, 2022 and 6,000,000 warrants with an exercise price of \$0.282 expiring on October 31, 2023, respectively, were cancelled in full.

The warrants are 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 income (loss). The fair value of these warrants is determined using the Black-Scholes option valuation model. The value of the warrant liability as at December 31, 2020 was \$0.7 million (December 31, 2019 - \$0.1 million).

PPR accounted for amendments to the Senior Notes due 2023 as an extinguishment and as such, the previously recorded liabilities were derecognized and the modified liabilities were recorded at their fair value as at December 21, 2020. In addition, the Senior Notes due 2026 were initially recognized at fair value which was lower than the face value of the notes. The fair value of the Senior Notes was calculated using the present value of expected future cash flows, discounted at 17.5%. Collectively, the modification of Senior Notes due 2023 and recognition of the Senior Notes due 2026 resulted in the recognition of a gain of \$15.9 million in the fourth quarter of 2020. The gain is net of \$1.4 million of financing costs.

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

Covenants

The note purchase agreement for the Revolving Facility, the 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, capital expenditures, hedging activities, investments, dividends and mergers and acquisitions. In addition, capital expenditures and

acquisitions are generally limited to consistency with the Company's annual development plan, as created and updated by the Company from time to time and approved by the lenders.

The note purchase agreement for the Revolving Facility and the subordinated Senior Note purchase agreement include the same financial covenants, with 15% less restrictive thresholds under the Senior Note agreements. Financial covenants are not applicable for the quarter ended December 31, 2020. Future thresholds for financial covenants under the Revolving Facility for the quarters ended from March 31, 2021 to September 30, 2022 vary by quarter and are as follows:

- a. senior leverage, pursuant to which the ratio of senior adjusted indebtedness¹ to EBITDAX² for the four quarters most recently ended cannot exceed between 3.61 to 1.00 and 6.36 to 1.00;
- b. asset coverage, pursuant to which the ratio of adjusted net present value of estimated future net revenue from proved reserves (discounted at 10% per annum) to adjusted indebtedness³ as of the date of any reserves report cannot be less than from 0.34 to 1.00 to 0.47 to 1.00; and
- c. current ratio, pursuant to which the ratio of consolidated current assets, plus any undrawn capacity under the Revolving Facility, to consolidated current liabilities at the end of any fiscal quarter cannot be less than from 0.9 to 1.0 to 1.0 to 1.0. 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.

¹ Under the debt agreements, senior adjusted indebtedness is defined as Adjusted Indebtedness (as defined below) less subordinated borrowings.

² EBITDAX is defined below under "Other Advisories".

³ Under the debt agreements, Adjusted Indebtedness is defined as borrowings less outstanding letters of credit for which PPR has issued cash collateral.

The Company was in compliance with all applicable covenants as at December 31, 2020.

Shareholders' Equity

At December 31, 2020, PPR had consolidated share capital of \$136.5 million (December 31, 2019 – \$136.0 million) and had 172.3 million (December 31, 2019 – 171.4 million) outstanding common shares. On October 11, 2020, 4.8 million warrants expired which related to a bought deal financing and a private placement completed on October 11, 2018. On December 21, 2020, in conjunction with the modification and issue of Senior Notes, PPR issued 34.3 million warrants with an exercise price of \$0.0192 per share and an eight-years term expiring December 21, 2028. All 8.3 million of previously outstanding warrants issued in 2017 and 2018 in conjunction with issuances of Senior Notes due 2023 were cancelled in full (see "Subordinated Senior Notes" section above).

In the first quarter of 2020, the Company granted 2.6 million options to officers and employees. As at December 31, 2020, 5.5 million (December 31, 2019 – 3.9 million) options were outstanding with a weighted average strike price of \$0.34 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 December 31, 2020, 1.8 million (December 31, 2019 – 3.2 million) RSUs 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 such, the Company did not issue deferred share units ("DSUs") during 2020. 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 December 31, 2020, 2.3 million (December 31, 2019 – 2.3 million) DSUs were outstanding. DSUs and RSUs may be settled in common shares or cash at the discretion of the Company. However, it is PPR's intention and past practice to settle the share units in common shares. As such, these units have been accounted for as equity settled.

Subsequent to December 31, 2020, PPR cancelled 44,711,330 common shares that were surrendered by a shareholder to the Company for nominal consideration.

As of the date of this MD&A, there are 128.0 million common shares, 1.0 million RSUs, 4.9 million stock options, 2.3 million DSUs and 34.3 million warrants outstanding.

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, borrowings under its credit facilities 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 or 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 uncertainty in the macroeconomic environment, PPR's short-term capital management objective is to fund its capital expenditures necessary for the replacement of production declines using primarily AFF. Value-creating activities may be financed with a combination of AFF and other sources of capital. The Company has determined that its current financial obligations, including current commitments will be adequately funded from the available borrowing capacity, working capital and AFF. 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.

PPR monitors its capital structure using the ratio of senior debt to trailing twelve months' Bank Adjusted EBITDAX (as defined in "Other Advisories" below). Senior debt to Bank Adjusted EBITDAX provides a measure of the Company's ability to manage its debt levels under current operating conditions. The Company's goal is to manage this ratio within the financial covenants imposed on it under its outstanding debt agreements. Senior debt to Bank Adjusted EBITDAX at December 31, 2020 was 3.4 to 1.0 (December 31, 2019 – 2.3 to 1.0). Management of debt levels is a priority for PPR and the Company's 2020 capital program was designed with this key objective in mind.

Contractual Obligations, Commitments and Contingencies

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

	2021	2022	2023	2024	2025	Thereafter	Total
Debt (interest and principal)	4,714	66,205	49,232	—	—	29,486	149,637
Leases - variable	822	69	—	—	—	—	891
Firm transportation agreements	360	202	113	41	36	—	752
Other agreements	100	48	47	32	28	269	524
Total	5,996	66,524	49,392	73	64	29,755	151,804

Contractual obligations and commitments are outlined in Note 23 of the Annual Financial Statements. The table above excludes contractual obligations for lease payments which are recorded as lease liabilities on the consolidated statement of financial position in accordance with IFRS 16 (see Note 11 of the Annual Financial Statements for information about lease liabilities).

In addition to contractual commitments, the Company has estimated future decommissioning liabilities of \$221.2 million on an undiscounted basis, inflated at 1.1%, of which \$18.0 million is estimated to be incurred over the next five years.

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.

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.

Supplemental Information

Financial – Quarterly extracted information

	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
<i>(\$000 except per unit amounts)</i>								
Production Volumes								
Light & medium crude oil (bbl/d)	2,639	2,730	2,996	3,164	3,436	3,759	4,028	3,640
Heavy crude oil (bbl/d)	163	200	183	292	278	270	202	252
Conventional natural gas (Mcf/d)	9,080	8,704	9,351	10,186	11,169	12,092	11,709	11,568
Natural gas liquids (bbl/d)	140	135	141	127	149	169	204	142
Total (boe/d)	4,455	4,516	4,879	5,281	5,725	6,214	6,386	5,962
% Liquids	66 %	68 %	68 %	68 %	67 %	68 %	69 %	68 %
Financial								
Oil and natural gas revenue	14,211	13,904	8,333	15,272	23,076	24,589	27,331	22,895
Royalties	(1,305)	(1,404)	(1,033)	(1,285)	(2,367)	(2,770)	(3,148)	(1,801)
Unrealized (loss) gain on derivatives	(3,917)	(3,879)	(15,029)	27,605	(6,619)	5,194	5,316	(14,509)
Realized (loss) gain on derivatives	2,313	2,847	8,085	1,996	(448)	(167)	(1,427)	(127)
Revenue net of realized and unrealized (losses) gains on derivatives	11,302	11,468	356	43,588	13,642	26,846	28,072	6,458
Net earnings (loss)	3,130	(8,276)	(17,559)	(68,068)	(12,734)	(2,320)	3,235	(21,260)
Per share – basic	0.02	(0.05)	(0.10)	(0.40)	(0.07)	(0.01)	0.02	(0.12)
Per share – diluted	0.02	(0.05)	(0.10)	(0.40)	(0.07)	(0.01)	0.01	(0.12)
AFF ⁽¹⁾	1,853	3,818	4,570	231	4,684	6,196	6,321	1,248
Per share – basic	0.01	0.02	0.03	0.00	0.03	0.04	0.04	0.01
Per share – diluted	0.01	0.02	0.03	0.00	0.03	0.04	0.02	0.01
AFF - excluding decommissioning settlements ⁽¹⁾	2,273	3,912	5,221	935	4,810	6,570	6,626	4,244
Per share – basic	0.01	0.02	0.03	0.01	0.03	0.04	0.04	0.02
Per share – diluted	0.01	0.02	0.03	0.01	0.03	0.04	0.02	0.02

¹ AFF is a non-IFRS measure and is defined below under “Other Advisories”.

Over the past eight quarters, the Company's oil and natural gas revenue 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 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 and the fourth quarter of 2020, 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.

Fourth quarter 2020 oil and natural gas revenue increased from the prior quarter primarily due to higher average realized prices per boe, partially offset by lower production volumes. Net earnings of \$3.1 million in the fourth quarter of 2020 was largely the result of non-cash items including a gain of \$15.9 million related to the debt refinancing in December 2020 and unrealized foreign exchange gains of \$3.5, partially offset by unrealized losses on derivatives of \$3.9 million, non-cash financing costs of \$5.5 million, depletion and depreciation expense of \$6.8 million and impairment of \$1.9 million. The Company realized \$2.3 million of AFF (before decommissioning settlements of \$0.4 million).

Third quarter 2020 oil and natural gas revenue increased from the prior quarter mainly due to higher realized prices per boe partially offset by decreased production volumes. Though the Company realized \$3.9 million of AFF (before decommissioning settlements of \$0.1 million), a net loss of \$8.3 million was recorded in the third quarter of 2020 due to non-cash items including a \$3.9 million unrealized loss on derivatives, a \$3.4 million non-cash finance costs and a \$6.7 million of depletion and depreciation expense, partially offset by a unrealized foreign exchange gain of \$1.5 million.

Second 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 \$5.2 million of AFF (before decommissioning settlements of \$0.7 million), a net loss of \$17.6 million was recorded in the second quarter of 2020 due to non-cash items including a \$15.0 million unrealized loss on derivatives, a \$4.1 million non-cash finance costs and a \$7.1 million of depletion and depreciation expense, partially offset by a unrealized foreign exchange gain of \$3.5 million.

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 was attributed to the strengthening in oil prices. Net income of \$3.2 million in the second quarter of 2019 was 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 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.

Annual Selected Financial and Operational Information

(\$000s except per unit amounts)	2020	2019	2018
Financial			
Oil and natural gas revenue	51,720	97,891	84,822
Net loss	(90,773)	(33,079)	(32,965)
Per share - basic & diluted	(0.53)	(0.19)	(0.27)
AFF ¹	10,472	18,449	8,034
Per share - basic & diluted	0.01	0.11	0.07
AFF - excluding decommissioning settlements ¹	12,341	22,250	10,095
Per share - basic & diluted	0.07	0.13	0.08
Net capital expenditures ¹	3,795	11,856	24,476
Corporate acquisitions of P&D assets	—	—	55,736
Total assets	220,316	331,525	337,733
Total liabilities	297,226	317,947	290,682
Long-term debt	103,071	113,595	101,144
Weighted average shares outstanding			
Basic & diluted	172,013	171,349	122,426
Operating			
Production Volumes			
Light & medium crude oil (bbls/d)	2,881	3,716	3,585
Heavy crude oil (bbl/d)	210	251	90
Conventional natural gas (Mcf/d)	9,328	11,635	9,426
Natural gas liquids (bbls/d)	136	166	125
Total (boe/d)	4,781	6,071	5,372
% Liquids	67 %	68 %	71 %
Average Realized Prices			
Light & medium crude oil (\$/bbl)	38.05	61.83	58.68
Heavy crude oil (\$/bbl)	35.26	53.33	38.20
Conventional natural gas (\$/Mcf)	2.25	1.72	1.59
Natural gas liquids (\$/bbl)	24.59	30.48	49.38
Total (\$/boe)	29.56	44.18	43.26
Operating Netback (\$/boe) ¹			
Realized price	29.56	44.18	43.26
Royalties	(2.87)	(4.55)	(6.66)
Operating costs	(21.30)	(21.04)	(19.34)
Operating netback	5.39	18.59	17.26
Realized (losses) gains on derivative instruments	8.71	(0.98)	(4.60)
instruments	14.10	17.61	12.66

¹ AFF, net capital expenditures and operating netback are non-IFRS measures and are defined below under "Other Advisories".

Revenue decreased during 2020 primarily due to substantial decreases in benchmark prices coupled with a decrease in production of 1,290 boe/d or 21% from 2019 as a result of the suspension of PPR's capital program in response to market conditions. Revenue increased during 2019 primarily due to a production increase of 699 boe/d or 13% from 2018 as a result of the Marquee acquisition and PPR's successful Q4 2018 – 2019 development program. Increased revenue during 2018 was primarily the result of increased oil production due to PPR's successful drilling program coupled with benchmark oil price improvements. Additionally, on November 21, 2018, PPR entered into an Arrangement with Marquee resulting in the acquisition of large, proven and delineated light oil plays.

Disclosure Controls and Procedures

Disclosure controls and procedures (“DC&P”) seek to ensure that information to be disclosed by Prairie Provident is accumulated and communicated to management, as appropriate, to allow timely decisions regarding required disclosures. The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures, as defined by National Instrument 52-109 Certification, to provide reasonable assurance that (i) material information relating to the Company is made known to the Company’s Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. As at December 31, 2020, the Chief Executive Officer and the Chief Financial Officer evaluated the effectiveness of the design and operation of the Company’s DC&P. Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s DC&P were effective as at December 31, 2020. All control systems by their nature can only provide reasonable, but not absolute, assurance that the objectives of the control system are met.

Internal Control over Financial Reporting

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

The Company’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, internal control over financial reporting as defined in National Instrument 52-109. The control framework used by PPR’s officers to design and evaluate the Company’s ICFR is the Internal Control – Integrated Framework (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company’s ICFR was effective as of December 31, 2020. There have been no changes in the Company’s ICFR during the period from January 1, 2020 to December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company’s 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

The 2020 Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). There were no new or amended accounting standards or interpretations adopted during the year ended December 31, 2020.

The following new or amended accounting standards and pronouncements issued are applicable to PPR in future periods:

IBOR Reform and its Effects on Financial Reporting - Phase 2

In August 2020, the IASB issued *Interest Rate Benchmark Reform - Phase 2* which amended requirements in IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 7 *Financial Instruments: Disclosures*, and IFRS 16 *Leases*, relating to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities. This will be effective January 1, 2021. The Company is currently evaluating the impact of the standard on its consolidated financial statements.

Critical Accounting Estimates

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.

- On January 30, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) outbreak a Public Health Emergency of International Concern and, on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. These measures have caused, and will continue to cause significant disruption to business operations and a significant increase in economic uncertainty, with reduced demand for commodities leading to volatile prices and currency exchange rates, and a decline in long-term interest rates. The Company's operations are particularly sensitive to a reduction in the demand for, and prices of, crude oil, natural gas and natural gas liquids. In addition to the impact on commodity prices, COVID-19 has created many uncertainties in the crude oil and natural gas industry with respect to increased counterparty credit risk and valuation of long-lived petroleum and natural gas assets. The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for our business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact our financial results in future periods.
- 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 could have a significant impact on impairment losses or impairment reversals;
- Reserve 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;
- 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;
- 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;
- Amounts recorded for capitalized general and administrative cost that is related to directly attributed supporting functions and activity to post-license exploration and evaluation assets and to development and producing CGU properties requires the use of estimates and judgements and is by its nature subject to measurement uncertainty;
- 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; and
- Management applies judgement in reviewing modifications of financial liabilities to determine if the modifications are considered substantial under the requirements of IFRS 9, including the consideration of qualitative and quantitative factors. The classification of a modification as non-substantial or substantial impacts the accounting treatment for the financial liability as to the implementation of modification accounting or extinguishment accounting and as such, may have material implications on the financial statements.

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 below. Additional risks are provided in the "Risk Factors" section of the 2020 Annual Information Form filed on SEDAR at www.sedar.com.

Risks Associated with Commodity Prices

- PPR's operational results and financial condition, and therefore the amount of capital expenditures, are dependent on the prices received for crude oil and natural gas production. Decreasing crude oil and natural gas prices and/or widening of oil price differentials will affect the Company's cash flows, impact its level of capital expenditures and may result in the shut-in of certain producing properties. Longer-term adverse forward pricing outlook could also result in write-down of the Company's carrying values of its oil and gas assets.
- The Revolving Facility has a reserves-based borrowing capacity. Decreases in future commodity prices may negatively impact the borrowing capacity and restrict PPR's liquidity.
- PPR may manage the risk associated with changes in commodity prices by entering into crude oil or natural gas price derivative contracts. If PPR engages in activities to manage its commodity price exposure, it may forego the benefits it would otherwise experience if commodity prices were to increase. In addition, activities related to commodity derivative contracts could expose the Company to losses. To the extent that PPR engages in risk management activities related to commodity prices, it would be subject to the credit risks associated with the counterparties with which it contracts.

Risks Associated with Operations

- The markets for crude oil and natural gas produced in Western Canada are dependent upon available capacity to refine crude oil and process natural gas as well as pipeline or other methods to transport the products to consumers. Pipeline capacity and natural gas liquids fractionation capacity in Alberta have not kept pace with the drilling of liquids-rich gas properties in some areas of the province which may limit production periodically.
- Exploration and development activities may not yield anticipated production, and the associated cost outlay may not be recovered. In addition, the costs and expenses of drilling, completing and operating wells are often uncertain.
- Continuing production from a property is largely dependent upon the ability of the operator of that property. A portion of PPR's production is either operated by third parties or dependent on third-party infrastructure and PPR has limited ability to influence costs on partner-operated properties. To the extent the operator fails to perform their duties properly, PPR's operating income from such properties may be reduced.
- Exploration and development activities are dependent on the availability of drilling, completion and related equipment in the particular areas where the activities are conducted. Demand for limited equipment or access restrictions may negatively impact the availability of such equipment to PPR and delay exploration and development activities.
- The operations of oil and gas properties involves a number of operating and natural hazards which may result in health and safety incidents, environmental damage and other unexpected and/or dangerous conditions.
- The operations of oil and gas properties are subject to environmental regulation pursuant to local, provincial and federal legislation. Changes in these regulations could have a material adverse effect on operating and capital costs. A breach of such legislation may result in the imposition of fines as well as higher operating standards that may increase costs. Public support for climate change action has grown in recent years. Governments in Canada and globally have responded to these shifting societal attitudes by adopting ambitious emissions reduction targets and supporting legislation. Existing and future laws and regulations may impose significant compliance costs or liabilities on failure to comply with requirements.
- PPR's corporate environment, health and safety program has a number of specific policies and practices to minimize the risk of safety hazards and environmental incidents. It also includes an emergency response program should an incident occur. If areas of higher risk are identified, PPR will undertake to analyze and recommend changes to reduce

the risk including replacement of specific infrastructure. In addition to the above, PPR maintains business interruption insurance, commercial general liability insurance as well as specific environmental liability insurance, in amounts consistent with industry standards. Although PPR carries industry standard property and liability insurance on its properties, losses associated with potential incidents could potentially exceed insurance coverage limits.

Risks Associated with Reserve Estimates

- The reservoir and recovery information in reserve reports prepared by independent reserve evaluators are estimates and actual production and recovery rates may vary from the estimates and the variations may be significant. The reserves estimation process is inherently complex and subjective. 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. Reserves data impacts not only PPR's financial statements, but also business decisions such as those pertaining to merger and acquisitions, and the assessment of capital projects for development and budgeting. Uncertainties around reserves estimates could have a profound impact on PPR's financial position, operating performance and strategic plans.

Risks Associated with Capital Resources

- Absent capital reinvestment or acquisition, PPR's reserves and production levels from petroleum and natural gas properties will decline over time as a result of natural declines. As a result, cash generated from operating these properties may decline. A decrease in reserves levels will also negatively impact the borrowing base under outstanding credit facilities.
- PPR is required to comply with covenants under outstanding debt agreements. In the event the Company does not comply with the covenants, its access to capital may be restricted. Any additional indebtedness brings the Company closer to its financial covenant limits, which increases the possibility of adverse changes in revenues, expenses, assets or liabilities resulting in non-compliance with financial covenants. Any such future non-compliance could result in adverse action by the lenders, including the imposition of limits on further borrowing.
- There have been high levels of price and volume volatility of publicly-traded securities in the last couple of years, particularly in the oil and natural gas exploration and development industry. Fluctuations in prices have not necessarily been related to the operating performance, underlying asset values or prospect of such companies. Market fluctuations may hinder the Company's ability to raise equity.
- To the extent that external sources of capital become limited or unavailable or available on unfavourable terms, PPR's ability to make capital investments, meet its capital commitments, and maintain or expand existing assets and reserves may be impaired and PPR's assets, liabilities, business, financial condition, and results of operations may be materially or adversely affected as a result.
- Fluctuations in interest rates could result in increases in the amount PPR pays to service future debt. World oil prices are quoted in US dollars and the price received by Canadian producers is therefore affected by the Canadian/US dollar exchange rate. A material increase in the value of the Canadian dollar may negatively impact PPR's net production revenue.
- PPR is exposed to exchange rate risk from its US dollar denominated long-term debt. Material adverse changes to the Canadian dollar and US dollar exchange rate could negatively impact PPR's cash flow related to interest and principal payments.
- Although the Company monitors the credit worthiness of third parties with which it contracts, there can be no assurance that the Company will not experience a loss for nonperformance by any counterparty with whom it has a commercial relationship. Such events may result in material adverse consequences to the business of the Company.

Associated with Acquisitions

- Acquisitions of oil and gas properties or companies are based in large part on engineering, environmental and economic assessments made by the acquirer, independent engineers and consultants. These assessments include a

series of assumptions regarding such factors as recoverability and marketability of oil and natural gas, environmental restrictions and prohibitions regarding releases and emissions of various substances, future prices of oil and natural gas and operating costs, future capital expenditures and royalties and other government levies which will be imposed over the producing life of the reserves. Many of these factors are subject to change and are beyond the Company's control. All such assessments involve a measure of geological, engineering, environmental and regulatory uncertainty that could result in lower production and reserves or higher operating or capital expenditures than anticipated.

- Although select title and environmental reviews are conducted prior to any purchase of resource assets, such reviews cannot guarantee that any unforeseen defects in the chain of title will not arise to defeat the Company's title to certain assets or that environmental defects, liabilities or deficiencies do not exist or are greater than anticipated. Such deficiencies or defects could adversely affect the value of the assets and the Company's securities.
- There may be liabilities that the Company failed to discover or was unable to quantify in its due diligence review conducted prior to the execution of an acquisition, and which could have a material adverse effect on the Company's business, financial condition or future prospects.
- Achieving the benefits of an acquisition depends in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as the Company's ability to realize the anticipated growth opportunities and synergies from integrating the assets into its existing portfolio of properties. The integration of the assets requires the dedication of substantial management effort, time and resources, which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the disruption of ongoing business, customer and employee relationships that may adversely affect its ability to achieve the anticipated benefits of the acquisition.

General Business Risks

- The operations of PPR are conducted under permits issued by the federal and provincial governments and these permits must be renewed periodically. The federal and provincial governments may make operating requirements more stringent, which may require additional spending.
- Provincial programs, including royalty regimes and environmental regulations, related to the oil and gas industry may change in a manner that adversely impacts the Company. Future amendments to any of these programs could result in reduced cash flow and operating results.
- The use of fracture stimulations has been ongoing safely in an environmentally responsible manner in Western Canada for decades. With the increase in the use of fracture stimulations in horizontal wells, there is increased communication between the oil and natural gas industry and a wider variety of stakeholders regarding the responsible use of this technology. This increased attention to fracture stimulations may result in increased regulation or changes of law, which may make the conduct of PPR's business more expensive or prevent the Company from conducting its business as it currently does.
- The operation of oil and gas properties requires physical access for people and equipment on a regular basis, which could be affected by weather, accidents, government regulations or third-party actions.
- Skilled labor is necessary to run operations (both those employed directly by PPR and by the Company's contractors) and there is a risk that it may have difficulty sourcing skilled labor which could lead to increased operating and capital costs.
- The loss of a member of PPR's senior management team and/or key technical operations employee could result in a disruption to the Company's operations.
- Income tax laws, other laws or government incentive programs relating to the oil and gas industry, may in the future be changed or interpreted in a manner that affects PPR or its stakeholders.
- The Company has become increasingly dependent on the availability, capacity, reliability and security of its information technology (IT) systems and infrastructure. Should access to these systems be significantly interrupted, the operations of the Company could be disrupted.

Impact of the COVID-19 Pandemic

PPR's business, financial condition and results of operations could be materially and adversely affected by the outbreak of epidemics, pandemics and other public health crises in geographic areas in which we have operations, suppliers, customers or employees, including the global outbreak of the COVID-19 pandemic and the ongoing uncertainty as to the extent and duration of the pandemic. This ongoing COVID-19 pandemic, and actions that have, and may be taken by governmental authorities in response thereto, has resulted, and may continue to result in, among other things: increased volatility in financial markets and foreign currency exchange rates; disruptions to global supply chains; labour shortages; reductions in trade volumes; temporary operational restrictions and restrictions on gatherings greater than a certain number of individuals, shelter-in-place declarations and quarantine orders, business closures and travel bans; an overall slowdown in the global economy; political and economic instability; and civil unrest. In particular, the COVID-19 pandemic has resulted in, and may continue to result in, a reduction in the demand for, and prices of, commodities that are closely linked to PPR's financial performance. The recent resurgence of COVID-19 cases and the emergence of virus variants in certain geographic areas, and the possibility that a resurgence may occur in other areas, has resulted in the re-imposition of certain restrictions noted above by local authorities. This further increases the risk and uncertainty as to the extent and duration of the COVID-19 pandemic and the resultant impact on commodity demand and prices. A prolonged period of decreased demand for, and prices of, these commodities, and any applicable storage constraints, could also result in us voluntarily curtailing or shutting in production, which could adversely impact our business, financial condition and results of operations. PPR is also subject to risks relating to the health and safety of our people, as well as the potential for a slowdown or temporary suspension of our operations in locations impacted by an outbreak, increased labour and fuel costs, and regulatory changes. Such a suspension in operations could also be mandated by governmental authorities in response to the COVID-19 pandemic. This could negatively impact PPR's production for a sustained period of time, which would adversely impact our business, financial condition and results of operations. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Company is not known at this time. Estimates and judgments made by management in the preparation of these financial statements are increasingly difficult and subject to a higher degree of measurement uncertainty during this volatile period.

Forward-Looking Statements

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

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

- estimates of the Company's oil and natural gas reserves;
- estimates of the Company's future oil, natural gas and NGL production, including estimates of any increases or decreases in the Company's production;
- estimates of future capital expenditures;
- estimates and judgements related to common shares and preferred shares valuations;
- the Company's future financial condition and results of operations;
- the source of funding for the Company's activities, including development costs;
- the Company's ability to meet its capital commitment;
- the Company's future revenues, cash flows and expenses;
- the Company's access to capital and expectations with respect to liquidity and capital resources, 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;
- a continuation of depressed natural gas prices;
- the availability of capital on economic terms to fund the Company's significant capital expenditures and acquisitions;
- the Company's ability to obtain adequate financing to pursue other business opportunities;
- the Company's ability to 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 working capital needs;
- the Company's ability to replace and sustain production;
- a lack of available drilling and production equipment, and related services and labor;
- 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 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:

(\$000s)	December 31, 2020	December 31, 2019
Current assets	20,807	20,708
Less: current derivative instrument assets	(798)	(11)
Current assets excluding current derivatives instruments	20,009	20,697
Less: Accounts payable and accrued liabilities	14,683	18,479
Working capital	5,326	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")

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 December 31,		Year Ended December 31,	
(\$000s)	2020	2019	2020	2019
Cash flow from operating activities	3,958	6,150	10,182	4,380
Changes in non-cash working capital	(493)	(1,894)	1,779	12,653
Other	(1,743)	448	(1,727)	528
Transaction, restructuring and other costs	131	(20)	238	888
Adjusted funds flow ("AFF")	1,853	4,684	10,472	18,449
Decommissioning settlements	420	126	1,869	3,801
AFF - excluding decommissioning settlements	2,273	4,810	12,341	22,250

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. "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 December 31,		Year Ended December 31,	
(\$000s)	2020	2019	2020	2019
Net earnings (loss) before income tax	3,130	(12,734)	(90,851)	(33,392)
Add (deduct):				
Interest	3,859	3,530	15,209	14,228
Depletion and depreciation	6,237	9,822	27,887	39,826
Depreciation on right-of-use assets	518	685	2,170	2,743
Exploration and evaluation expense	2,372	460	4,183	996
Unrealized loss (gain) on derivatives	3,917	6,619	(4,780)	10,618
Impairment (recovery) loss	1,872	(436)	78,459	(436)
Accretion	697	814	2,786	3,360
Gain on foreign exchange	(3,649)	(1,616)	(1,425)	(3,826)
Change in other liabilities	1,841	—	1,361	(3,283)
Modification of financial liabilities	(15,874)	—	(15,874)	—
Share – based compensation	(28)	179	225	679
Gain on sale of properties	(172)	(163)	(375)	(263)
Gain on warrant liability	344	(60)	260	(726)
Transaction costs, reorganization and other costs ¹	131	(20)	238	888
Bank Adjusted EBITDAX	5,195	7,080	19,473	31,412

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 borrowings under long-term debt including principal and deferred interest, 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)	December 31, 2020	December 31, 2019
Working capital ¹	5,326	2,218
Borrowings outstanding (principal plus deferred interest)	(121,274)	(116,677)
Total net debt	(115,948)	(114,459)

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