



Financial Statements

For the years ended December 31, 2019 and 2018



Independent auditor's report

To the Shareholders of InPlay Oil Corp.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of InPlay Oil Corp. (the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the statements of financial position as at December 31, 2019 and 2018;
- the statements of (loss) and comprehensive (loss) for the years then ended;
- the statements of changes in equity for the years then ended;
- the statements of cash flows for the years then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

Calgary, Alberta
March 17, 2020

Statements of Financial Position

AS AT DECEMBER 31,

(Thousands of Canadian dollars)	Note	2019	2018
ASSETS			
Current assets			
Accounts receivable and accrued receivables	20	\$ 8,766	\$ 3,263
Prepaid expenses and deposits		2,234	2,385
Inventory		1,398	1,778
Derivative contracts	20	-	149
Total current assets		12,398	7,575
Property, plant and equipment	5, 6, 7	233,169	227,650
Exploration and evaluation	8	21,085	21,661
Right-of-use asset	9	1,057	-
Deferred tax	12	30,297	57,135
Total assets		\$ 298,006	\$ 314,021
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	20	13,933	15,696
Lease liability	9	462	-
Decommissioning obligation	11	992	811
Total current liabilities		15,387	16,507
Bank debt	10	53,635	45,400
Lease liability	9	601	-
Decommissioning obligation	11	70,775	68,525
Total long term liabilities		125,011	113,925
Total liabilities		140,398	130,432
Shareholders' equity			
Share capital	13	234,391	234,391
Contributed surplus	14	15,399	14,538
Deficit		(92,182)	(65,340)
Total shareholders' equity		157,608	183,589
Total liabilities and shareholders' equity		\$ 298,006	\$ 314,021
Commitments	22		

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

On behalf of the Board of Directors:

(signed) "Steve Nikiforuk"
 Steve Nikiforuk
 Director

(signed) "Doug Bartole"
 Doug Bartole
 Director

Statements of (Loss) and Comprehensive (Loss)

FOR THE YEARS ENDED DECEMBER 31

(Thousands of Canadian dollars, except per share amounts)

	Note	2019	2018
Oil and natural gas sales	16	\$ 75,025	\$ 76,419
Royalties		(5,827)	(8,009)
Revenue		69,198	68,410
(Loss) on derivative contracts	16	(127)	(2,389)
		69,071	66,021
Operating expenses		26,206	27,206
Transportation expenses		1,474	1,411
Exploration and evaluation expenses	8	509	7,034
General and administrative expenses	17	6,427	6,247
Share-based compensation	14	671	1,237
Transaction & integration costs		-	62
Depletion and depreciation	6	29,053	27,202
Gain on asset disposition	6	-	(2,654)
Impairment	7	714	3,893
Finance expenses	18	4,021	3,874
		69,075	75,512
(Loss) before tax		(4)	(9,491)
Deferred income tax expense (recovery)	12	26,838	(893)
(Loss) and comprehensive (loss)		\$ (26,842)	\$ (8,598)
(LOSS) PER COMMON SHARE			
Basic and diluted	15	\$ (0.39)	\$ (0.13)

The above Statements of (Loss) and Comprehensive (Loss) should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

(Thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance at December 31, 2017		233,957	12,966	(56,742)	190,181
Issuance of share capital	13	443	-	-	443
Share-issue costs, net of deferred tax	13	(9)	-	-	(9)
Share-based compensation	14	-	1,572	-	1,572
(Loss) for the period		-	-	(8,598)	(8,598)
Balance at December 31, 2018		234,391	14,538	(65,340)	183,589
Share-based compensation	14	-	861	-	861
(Loss) for the period		-	-	(26,842)	(26,842)
Balance at December 31, 2019		234,391	15,399	(92,182)	157,608

The above Statements of Changes in Equity should be read in conjunction with the accompanying notes.

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31

(Thousands of Canadian dollars)

2019

2018

Cash flows provided by (used in):

OPERATING ACTIVITIES

(Loss) for the period		\$	(26,842)	\$	(8,598)
Non-cash items:					
Depletion and depreciation	6		29,053		27,202
Unrealized loss on derivative contracts	16		149		(1,728)
Accretion on decommissioning obligation	11		1,449		1,547
Share-based compensation	14		671		1,237
Exploration expense	8		509		7,034
Deferred income tax expense (recovery)	12		26,838		(893)
Gain on asset dispositions	6		-		(2,654)
Impairment	7		714		3,893
Decommissioning expenditures	11		(1,557)		(1,240)
Funds flow			30,984		25,800
Net change in non-cash working capital	19		(3,315)		4,611
Net cash flow provided by operating activities			27,669		30,411

FINANCING ACTIVITIES

Issuance of share capital, net of issue costs	13	\$	-	\$	542
Principal portion of finance lease payments	9		(284)		-
Increase in bank debt	10		8,235		512
Net cash flow provided by financing activities			7,951		1,054

INVESTING ACTIVITIES

Capital expenditures – Property, plant and equipment	6	\$	(32,006)	\$	(42,775)
Capital expenditures – Exploration and evaluation	8		(100)		(7,431)
Property acquisitions	5		(102)		(5,818)
Property dispositions	6		9		27,288
Net change in non-cash working capital	19		(3,421)		(2,729)
Net cash flow (used in) investing activities			(35,620)		(31,465)

Increase (decrease) in cash and cash equivalents			-		-
Cash and cash equivalents, beginning of the year			-		-
Cash and cash equivalents, end of the year		\$	-	\$	-

Interest paid in cash		\$	2,548	\$	2,327
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The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

DECEMBER 31, 2019 AND DECEMBER 31, 2018

(Tabular amounts in thousands of Canadian dollars, unless otherwise stated)

1. CORPORATE INFORMATION

InPlay Oil Corp. (“**InPlay**” or the “**Company**”) is actively engaged in the acquisition, exploration and development of petroleum and natural gas properties, and the production and sale of crude oil, natural gas and natural gas liquids. InPlay is a publicly traded company incorporated and domiciled in Alberta, Canada. InPlay’s common shares are listed on the Toronto Stock Exchange (the “**TSX**”) and trade under the symbol IPO. InPlay’s corporate office is located at 920, 640 - 5th Avenue SW, Calgary, Alberta, its registered office is located at 2400, 525 - 8th Avenue SW, Calgary Alberta, and its petroleum and natural gas operations are located in the Province of Alberta.

A plan of arrangement (the “**Arrangement**”) involving the predecessor to InPlay (“**Prior InPlay**”) and Anderson Energy Inc. (“**Anderson**”), a publicly traded company listed on the TSX, was completed on November 7, 2016. The Arrangement constituted a reverse acquisition that involved a change of control of Anderson and a business combination of Anderson and Prior InPlay to form a new corporation that now carries on Prior InPlay’s and Anderson’s business and operations under the name InPlay Oil Corp. At that time, InPlay had the same directors and management as Prior InPlay. Effective November 10, 2016, InPlay common shares commenced trading on the TSX in substitution of Anderson common shares. All regulatory filings of InPlay and Anderson can be accessed electronically under InPlay’s profile on the SEDAR website at www.sedar.com.

2. BASIS OF PRESENTATION

2(a) Compliance with IFRS

These financial statements comply with International Financial Reporting Standards (“**IFRS**”) and International Accounting Standards (“**IAS**”) as issued by the International Accounting Standards Board (“**IASB**”).

The financial statements were approved and authorized for issuance by the Board of Directors on March 17, 2020.

2(b) Historical cost convention

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 20.

2(c) Functional and presentation currency

The financial statements are presented in Canadian dollars, which is the Company’s functional currency.

2(d) Function and nature of expenses

Expenses in the statements of (loss) and comprehensive (loss) are presented as a combination of function and nature in conformity with industry practice. Transportation expenses, share-based compensation, depletion and depreciation, and impairment of property, plant and equipment are presented in separate lines by their nature, while operating expenses, general and administrative expenses and transaction costs are presented on a functional basis. Significant general and administrative are presented by their nature in note 17.

3. SUMMARY OF ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as noted below.

3(a) Changes in accounting policies

The following accounting policy was adopted during the year ended December 31, 2019.

(i) IFRS 16 “Leases”

Effective January 1, 2019, the Company has adopted IFRS 16, “Leases” (“**IFRS 16**”). The Company has applied the new standard using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively. Therefore, the comparative information in the Company’s statement of financial position, statements of (loss) and comprehensive (loss), changes in equity and cash flows have not been restated.

On adoption, the Company elected to use the following practical expedients permitted under IFRS 16:

- Apply a single discount rate to a portfolio of leases with similar characteristics;
- Account for leases with a remaining term of less than twelve months as at January 1, 2019 as short-term leases; and
- Account for lease payments as an expense and not recognize a right-of-use asset if the leased asset is of a low dollar value (less than US\$5,000).

On adoption of IFRS 16, the Company recognized lease liabilities in relation to certain vehicle and equipment leases which had previously been classified as operating leases under the principles of IAS 17, “Leases” (“**IAS 17**”). Under the principles of the new standard, these leases have been measured at the present value of the remaining lease payments, discounted using the discount rate implicit in the lease or the Company’s incremental borrowing rate as at January 1, 2019. The Company’s incremental borrowing rate as at January 1, 2019 was approximately 5.0 percent. Leases with a remaining term of less than twelve months and low-value leases were excluded. Total lease liabilities of \$0.4 million were recorded as at January 1, 2019.

The associated right-of-use asset was measured in an amount equal to the corresponding lease liability. A right-of-use asset of \$0.4 million has been recognized at January 1, 2019. Refer to note 9 for a reconciliation of the Company’s lease commitments disclosed as at December 31, 2018 with the lease obligation recognized on the Company’s statement of financial position at January 1, 2019.

The impact of the adoption of IFRS 16 as at January 1, 2019 is as follows:

(Thousands of Canadian dollars)	Reported at Dec. 31, 2018	IFRS 16 Adjustment	Balance at Jan. 1, 2019
ASSETS			
Right-of-use asset	-	370	370
LIABILITIES			
Lease liability	-	370	370

3(b) Jointly-controlled assets

Many of the Company's petroleum and natural gas operations are conducted under joint operating agreements whereby two or more parties jointly control the assets. These joint arrangements are classified as joint operations, and the financial statements include the Company's ownership-interest share of the assets, liabilities, revenue and expenses of these joint operations.

3(c) Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of the acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, the difference is recognized immediately in profit or loss. Transaction costs associated with a business combination are expensed as incurred.

3(d) Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of less than 90 days.

3(e) Inventory

Inventory is primarily comprised of oil and gas field equipment. Inventories are carried at the lower of cost and net realizable value. Cost consists of the costs incurred to purchase the inventory. Net realizable value is based on current market prices as at the date of the statement of financial position.

3(f) Financial instruments

InPlay recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and liabilities within the scope of IAS 9 "Financial Instruments" are classified as amortized cost, fair value through other comprehensive income or fair value through profit or loss ("FVTPL"). IFRS 9 uses a single approach to determine the classification of a financial asset. InPlay does not designate derivative instruments as hedges. Transaction costs are included in the initial carrying amount of financial instruments except for fair value through profit and loss items, in which case they are expensed as incurred.

(i) Financial assets and liabilities at fair value through profit or loss

The Company classifies its derivative contracts as measured at FVTPL. All of the Company's derivative contracts currently in place are derivatives not designated for hedge accounting and are therefore measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the statements of income.

(ii) Financial assets and liabilities at amortized cost

The Company classifies its cash and cash equivalents, accounts receivable and accrued receivables, accounts payable and accrued liabilities and bank debt at amortized cost. These financial instruments are measured at fair value on initial recognition, which is typically the relevant transaction price unless the transaction contains a significant financing component. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method. The carrying values of the Company's cash and cash equivalents, accounts receivable and accrued receivables, accounts payable and accrued liabilities and bank debt approximate their fair values.

(iii) Fair value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the valuation date. For financial instruments that have no active market, fair value is determined using valuation techniques including the use of recent arm's length market transactions, reference to the current market value of equivalent financial instruments and discounted cash flow analysis.

(iv) Impairment of financial assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all accounts receivable and accrued receivables. The Company's accounts receivable and accrued receivables are the only financial assets that are subject to IFRS 9's expected credit loss model. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss is immaterial given the low risk associated with its collectability.

3(g) Exploration and evaluation ("E&E") expenditures

Expenditures incurred to explore for and evaluate oil and natural gas reserves may include costs to acquire unproven oil and natural gas properties or licenses to explore, drill exploratory wells, geological and geophysical costs to evaluate the underlying resource, and directly-attributable general and administrative costs. E&E expenditures are recognized and measured as follows:

(i) Prior to obtaining the right to explore

Expenditures are recognized as an expense in profit or loss when incurred.

(ii) Subsequent to acquiring the right to explore, and before technical feasibility and commercial viability have been established

Expenditures incurred are accumulated on an area-by-area basis and are measured at cost as E&E assets. E&E assets are not subject to depletion and depreciation; however, E&E assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an E&E asset may exceed its recoverable amount. Any impairment loss is recognized as an expense in profit or loss.

(iii) Upon demonstration of technical feasibility and commercial viability

An E&E asset is assessed for impairment, and any impairment loss is recognized immediately in profit or loss. The carrying amount of the E&E assets, net of any impairment loss, is reclassified to property, plant and equipment.

3(h) Property, plant and equipment

Property, plant and equipment carrying amounts are measured at cost less accumulated depreciation and depletion, and accumulated impairment losses.

(i) Development and production expenditures

All costs directly associated with the development of oil and natural gas reserves are recognized as property, plant and equipment assets if the expenditures extend or enhance the recoverable reserves of the underlying assets. Such costs include property acquisitions, carrying amounts reclassified from E&E assets to property, plant and equipment, drilling and completion costs, gathering and processing infrastructure, capitalized decommissioning obligations, and directly attributable general and administration costs.

Repairs and maintenance and operational expenditures that do not extend or enhance recoverable reserves are charged to profit or loss when incurred.

(ii) Impairment and reversals of impairment

Oil and natural gas assets are grouped into cash generating units (“CGUs”) for impairment testing. The Company has the following CGUs: Pembina, Rocky Mountain House, Pigeon Lake, Huxley and Red Deer/Minors.

At the end of each reporting date, the Company considers various external and internal sources of information when assessing whether any indication exists that a CGU may be impaired or that an impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the Company estimates the CGU’s recoverable amount. A CGU’s recoverable amount is the higher of its value in use and its fair value less costs of disposal.

When the carrying amount of a CGU exceeds its recoverable amount, the carrying value is reduced to its recoverable amount. That reduction is an impairment loss, which is recognized immediately in profit or loss.

When the recoverable amount exceeds the carrying amount of a CGU, and the carrying value had been reduced in a prior period due to an impairment loss, the carrying amount of the CGU is increased to the revised estimate of its recoverable amount not exceeding the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior periods. That increase in carrying value is a reversal of an impairment loss, which is recognized immediately in profit or loss.

3(i) Depletion and depreciation

The net carrying amount of oil and natural gas producing properties, including tangible equipment associated with these oil and natural gas properties, is depleted using the unit-of-production method based on estimated proven and probable reserves taking into account the estimated future development and decommissioning costs required to produce these reserves. For other assets, depreciation is recognized in profit or loss on a straight-line or declining basis over the assets’ estimated useful lives.

3(j) Leases

The Company assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases are recognized as a right-of-use asset and a corresponding lease liability at the date on which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be paid by the lessee under residual value guarantees, the exercise price of purchase options if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease, less any lease incentives receivable. These payments are discounted using the Company’s incremental borrowing rate when the rate implicit in the lease is not readily available. The Company uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

Lease payments are allocated between the liability and finance costs. The finance cost is charged to net income over the lease term. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee or if there is a change in the assessment of whether the Company will exercise a purchase, extension or termination option that is within the control of the Company. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the

statements of profit and comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or site on which it is located, less any lease payments made at or before the commencement date. The right-of-use asset is depreciated, on a straight-line basis, over the shorter of the estimated useful life of the asset or the lease term. The right-of-use asset may be adjusted for certain remeasurements of the lease liability and impairment losses. Leases that have terms of less than twelve months or leases on which the underlying asset is of low value are recognized as an expense in the statements of profit and comprehensive income on a straight-line basis over the lease term.

A lease modification will be accounted for as a separate lease if the modification increases the scope of the lease and if the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope. For a modification that is not a separate lease or where the increase in consideration is not commensurate, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, when the rate implicit to the lease is not readily available, with a corresponding adjustment to the right-of-use asset. A modification that decreases the scope of the lease will be accounted for by decreasing the carrying amount of the right-of-use asset, and recognizing a gain or loss in net income that reflects the proportionate decrease in scope.

Prior to January 1, 2019, leases in which substantially all of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term. Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases within property, plant and equipment.

3(k) Decommissioning obligations

The Company has regulatory obligations for the future decommissioning of the Company's oil and gas locations following the end of the assets' useful lives. Decommissioning activities include abandonment of wellbores, dismantling and decommissioning surface equipment and remediating site disturbance. Provision is made for the estimated costs of decommissioning and site restoration and capitalized in the relevant E&E asset or property, plant and equipment category.

Decommissioning obligations are measured at the present value of management's estimation of the amount and timing of expenditures. Changes in the estimated timing of decommissioning and restoration or related cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The accretion on the decommissioning and restoration provision is classified as a finance cost.

3(l) Income taxes

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the acquisition affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of (loss) and comprehensive (loss). Deferred income tax assets and liabilities are offset, if legally enforceable rights exist to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3(m) Share capital

Shares, consisting of common shares, are classified as equity.

3(n) Loss per share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares outstanding during the period.

Diluted loss per share is calculated using the treasury stock method by adjusting the weighted average number of common shares outstanding for dilutive instruments.

3(o) Share-based compensation plans

The Company's share-based compensation plans include both cash-settled and equity-settled awards.

Liabilities associated with cash-settled awards are determined based on the fair value of the award at grant date and are subsequently revalued at each statement of financial position date. This valuation incorporates the share price and outstanding awards at the statement of financial position date. Share-based compensation expense is recognized in the statement of loss and comprehensive loss over the vesting period with a corresponding increase or decrease in accounts payable and accrued liabilities.

Share-based compensation expense associated with equity-settled awards is determined based on the fair value of the award at grant date and is recognized over the vesting period, with a corresponding increase to contributed surplus. At the time the awards are exercised, the associated contributed surplus amount is recognized in share capital.

3(p) Revenue recognition

Revenue from the sale of oil, natural gas and NGLs is recognized when control of the product is transferred, which is, generally, when title passes to the customer in accordance with the terms of the sales contract. These sales contracts represent a series of distinct transactions. The Company considers its performance obligations under these contracts to be satisfied and control to be transferred when all the following conditions are satisfied:

- InPlay has transferred title and physical possession of the commodity to the buyer;
- InPlay has transferred the significant risks and rewards of ownership of the commodity to the buyer; and
- InPlay has the present right to payment.

Revenue is measured based on the consideration specified in the contract with the customer. Payment terms for InPlay's sales contracts are on the 25th of the month following delivery. InPlay does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money.

The Company sells its production of crude oil, natural gas and NGLs pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price, adjusted for quality, location and other factors. The amount of revenue recognized is based on the agreed transaction price with any variability in transaction price recognized in the same period. Fees associated with marketing, transportation and other items are based on fixed price contracts.

Revenue from the production of oil, natural gas and NGLs from properties in which InPlay has an ownership interest with other producers is recognized on a net working interest basis.

The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have an original expected duration of one year or less and it does not have any long-term contracts with unfulfilled performance obligations. In addition, the Company also applies a practical expedient of IFRS 15 that allows any incremental costs of obtaining contracts with customers to be recognized as an expense when incurred rather than being capitalized.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

4(a) Significant judgements in applying accounting policies

The judgements made in applying accounting policies that have the most significant effect on the amounts recognized in these financial statements are as follows:

(i) Exploration and evaluation expenditures

The application of the Company's policy for exploration and evaluation expenditures requires management to make certain judgements as to the nature of the expenditures and the technical and commercial feasibility of the underlying resource property.

E&E assets remain capitalized as long as sufficient progress is being made in assessing whether the recovery of the petroleum products is technically feasible and commercially viable. The concept of "sufficient progress" is a judgmental area, and it is possible to have E&E assets remain classified as such for several years while additional E&E activities are carried out or the Company seeks government, regulatory or internal approval for development plans. E&E assets are subject to ongoing technical, commercial and Management review to confirm the continued intent to establish the technical feasibility and commercial viability of the discovery. When Management is making this assessment, changes to project economics, expected capital expenditures and production costs, results of other operators in the region and access to infrastructure and potential infrastructure expansions are important factors.

(ii) Identification of CGUs

A CGU is defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The classification of assets into CGUs requires judgement with respect to similarity of sales points, shared infrastructure, geographical proximity, commodity type and similarity of exposures to market risks.

(iii) Impairment / reversal of impairment of non-financial assets

Judgement is required to select, consider and interpret various external and internal sources of information to assess when impairment or reversal of impairment indicators exist.

4(b) Major sources of estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

(i) Estimation of oil and natural gas reserves

Depletion and depreciation of property, plant and equipment costs, and amounts used in impairment calculations are based on estimates of oil and natural gas reserves. At least once per year, independent qualified reserves engineers prepare a reserves assessment and evaluation of the Company's oil and natural gas properties. Reserves estimates are based on engineering data, estimated future commodity prices and costs, expected future rates of production, and the timing

of future capital expenditures, all of which are subject to many uncertainties and interpretations. Refer to note 7 for additional information relating to this estimate.

(ii) Impairment of non-financial assets

Value in use is determined by estimating the present value of the future net cash flows from the continued use of the CGU, and is subject to the risks associated with estimating the value of reserves.

Fair value less costs of disposal refers to the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable, willing parties, less costs of disposal.

The key assumptions and estimates of the value of oil and gas reserves and the existing and potential markets for the Company's oil and natural gas assets are made at the time of reserves estimation and market assessment and are subject to change as new information becomes available. Changes in international and regional factors including supply and demand of commodities, inventory levels, drilling activity, currency exchange rates, weather, geopolitical and general economic environment factors may result in significant changes to the estimated recoverable amounts of CGUs. Refer to note 7 for additional information relating to this estimate.

(iii) Business combinations

The amounts recorded for identifiable assets acquired, liabilities assumed, goodwill or a gain from a bargain purchase will depend on management's assumptions and estimates of future events, in particular, those assumptions and estimates used in the estimation of the fair value of oil and natural gas reserves. Refer to note 5 for additional information relating to this estimate.

(iv) Decommissioning obligation

The decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure and the discount rates used to determine the net present value of the obligations. Refer to note 11 for additional information relating to this estimate.

(v) Deferred tax

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The recognition of deferred tax assets is based on the significant assumptions and estimations regarding future revenues and expenses and the probability that the deductible temporary differences will reverse in the foreseeable future. Changes in the tax rates or assumptions and estimates used in the recognition of deferred taxes may result in material adjustment to the amount recognized. Refer to note 12 for additional information relating to this estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

5. BUSINESS COMBINATIONS

5(a) 2018 Acquisitions

Effective February 15, 2018, the Company purchased producing assets, undeveloped lands and interests in various facilities in the Cardium area of Alberta, Canada. The transaction has been accounted for as a business combination under IFRS 3.

The fair value at February 15, 2018 of the total consideration transferred and the amounts recognized attributed to the assets acquired was as follows:

Consideration:	(\$'000s)
Cash consideration	5,464
Total Consideration	5,464
Recognized amounts of assets acquired and liabilities assumed:	
Exploration and evaluation	1,253
Property, plant and equipment	5,548
Decommissioning obligation	(1,337)
Total identifiable net assets	5,464

The fair value of the decommissioning obligation at February 15, 2018 was based on the estimated future cash flows to decommission the acquired property, plant and equipment at the end of its useful life. The discount rates used to determine the net present value of the decommissioning obligation was a credit adjusted risk-free rate of 8.0%. At March 31, 2018 the decommissioning liability was revalued at a risk-free rate of 2.2%, resulting in incremental additions of \$3.4 million of decommissioning obligation and corresponding additions to property, plant and equipment.

The acquired business contributed revenues consisting of oil and natural gas sales net of royalties of approximately \$0.9 million and operating income, which is defined as oil and natural gas sales net of royalties less operating and transportation costs, of \$0.45 million to InPlay for the period from February 15, 2018 to December 31, 2018. Had the asset acquisition occurred on January 1, 2018, an additional pro-forma oil and natural gas sales net of royalties of approximately \$0.1 million and operating income of \$0.05 million would have been recognized over the year ended December 31, 2018.

Subsequent to the acquisition, the cash consideration was reduced by \$0.2 million as a result of receipt of the final statement of adjustments relating to the acquisition, with a reduction in the recognized amounts of Property, plant and equipment.

The fair values of the identifiable assets and liabilities acquired as reported in the table above were estimated based on information available at the time of preparation of the financial statements and could be subject to change.

5(b) 2019 Acquisitions

The Company completed minor acquisitions during the year ended December 31, 2019.

6. PROPERTY, PLANT AND EQUIPMENT

Cost (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
Balance at December 31, 2017	386,434	518	386,952
Additions	43,094	16	43,110
Additions/revisions to decommissioning obligation	2,993	-	2,993
Acquisitions	5,597	-	5,597
Dispositions	(28,795)	-	(28,795)
Transfer from Exploration and evaluations assets	3,381	-	3,381
Balance at December 31, 2018	412,704	534	413,238
Additions	32,195	3	32,198
Additions/revisions to decommissioning obligation	2,539	-	2,539
Acquisitions	102	-	102
Dispositions	(9)	-	(9)
Transfer from Exploration and evaluation assets	167	-	167
Balance at December 31, 2019	447,698	537	448,235
Accumulated Depletion & Impairment (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
Balance at December 31, 2017	162,318	214	162,532
Impairment loss	3,893	-	3,893
Depletion and depreciation	27,134	68	27,202
Dispositions	(8,039)	-	(8,039)
Balance at December 31, 2018	185,306	282	185,588
Impairment loss	714	-	714
Depletion and depreciation ⁽¹⁾	28,711	53	28,764
Balance at December 31, 2019	214,731	335	215,066
Net book value (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
At December 31, 2018	227,398	252	227,650
At December 31, 2019	232,967	202	233,169

⁽¹⁾ Excludes \$0.3 million of depreciation relating to Right-of-use assets.

For the year ended December 31, 2019, additions to property, plant and equipment included capitalized general and administrative expenses of \$1.5 million (December 31, 2018: \$1.3 million) and costs related to share-based compensation of \$0.2 million (December 31, 2018: \$0.3 million). Future development costs in the amount of \$225 million were included in the depletion calculation for the three months ended December 31, 2019 (December 31, 2018 - \$240 million).

During the year ended December 31, 2018, the Company sold a processing facility and associated gather equipment and infrastructure assets for cash proceeds of \$10 million prior to adjustments, recognizing a gain on dispositions of \$2.7 million.

During the year ended December 31, 2018, the Company completed a strategic disposition of certain non-core oil and gas properties in the west Pembina area of Alberta for cash consideration of \$16.7 million, before closing adjustments. At September 30, 2018, the Company classified these assets as held for sale. Immediately prior to classifying the assets as held for sale, the Company conducted a review of the assets' recoverable amounts based on expected consideration to be received and transferred these assets at their carrying amount, with an impairment loss of \$3.9 million being recognized. The recoverable amount was

determined based on the assets' fair value less costs of disposal which was based on the purchase price before closing adjustments.

7. IMPAIRMENT LOSS

2019 Impairment Considerations

Indicators of impairment relating to Property, plant and equipment were considered to exist as at December 31, 2019 as the Company's net assets were greater than its market capitalization. Impairment tests were performed for each the Company's CGUs which resulted in an impairment loss of \$0.7 million being recorded in the Company's statement of (loss) and comprehensive (loss) relating to the Company's Huxley CGU. The Company used the income approach technique to measure fair value of the CGUs whereby the net present value of the after tax future cash flows were calculated using a discount rate of 13% for Huxley and 12% for all other CGUs. The future cash flows were based on level 3 fair value hierarchy inputs: the Company's reserves prepared by its independent reserves evaluator, including key assumptions regarding the discount rate, quantities of reserves and production volumes, future commodity prices as prepared by its independent reserves evaluator, royalty obligations, operating expenses, development costs, and decommissioning costs.

If the discount rate used was one percent higher, additional impairment of approximately \$0.3 million would have been recorded, all relating to the Huxley CGU. If the commodity prices used in the impairment tests were five percent lower, approximately \$0.5 million of additional impairment would have been recorded, all relating to the Huxley CGU.

2018 Impairment Considerations

Indicators of impairment relating to Property, plant and equipment were considered to exist as at December 31, 2018 as the Company's net assets were greater than its market capitalization. Impairment tests were performed for each the Company's CGUs which did not result in an impairment loss being recorded in the Company's statement of (loss) and comprehensive (loss). The Company used the income approach technique to measure fair value of the CGUs whereby the net present value of the after tax future cash flows were calculated using a discount rate of 12%. The future cash flows were based on level 3 fair value hierarchy inputs: the Company's reserves prepared by its independent reserves evaluator, including key assumptions regarding the discount rate, quantities of reserves and production volumes, future commodity prices as prepared by its independent reserves evaluator, royalty obligations, operating expenses, development costs, and decommissioning costs.

If the discount rate used was one percent higher, impairment of approximately \$0.4 million would have been recorded for the year ended December 31, 2018, all relating to the Huxley CGU. If the commodity prices used in the impairment tests were five percent lower, approximately \$0.8 million of impairment would have been recorded for the year ended December 31, 2018, all relating to the Huxley CGU.

Refer to note 6 for further information on impairment of \$3.9 million relating to assets classified as held for sale throughout the year ended December 31, 2018.

The following table shows the benchmark commodity prices used in the impairment calculation of Property, plant and equipment at December 31, 2019 and December 31, 2018 of which are based on an average of independent reserve evaluator pricing estimates.

Year	Light, Sweet Crude Edmonton (\$Cdn/bbl)			AECO Gas Price (\$Cdn/MMBtu)		
	December 31, 2019	December 31, 2018	Change	December 31, 2019	December 31, 2018	Change
2020	72.64	75.84	(3.20)	2.04	2.31	(0.27)
2021	76.06	80.17	(4.11)	2.32	2.74	(0.42)
2022	78.35	83.22	(4.87)	2.62	3.05	(0.43)
2023	80.71	85.34	(4.63)	2.71	3.21	(0.50)
2024	82.64	87.33	(4.69)	2.81	3.31	(0.50)
2025	84.60	89.50	(4.90)	2.89	3.39	(0.50)
2026	86.57	91.89	(5.32)	2.96	3.46	(0.50)
2027	88.49	93.76	(5.27)	3.03	3.54	(0.51)
2028	90.31	95.68	(5.37)	3.10	3.62	(0.52)
2029	92.17	97.57	(5.40)	3.17	3.70	(0.53)

8. EXPLORATION AND EVALUATION

(\$'000s)	December 31, 2019	December 31, 2018
Opening balance	21,661	25,987
Additions	100	7,430
Acquisitions related to Business Combinations	-	1,253
Dispositions	-	(2,594)
Transfers to property, plant and equipment	(167)	(3,381)
Transfers to exploration and evaluation expense	(509)	(7,034)
Ending balance	21,085	21,661

Included within Exploration and evaluation expense during the year ended December 31, 2018 is the write-off of a vertical stratigraphic test well drilled in the amount of \$1.2 million. An amount of \$1.6 million was recorded as Exploration and evaluation expense during the year ended December 31, 2018 relating to the expiry of undeveloped land leases during the year and anticipated near term undeveloped land lease expiries. The Company also transferred \$3.4 million in Exploration and evaluation assets to Property, plant and equipment during the year ended December 31, 2018 when these assets demonstrated technical feasibility and commercial viability. At this time, these assets were tested for impairment resulting in an Exploration and evaluation expense of \$4.2 million being recorded in the year ended December 31, 2018.

At December 31, 2019, the Company evaluated its remaining Exploration and evaluation assets for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no additional impairment was recorded relating to the Company's Exploration and evaluation assets.

9. LEASES

9(a) Right-of-use asset

Cost (\$'000s)	Office Lease	Equipment	Total
Balance at January 1, 2019	-	370	370
Additions	805	172	977
Balance at December 31, 2019	805	542	1,347

Accumulated Depreciation (\$'000s)	Office Lease	Equipment	Total
Balance at January 1, 2019	-	-	-
Depletion and depreciation	60	230	290
Balance at December 31, 2019	60	230	290

Net book value (\$'000s)	Office Lease	Equipment	Total
At December 31, 2019	745	312	1,057

9(b) Lease liability

The following table reconciles the Company's lease commitments disclosed as at December 31, 2018 with the lease liability recognized on the Company's statement of financial position at January 1, 2019. Refer to Note 3 for further information.

	(\$'000s)
As disclosed at December 31, 2018	206
Short-term leases	(206)
Leases identified as at January 1, 2019	385
Discounting impact	(15)
Lease liability recognized at January 1, 2019	370

The following table details the movement in lease liabilities for the year ended December 31, 2019.

	(\$'000s)
Balance at January 1, 2019	370
Additions	172
Modifications	805
Repayments	(308)
Interest	24
Balance at December 31, 2019	1,063
Expected to be incurred within one year	462
Expected to be incurred beyond one year	601

Payments relating to short-term leases and leases of low-value assets were \$0.3 million for the year ended December 31, 2019.

The Company does not have any lease contracts that are entered into by a joint arrangement, or on behalf of the joint arrangement, at December 31, 2019.

10. BANK DEBT

At December 31, 2019, the Company has a syndicated \$75 million senior secured revolving credit facility (the "Credit Facility"). The Credit Facility consists of a \$65 million revolving line of credit and a \$10 million operating line of credit. The Credit Facility has a term date of May 31, 2020, and if not extended, additional advances would not be permitted and any outstanding advances would become repayable one year later on May 31, 2021. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company. At December 31, 2019 the Company had drawn \$53.6 million on the Credit Facility.

Under the credit agreement, advances can be drawn as prime rate loans and bear interest at the bank's prime lending rate plus interest rates between 0.50% and 2.50%. Advances may also be drawn as banker's

acceptances, Libor loans, and letters of credit, subject to stamping fees and margins ranging from 1.50% to 3.50%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.3375% to 0.7875%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter end for the preceding 12 months. There are standard reporting covenants under the Credit Facility, however there are no financial covenants. The Company was in compliance with these standard reporting covenants as at December 31, 2019.

The available lending limit of the Credit Facility is scheduled for annual review on or before May 31, 2020 and is based on the Lenders' interpretation of the Company's reserves and future commodity prices. In addition, a provision has been put in place until the next annual review on May 31, 2020 in which the borrowing base may be redetermined if requested by any lender in the event the outstanding principal under the Credit Facility exceeds \$60 million. There can be no assurance that the amount or terms of the available Credit Facility will not be adjusted at the next review. In the event that the lenders reduce the borrowing base below the amount drawn at the time of the redetermination, the Company would have 60 days to eliminate any borrowing base shortfall by repaying the amount drawn in excess of the re-determined borrowing base or by providing additional security or other consideration satisfactory to the lenders. Repayments of principal are not required provided that the borrowings under the facility do not exceed the authorized borrowing amount and the Company is in compliance with all covenants, representations and warranties.

11. DECOMMISSIONING OBLIGATION

(\$'000s)	December 31, 2019	December 31, 2018
Opening balance	69,336	67,158
Provisions incurred	1,186	1,053
Acquired through Business Combinations	-	1,337
Dispositions	-	(2,422)
Provisions settled	(1,557)	(1,240)
Revaluation of liabilities acquired based on discount rate	-	3,427
Change in estimates	1,353	(1,524)
Accretion expense	1,449	1,547
Ending balance	71,767	69,336
Expected to be incurred within one year	992	811
Expected to be incurred beyond one year	70,775	68,525

The estimated future cash out flows as at December 31, 2019 are based on the current estimated costs, government regulations and industry practices to decommission the Company's exploration and production assets. The Company used an inflation rate of 1.73% per annum (December 31, 2018 – 2.0%) until settlement of the obligations, which is assumed to occur over the next 7 to 52 years, to determine the future estimated cash flows. The net present value of the future estimated cash flows have been determined using risk-free discount rates of 1.7% to 1.8% depending on the estimated timing of the future settlement of the obligations (December 31, 2018 – 1.9% to 2.2%). The total inflation adjusted undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at December 31, 2019 was approximately \$106.5 million (December 31, 2018 - \$125.9 million). The total uninflated undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at December 31, 2019 was approximately \$71.8 million (December 31, 2018 - \$71.8 million).

At the date of business combinations, the acquired decommissioning obligations were recognized at fair value which was estimated using credit adjusted discount rates of 8.0%. The impact of the change in the estimated present value using risk-free discount rates is recorded as 'Revaluation of liabilities acquired based on discount rate'.

There are material uncertainties about the amount and timing of the decommissioning obligation, which include the future market prices for services and equipment required to undertake decommissioning activities, the government regulations and industry practices that set out the relevant standards, and the life-span of the Company's portfolio of exploration and production assets.

12. INCOME TAX

The following table reconciles the income tax expense calculated using the statutory tax rates to the income tax expense (recovery) per the statement of (loss) and comprehensive (loss):

(\$'000s)	December 31, 2019	December 31, 2018
(Loss) before tax	\$ (4)	\$ (9,491)
Expected income tax rate	26.5%	27%
Expected income tax expense (recovery)	(1)	(2,563)
Increase (decrease) in income taxes resulting from:		
Non-taxable permanent differences – stock based comp.	184	334
Flow through share expenditure effect	-	1,310
Other	8	26
Change in opening tax pools	(270)	-
Change in effective tax rate	8,479	-
Write-off of deferred income tax asset	18,438	-
Deferred income tax expense (recovery)	\$ 26,838	\$ (893)

Deferred tax asset and (liability) components and continuity:

(\$'000s)	Charged (credited)			
	December 31, 2017	Profit or loss	Directly to balance sheet	December 31, 2018
PP&E, and E&E	\$ 22,646	\$ (6,076)	\$ (1,272)	\$ 15,298
Decommissioning obligation	18,416	304	-	18,720
Non-capital losses	15,125	7,490	-	22,615
Derivative contract	426	(467)	-	(41)
Share issue costs	898	(358)	3	543
Total	\$ 57,511	\$ 893	\$ (1,269)	\$ 57,135

(\$'000s)	Charged (credited)			
	December 31, 2018	Profit or loss	Directly to balance sheet	December 31, 2019
PP&E, and E&E	\$ 15,298	\$ (15,298)	\$ -	\$ -
Decommissioning obligation	18,720	(2,215)	-	16,505
Non-capital losses	22,615	(9,203)	-	13,412
Derivative contract	(41)	41	-	-
Share issue costs	543	(163)	-	380
Total	\$ 57,135	\$ (26,838)	\$ -	\$ 30,297

The Company's non-capital losses will begin to expire between 2032 and 2039. The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. With the exception of the temporary differences related to the derivative contract

gain, the Company does not expect any deferred income tax assets or liabilities to reverse within the next twelve months. The deferred tax asset is supported by the expected future utilization of tax attributes based upon future cashflows derived from the Company's updated forecasts and independent year end reserve report using the total proven and probable cashflows and expenditures and factoring in expected corporate general and administrative and interest expenses. As a result of the a decrease in these future cashflows, the deferred tax asset was reduced by \$18.4 million as at December 31, 2019, with a corresponding charge to deferred income tax expense.

During the quarter ended June 30, 2019, the Alberta corporate tax rate decreased from 12% to 8%. The tax rate decrease will be phased in as follows: 11% effective July 1, 2019, 10% effective January 1, 2020, 9% effective January 1, 2021, and 8% effective January 1, 2022. This rate change results in decreased future value attributable to the Company's unused tax losses and temporary differences. As a result, the Company recognized a reduction to its deferred tax asset and a deferred income tax expense of \$8.5 million during the year ended December 31, 2019.

During the quarter ended June 30, 2019, the Company received a letter from the Canada Revenue Agency advising InPlay that it is proposing to reassess the Company's income tax filings relating to the November 7, 2016 Arrangement. The proposed reassessment seeks to disallow certain tax pools in the amount of \$9.3 million. If these tax pools were to be disallowed there would be no impact on current tax payable but would result in a reduction of \$9.3 million of losses which could have otherwise been carried forward into subsequent taxation years and a deferred income tax expense impact of \$2.1 million. InPlay's management remains of the opinion that, it is more likely than not that the Company's position with respect to this matter will be upheld on appeal and management will continue to pursue its objection to this proposed reassessment. Accordingly, no reduction to the Company's tax pools or accrual for a reduction to the Company's deferred tax asset has been incorporated in these financial statements.

13. SHARE CAPITAL

Outstanding share capital consists of an unlimited number of voting common shares.

	Number of Common Shares	Amount (\$'000s)
Balance at December 31, 2017	67,886,619	233,957
CEE Flow-through shares issued	369,997	555
Flow-through share premium liability	-	(112)
Share issue costs, net of deferred tax	-	(9)
Balance at December 31, 2018 and December 31, 2019	68,256,616	234,391

During the year ended December 31, 2018, 369,997 Canadian Exploration Expense ("CEE") flow-through common shares of InPlay were issued. Proceeds of \$0.6 million were raised and \$0.1 million of this amount was recorded to Flow-through share premium liability. Following this offering, the Company has spent the required CEE expenditures by December 31, 2018.

14. SHARE-BASED COMPENSATION

14(a) Stock option plan

The Company has an incentive stock option plan pursuant to which options to purchase common shares may be granted to directors, officers, employees and service providers of the Company. The aggregate number of stock options that may be granted at any time under the plan shall not exceed 10% of the aggregate number of issued and outstanding common shares. The exercise price, terms of vesting and expiry date of stock options are fixed by the directors of the Company at the time of grant. All outstanding stock options vest over a three year period, or otherwise in accordance with the stock option plan, and expire five years from the date of grant. The directors of the Company may amend, alter or revise the

terms and conditions of the stock option plan or of any outstanding stock options, subject to the terms of the plan.

	Number of options	Weighted avg. remaining life (years)	Weighted avg. exercise price
Outstanding at December 31, 2017	4,865,400	4.09	1.97
Granted during the year	1,519,200	4.26	1.39
Forfeited during the year	(20,100)	3.52	1.88
Outstanding at December 31, 2018	6,364,500	3.31	1.84
Granted during the year	3,389,200	4.95	0.69
Forfeited during the year	(252,000)	2.83	1.81
Cancelled during the year	(4,259,400)	2.27	1.98
Outstanding at December 31, 2019	5,242,300	4.26	0.98
Exercisable at December 31, 2019	754,700	2.83	1.58

Subsequent to December 31, 2019, the Company granted 148,500 stock options at an average exercise price of \$0.50 per share.

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable		
	Number of Options Outstanding	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)	Number of Options Exercisable	Weighted Average Exercise Price (\$)	Weighted Average Remaining Life (Years)
0.50 – 0.99	3,171,700	0.67	5.00	-	-	-
1.00 - 1.50	1,710,600	1.35	3.37	514,700	1.40	3.21
1.51 - 2.00	360,000	1.98	2.00	240,000	1.98	2.00
	5,242,300	0.98	4.26	754,700	1.58	2.83

14(b) Deferred share unit (“DSU”) plan

During the year ended December 31, 2019, the Company implemented a deferred share unit plan under which DSUs may be granted to non-employee directors of the Company. All outstanding DSUs vest evenly over a three year period. Awards are settled in cash at each vesting date and the value is determined by the Company’s share price on the vesting date.

	Number of DSUs
Outstanding at December 31, 2018	-
Granted during the year	500,000
Outstanding at December 31, 2019	500,000

There were no cash payments relating to DSUs during the year ended December 31, 2019. As the DSUs were granted on December 30, 2019, share-based compensation in the amount of \$nil and a liability of \$nil was recognized relating to DSUs.

14(c) Share-based compensation amounts recognized

During the year ended December 31, 2019, 4,259,400 stock options, which were originally issued to management, employees and consultants of InPlay, were surrendered and cancelled, resulting in the

recognition of an additional \$0.1 million in share based compensation expense relating to the unvested value of these options.

Share-based compensation in the amount of \$0.7 million was recognized in the year ended December 31, 2019 (December 31, 2018 - \$1.2 million), in addition to \$0.2 million (December 31, 2018 - \$0.3 million) of capitalized stock based compensation recognized for year ended December 31, 2019, all with a corresponding credit to contributed surplus.

The fair value of each stock option granted in the years ended December 31, 2019 and December 31, 2018 is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018
Risk free interest rate	1.66%	1.92%
Expected volatility	57%	57%
Expected life	3.5 years	3.5 years
Dividend yield	nil	nil
Expected forfeiture rate	nil	nil
Stock price on grant date	\$0.69	\$1.41
Fair value per option	\$0.29	\$0.61

15. LOSS PER SHARE

(\$'000s except per share amounts)	December 31, 2019	December 31, 2018
Loss for the year	\$ (26,842)	\$ (8,598)
Weighted average number of common shares (basic and diluted)	68,256,616	67,911,962
Basic and diluted loss per share ⁽¹⁾	\$ (0.39)	\$ (0.13)

⁽¹⁾ A total of 5,242,300 options are excluded from the per share calculations as they are anti-dilutive. (December 31, 2018: 6,364,500 options).

16. REVENUE AND DERIVATIVE CONTRACTS

(\$'000s)	December 31, 2019	December 31, 2018
Oil sales	63,805	65,959
Oil purchases	-	(1,125)
Natural Gas sales	6,385	4,711
NGL sales	4,835	6,874
Total	\$ 75,025	\$ 76,419
Changes in fair value of derivative contracts:		
Realized gain (loss) on derivative contracts	22	(4,117)
Unrealized gain (loss) on derivative contracts	(149)	1,728
(Loss) on derivative contracts	\$ (127)	\$ (2,389)

17. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

(\$'000s)	December 31, 2019	December 31, 2018
Salaries, benefits and bonuses	\$ 5,197	\$ 4,521
Office Rent & Parking	414	362
Computer related fees	530	492
Professional Consulting Services	393	474
Legal Expenses	145	204
Other – (Office & Admin)	1,445	1,786
Capitalized Recoveries	(1,697)	(1,592)
Total General and administrative Expense	\$ 6,427	\$ 6,247

18. FINANCE EXPENSE

(\$'000s)	December 31, 2019	December 31, 2018
Interest expense (Credit Facility and other)	\$ 2,548	\$ 2,327
Interest expense (Lease liabilities)	24	-
Accretion expense on decommissioning obligation	1,449	1,547
Finance expense	\$ 4,021	\$ 3,874

19. SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital is comprised of:

(\$'000s)	December 31, 2019	December 31, 2018
Source (use) of cash		
Accounts receivable and accruals	\$ (5,503)	\$ 5,942
Prepaid expenses, and deposits, inventory and deferred lease credits	530	(1,992)
Accounts payable and accruals	(1,763)	(2,068)
	\$ (6,736)	\$ 1,882
Related to operating activities	\$ (3,315)	\$ 4,611
Related to financing activities	-	-
Related to investing activities	(3,421)	(2,729)
	\$ (6,736)	\$ 1,882

20. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

The Company has exposure to credit, liquidity and market risk from its use of financial instruments. This note presents information about the Company's exposure to these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Management of InPlay has overall responsibility for identifying the principal risks of the Company and ensuring the policies and procedures are in place to appropriately manage these risks. InPlay's management identifies, analyzes and monitors risks and considers the implication of the market condition in relation to the Company's activities.

20(a) Fair value of financial instruments

Financial instruments comprise cash and cash equivalents, accounts receivable and accrued receivables, derivative contracts, accounts payable and accrued liabilities, lease liabilities and bank debt.

The carrying amounts for cash and cash equivalents, accounts receivable and accrued receivables, and accounts payable and accrued liabilities are reasonable approximations of their respective fair values due to the short-term maturities of those instruments. Lease liability's carrying amount is a reasonable approximation of its fair value as it is present valued at the discount rate implicit in the lease or the Company's incremental borrowing rate. Bank debt's carrying amount is also a reasonable approximation of its fair value as it is variable rate debt with similar terms to what would be available as of the statement of financial position date.

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the nature of inputs used to value the instrument:

- Level 1 – observable inputs such as quoted prices in active markets;
- Level 2 – inputs, other than the quoted market prices in active markets, which are observable, either directly and/or indirectly; and
- Level 3 – one or more of the significant inputs is not based on observable market data exists.

The fair values of the derivative contracts used for risk management as shown in the statements of financial position as at December 31, 2019 and December 2018 were measured using level 2 observable inputs, including quoted prices received from financial institutions based on published forward price curves as at the measurement date, using the remaining contracted oil and natural gas volumes.

During the years ended December 31, 2019 and December 31, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

20(b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from joint operations partners and petroleum and natural gas customers.

Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. When production is not taken in kind payment comes from the common stream operator and facility operator in which payment is typically received on the 25th day of the month following production. InPlay's approach to mitigate credit risk associated with these balances is to maintain marketing relationships with large, established and reputable customers, common stream operators and facility operators that are considered to be creditworthy. InPlay has not experienced any collection issues with its current common stream and facility operators.

Joint operations receivables are typically collected within two to three months of the joint operations billing being issued to the partner. InPlay mitigates collection risk from joint operations receivables by obtaining partner approval of significant capital and operating expenditures prior to expenditure and, in certain circumstances, may collect cash deposits in advance of incurring financial obligations on behalf of joint operations partners. Joint operations receivables are from partners in the petroleum and natural gas industry who are subject to the risks and conditions of the industry. Significant changes in industry conditions and risks that negatively impact partners' ability to generate cash flow will increase the risk of not collecting joint operations receivables.

The Company does not typically obtain collateral from oil and natural gas customers or joint interest partners; however, the Company does have the ability to withhold production from joint interest partners in the event of non-payment. In addition, the Company has approximately \$1.2 million in amounts owing

to oil and natural gas customers or joint interest partners that could be withheld if collection issues were to occur.

Trade and other receivables are non-interest bearing and are generally on 25 to 90 day terms. The Company's expected credit loss as at December 31, 2019 was \$0.2 million (December 31, 2018 – \$0.2 million).

In determining the recoverability of trade and other receivables, InPlay considers the type and age of the outstanding receivables, the credit risk of the counterparties, and the recourse available to InPlay. The maximum exposure to credit risk for accounts receivable and accruals, net of expected credit loss at the reporting date by type of customer was:

(\$'000s)	Carrying Amount	
	December 31, 2019	December 31, 2018
Oil and natural gas customers	\$ 6,728	\$ 1,666
Joint operations partners	950	1,015
Accruals & Other	1,088	582
Total	\$ 8,766	\$ 3,263

The Company applies the simplified approach to providing for expected credit losses as prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all accounts receivable and accrued receivables. The expected credit losses below also incorporate forward looking information.

As of December 31, 2019 and December 31, 2018, the Company's accounts receivable and accrued receivables was aged as follows:

Aging (\$'000s)	December 31, 2019	December 31, 2018
0 – 30 days	7,267	2,258
30- 90 days	310	531
Greater than 90 days	1,389	674
Expected credit loss	(200)	(200)
Total	\$ 8,766	\$ 3,263

The Company considers amounts outstanding greater than 90 days to be past due. Receivables normally collectible within 30 to 60 days can take longer as information requests and timing can come into effect in dealing with receivables from joint venture partners. At December 31, 2019 \$1.4 million (December 31, 2018 – \$0.7 million) in receivables were over 90 days due and considered past due.

Cash and cash equivalents, when held, consist of cash bank balances and short-term deposits which all mature in less than 90 days. InPlay only invests cash and enters into short-term deposits and derivative contracts with large established Canadian banks and avoids complex investment vehicles with higher risk.

20(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due.

To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures. To provide capital when needed, the Company has a credit facility which is reviewed semi-annually by its lenders. These facilities are described in note 10. The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

The following are the contractual maturities of non-derivative financial liabilities at December 31, 2019:

(\$'000s)		Less than one year		One to two years
Non-derivative financial liabilities:				
Accounts payable and accrued liabilities	\$	13,933	\$	-
Bank loans – principal ⁽¹⁾		-		53,635
Bank loans – interest ⁽²⁾		2,448		1,020
Total	\$	16,381	\$	54,655

⁽¹⁾ Assumes the Credit Facility is not renewed on May 31, 2020, whereby outstanding balances become due one year later on May 31, 2021.

⁽²⁾ Assumes interest is incurred on bank debt outstanding at December 31, 2019 at the Company's effective interest rate during the current quarter and the principal balance is repaid on May 31, 2021.

The following table shows the break down of the Company's accounts payable and accrued liabilities:

(\$'000s)	Carrying Amount	
	December 31, 2019	December 31, 2018
Trade payables ⁽³⁾	\$ 7,637	\$ 9,475
Joint operations partners	2,967	2,358
Accruals ⁽⁴⁾	3,329	3,863
Total	\$ 13,933	\$ 15,696

⁽³⁾ Includes all payables related to operations, including royalties payable.

⁽⁴⁾ Accruals include amounts for goods and services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier as of the reporting date. These accruals relate to both operating and capital activities.

20(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign currency risk, commodity price risk and interest rate risk. The Company is exposed to market risks resulting from fluctuations in commodity prices, foreign exchange rates and interest rates in the normal course of operations. Derivative instruments may be used to reduce exposure to these risks.

(i) Foreign currency exchange rate risk

The Company is exposed to the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company had no forward exchange rate contracts in place as at December 31, 2019 or December 31, 2018.

(ii) Commodity price risk

The Company is exposed to the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. The reference price for buyers and sellers of crude oil relevant to the Company's oil sales is West Texas Intermediate at Cushing, Oklahoma, USA ("WTI"), and the reference price for buyers and sellers of natural gas includes deals that are conducted anywhere within TransCanada's Alberta, Canada System, otherwise known as NOVA ("AECO"). Commodity prices for petroleum and natural gas are impacted by not only the relationship between the Canadian and United States dollar, as outlined above, but also world economic events and North American processing and supply considerations that influence the levels of supply and demand.

InPlay manages the risks associated with changes in commodity prices by entering into financial derivative risk management contracts. The Company does not apply hedge accounting for these contracts. The Company does not enter into commodity contracts other than to manage the risk of commodity price fluctuation from the Company's expected commodity sales.

At December 31, 2019 the Company did not have any commodity-based derivative contracts outstanding.

Subsequent to December 31, 2019 the Company entered into natural gas derivative contracts as follows:

Type of contract: swap (natural gas pricing AECO):

Currency denomination	Volume (GJ/day)	Average swap price	Term
Canadian dollar	4,000	1.61/GJ	April 1, 2020 – October 31, 2020

The fair value of the financial commodity risk management contracts have been allocated to current and non-current liabilities on a contract by contract basis as follows:

(\$'000s)	December 31, 2019	December 31, 2018
Current asset	\$ -	\$ 149
Current liability	-	-
Net asset position	\$ -	\$ 149

(iii) Interest rate risk

The Company is exposed to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's primary exposure is related to its floating interest rate credit facility. The Company estimates that an increase or decrease of 1% in interest rates would result in a change in total annual interest expense on bank debt by approximately \$0.5 million over 2019 (2018 - \$0.4 million).

20(e) Capital management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which will allow it to execute an acquisition or to execute on its capital investment program, provide creditor and market confidence and to sustain the future development of the business.

At December 31, 2019, InPlay's capital structure includes shareholders' equity, credit facility and working capital. The Company manages its capital structure by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecast investments and the timing of such investments, the forecast commodity prices and resulting cash flows.

InPlay's current capital structure is summarized below:

(\$'000s)	December 31, 2019		December 31, 2018	
Bank debt	\$	53,635	\$	45,400
Accounts payable and accrued liabilities		13,933		15,696
Accounts receivable and accrued receivables, prepaid expenses and deposits and inventory		(12,398)		(7,426)
Net debt		55,170		53,670
Shareholders' equity		157,608		183,589
Total capitalization	\$	212,778	\$	237,259

21. RELATED PARTY TRANSACTIONS

Key management personnel are comprised of all officers and directors of the Company. Compensation of key management personnel was as follows:

(\$'000s)	December 31, 2019		December 31, 2018	
Salaries and bonuses	\$	2,171	\$	1,877
Stock-based compensation – expensed and capitalized		634		1,262
Total executive compensation	\$	2,805	\$	3,139

22. COMMITMENTS

22(a) Lease commitments

The Company has the following estimated annual obligations related to various leases. The minimum future payments for these leases are as follows:

(\$'000s)	2020	2021	2022
Office lease payments	377	377	31
Other leases	154	87	19
Total	531	464	50

22(b) Other commitments

The Company has entered into firm service gas transportation agreements in which the Company guarantees certain minimum volumes of natural gas will be shipped on various gas transportation systems. The terms of the various agreements expire in one to five years. If no volumes were shipped pursuant to the agreements, the maximum amounts payable under the guarantees based on current tariff rates are as follows:

(\$'000s)	2020	2021	2022	2023	Thereafter
Firm service commitment ⁽¹⁾	\$ 225	\$ 70	\$ 44	\$ 42	\$ 94

⁽¹⁾ The Company's commitment relating to firm service transportation does not constitute a lease under IFRS 16 given the Company does not obtain substantially all of the economic benefit from the use of the relevant gas transportation systems.

23. SUBSEQUENT EVENTS

Subsequent to year-end, significant declines in crude oil spot prices and in stock markets have occurred for various reasons linked to the Coronavirus pandemic and other conditions impacting worldwide oil prices. The impairment tests for the Company's oil and gas assets are based on fair value less costs of disposal. As required by IFRS, we have not reflected these subsequent conditions in the recoverable amount estimates of our oil and gas assets as at December 31, 2019.

Impairment indicators for the Company's oil and gas assets could exist at March 31, 2020, if current conditions persist. The borrowing base for the Company's Credit Facility could also be negatively impacted. Management continues to work on revisions to the Company's forecasts and development plans in light of the current conditions and will use these updated assumptions and forecasts in our impairment indicator analysis and for impairment tests in the first quarter of 2020, if such tests are required.