



Financial Statements

For the three months ended March 31, 2020

Statements of Financial Position

(unaudited)

(Thousands of Canadian dollars)	Note	March 31, 2020	Dec. 31, 2019
ASSETS			
Current assets			
Accounts receivable and accrued receivables	19	\$ 5,217	\$ 8,766
Prepaid expenses and deposits		1,916	2,234
Inventory		1,217	1,398
Total current assets		8,350	12,398
Property, plant and equipment			
Exploration and evaluation	5, 6	171,803	233,169
Right-of-use asset	7	21,106	21,085
Deferred tax	8	946	1,057
Deferred tax	11	-	30,297
Total assets		\$ 202,205	\$ 298,006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	19	19,477	13,933
Lease liability	8	564	462
Decommissioning obligation	10	250	992
Total current liabilities		20,291	15,387
Bank debt			
Lease liability	9	52,586	53,635
Decommissioning obligation	8	395	601
Decommissioning obligation	10	71,610	70,775
Total long term liabilities		124,591	125,011
Total liabilities		144,882	140,398
Shareholders' equity			
Share capital	12	234,391	234,391
Contributed surplus	13	15,611	15,399
Deficit		(192,679)	(92,182)
Total shareholders' equity		57,323	157,608
Total liabilities and shareholders' equity		\$ 202,205	\$ 298,006
Commitments	20		

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 Profit (Loss) and Comprehensive Income (Loss)

(unaudited)

(Thousands of Canadian dollars, except per share amounts)	Note	Three Months Ended March 31	
		2020	2019
Oil and natural gas sales	15	\$ 13,092	\$ 19,210
Royalties		(909)	(1,492)
Revenue		12,183	17,718
(Loss) on derivative contracts	15	-	(127)
		12,183	17,591
Operating expenses		6,386	6,094
Transportation expenses		345	390
Exploration and evaluation expenses	7	1	60
General and administrative expenses	16	1,385	1,583
Share-based compensation	13	166	198
Depletion and depreciation	5	7,433	6,822
Impairment	6	65,710	-
Finance expenses	17	957	950
		82,383	16,097
Profit (loss) before tax		(70,200)	1,494
Deferred income tax expense	11	30,297	459
Profit (loss) and comprehensive income (loss)		\$ (100,497)	\$ 1,035
PROFIT (LOSS) PER COMMON SHARE			
Basic and diluted	14	\$ (1.47)	\$ 0.02

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

Statements of Changes in Equity

(unaudited)

(Thousands of Canadian dollars)	Note	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance at December 31, 2018		234,391	14,538	(65,340)	183,589
Share-based compensation	13	-	253	-	253
Profit for the period		-	-	1,035	1,035
Balance at March 31, 2019		234,391	14,791	(64,305)	184,877
Share-based compensation	13	-	608	-	608
(Loss) for the period		-	-	(27,877)	(27,877)
Balance at December 31, 2019		234,391	15,399	(92,182)	157,608
Share-based compensation	13	-	212	-	212
(Loss) for the period		-	-	(100,497)	(100,497)
Balance at March 31, 2020		234,391	15,611	(192,679)	57,323

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

Statements of Cash Flows

(unaudited)

(Thousands of Canadian dollars)

	Note	Three Months Ended March 31	
		2020	2019
Cash flows provided by (used in):			
OPERATING ACTIVITIES			
Profit (loss) for the period		\$ (100,497)	\$ 1,035
Non-cash items:			
Depletion and depreciation	5	7,433	6,822
Unrealized loss on derivative contracts	15	-	149
Accretion on decommissioning obligation	10	308	331
Share-based compensation	13	166	198
Exploration expense	7	1	60
Deferred income tax expense	11	30,297	459
Impairment	6	65,710	-
Decommissioning expenditures	10	(183)	(520)
Funds flow		3,235	8,534
Net change in non-cash working capital	18	2,628	(3,143)
Net cash flow provided by operating activities		5,863	5,391
FINANCING ACTIVITIES			
Principal portion of finance lease payments	8	(145)	(46)
Increase (decrease) in bank debt	9	(1,049)	4,808
Net cash flow provided by (used in) financing activities		(1,194)	4,762
INVESTING ACTIVITIES			
Capital expenditures – Property, plant and equipment	5	\$ (11,610)	\$ (14,730)
Capital expenditures – Exploration and evaluation	7	(22)	(33)
Property acquisitions		-	(87)
Net change in non-cash working capital	18	6,963	4,697
Net cash flow (used in) investing activities		(4,669)	(10,153)
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		\$ 649	\$ 619

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

(unaudited)

MARCH 31, 2020 AND MARCH 31, 2019

(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

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**”), applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. Certain disclosures included in the notes to the annual financial statements have been condensed in the following note disclosures or have been disclosed on an annual basis only. Accordingly, these condensed unaudited interim financial statements should be read in conjunction with the audited annual financial statements as at and for the year ended December 31, 2019.

The financial statements were approved and authorized for issuance by the Board of Directors on May 6, 2020.

In preparing these condensed unaudited interim financial statements, the basis of presentation made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the year ended December 31, 2019.

3. SUMMARY OF ACCOUNTING POLICIES

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

In preparing these condensed unaudited interim financial statements, the accounting policies, methods of computation and significant judgements made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the year ended December 31, 2019.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC members, primarily Saudi Arabia and Russia.

The full extent of the impact of COVID-19 on the Company’s operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

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.

In preparing these condensed unaudited interim financial statements, the accounting policies, methods of computation and significant judgements, estimates and assumptions made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the audited financial statements as at and for the year ended December 31, 2019, except as noted below:

Income Taxes

Deferred tax assets are recognized only if it is probable that future taxable amounts will be available to utilize those temporary differences and losses. As at December 31, 2019, the deferred tax asset utilization was supported primarily by future cashflows derived from the Company’s independent year end reserve report using the total proven and probable cashflows. Given the current market conditions as a result of the COVID-19 outbreak, management has estimated that the total proven reserves of the Company more accurately support the future utilization of the deferred tax asset as at March 31, 2020. This change in estimate has resulted in the recognition of additional deferred income tax expense of \$2.7 million in the statement of profit (loss) and comprehensive income (loss) for the three months ended March 31, 2020 with a corresponding reduction to deferred tax asset.

The COVID-19 outbreak and current market conditions have increased the complexity of estimates and assumptions used to prepare the unaudited interim financial statements, particularly related to the following key source of estimation uncertainty:

Recoverable Amounts

Determining the recoverable amount of a cash-generating unit (“CGU”) or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially estimating economic crude oil and natural gas reserves and estimating forward commodity prices.

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. PROPERTY, PLANT AND EQUIPMENT

Cost (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
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
Additions	11,654	2	11,656
Additions/revisions to decommissioning obligation	(32)	-	(32)
Balance at March 31, 2020	459,320	539	459,859

Accumulated Depletion & Impairment (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
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
Impairment loss	65,710	-	65,710
Depletion and depreciation ⁽¹⁾	7,268	12	7,280
Balance at March 31, 2020	287,709	347	288,056

⁽¹⁾ Excludes \$0.2 million of depreciation relating to Right-of-use assets (March 31, 2019: \$0.05 million).

Net book value (\$'000s)	Oil & Natural Gas Assets	Other Equipment	Total
At December 31, 2019	232,967	202	233,169
At March 31, 2020	171,611	192	171,803

For the three months ended March 31, 2020, additions to property, plant and equipment included capitalized general and administrative expenses of \$0.3 million (March 31, 2019: \$0.4 million) and costs related to share-based compensation of \$0.1 million (March 31, 2019: \$0.1 million). Future development costs in the amount of \$183 million were included in the depletion calculation for the three months ended March 31, 2020 (March 31, 2019: \$227 million).

6. IMPAIRMENT LOSS

2020 Impairment Considerations

Indicators of impairment relating to Property, plant and equipment were considered to exist as at March 31, 2020 as the Company's net assets were greater than its market capitalization and due to significant decreases in estimated future commodity prices. Impairment tests were performed for each the Company's CGUs which resulted in an impairment loss of \$65.7 million being recorded in the Company's statement of profit (loss) and comprehensive income (loss) relating to the Company's Pigeon Lake (\$19.0 million), Pembina (\$25.7 million), Rocky (\$18.9 million) and Huxley (\$2.1 million) CGUs. 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. The Company's reserves prepared by its independent reserves evaluator as at December 31, 2019 have been updated by internal qualified reserve engineers to March 31, 2020.

If the discount rate used was one percent higher, additional impairment of approximately \$6.7 million would have been recorded relating to the Company's Pigeon Lake (\$1.0 million), Pembina (\$1.9 million), Rocky (\$3.6 million) and Huxley (\$0.2 million) CGUs. If the commodity prices used in the impairment tests were five percent lower, additional impairment of approximately \$18.7 million would have been recorded relating to the Company's Pigeon Lake (\$4.4 million), Pembina (\$5.3 million), Rocky (\$8.5 million) and Huxley (\$0.5 million) CGUs.

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 in the year ended December 31, 2019, 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 in the year ended December 31, 2019, all relating to the Huxley CGU.

The following table shows the benchmark commodity prices used in the impairment calculation of Property, plant and equipment at March 31, 2020 and December 31, 2019 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)		
	March 31, 2020	Dec. 31, 2019	Change	March 31, 2020	Dec. 31, 2019	Change
2020	29.22	72.64	(43.42)	1.74	2.04	(0.30)
2021	46.85	76.06	(29.21)	2.20	2.32	(0.12)
2022	59.27	78.35	(19.08)	2.38	2.62	(0.24)
2023	65.02	80.71	(15.69)	2.45	2.71	(0.26)
2024	68.43	82.64	(14.21)	2.53	2.81	(0.28)
2025	69.81	84.60	(14.79)	2.60	2.89	(0.29)
2026	71.24	86.57	(15.33)	2.66	2.96	(0.30)
2027	72.70	88.49	(15.79)	2.72	3.03	(0.31)
2028	74.19	90.31	(16.12)	2.79	3.10	(0.31)
2029	75.71	92.17	(16.46)	2.85	3.17	(0.32)

7. EXPLORATION AND EVALUATION

(\$'000s)	March 31, 2020	December 31, 2019
Opening balance	21,085	21,661
Additions	22	100
Transfers to property, plant and equipment	-	(167)
Transfers to exploration and evaluation expense	(1)	(509)
Ending balance	21,106	21,085

At March 31, 2020, the Company evaluated its remaining Exploration and evaluation assets for indicators of any potential impairment. As a result of this assessment, indicators of impairment were identified as the Company's net assets were greater than its market capitalization and the economics of development of these properties has significantly deteriorated with decreased commodity prices. Impairment tests were performed for the Company's Exploration and evaluation assets which resulted in no impairment being recorded.

8. LEASES**8(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
Additions	-	41	41
Balance at March 31, 2020	805	583	1,388

Accumulated Depreciation (\$'000s)	Office Lease	Equipment	Total
Balance at January 1, 2019	-	-	-
Depreciation	60	230	290
Balance at December 31, 2019	60	230	290
Depreciation	89	63	152
Balance at March 31, 2020	149	293	442

Net book value (\$'000s)	Office Lease	Equipment	Total
At December 31, 2019	745	312	1,057
At March 31, 2020	656	290	946

8(b) Lease liability

The following table details the movement in lease liabilities for the three months ended March 31, 2020.

	(\$'000s)
Balance at January 1, 2019	370
Additions	172
Modifications	805
Repayments	(308)
Interest	24

Balance at December 31, 2019	1,063
Additions	41
Repayments	(161)
Interest	16
Balance at March 31, 2020	959
Expected to be incurred within one year	564
Expected to be incurred beyond one year	395

Payments relating to short-term leases and leases of low-value assets were \$nil for the three months ended March 31, 2020 (March 31, 2019: \$0.1 million).

The Company does not have any lease contracts that are entered into by a joint arrangement, or on behalf of the joint arrangement, at March 31, 2020.

9. BANK DEBT

At March 31, 2020, 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 March 31, 2020 the Company had drawn \$52.6 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 March 31, 2020.

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.

10. DECOMMISSIONING OBLIGATION

(\$'000s)	March 31, 2020	December 31, 2019
Opening balance	71,767	69,336
Provisions incurred	276	1,186
Provisions settled	(183)	(1,557)
Change in estimates	(308)	1,353
Accretion expense	308	1,449
Ending balance	71,860	71,767
Expected to be incurred within one year	250	992
Expected to be incurred beyond one year	71,610	70,775

The estimated future cash out flows as at March 31, 2020 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 1.02% per annum (December 31, 2019: 1.73%) 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 0.6% to 1.3% depending on the estimated timing of the future settlement of the obligations (December 31, 2019: 1.7% to 1.8%). The total inflation adjusted undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at March 31, 2020 was approximately \$93.0 million (December 31, 2019: \$106.5 million). The total uninflated undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at March 31, 2020 was approximately \$71.9 million (December 31, 2019: \$71.8 million).

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.

11. INCOME TAX

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

(\$'000s)	Three Months Ended March 31	
	2020	2019
Profit (loss) before tax	(70,200)	1,494
Expected income tax rate	25%	27%
Expected income tax expense (recovery)	(17,550)	404
Increase (decrease) in income taxes resulting from:		
Non-taxable permanent differences – stock based comp.	42	53
Other	1	2
Change in effective tax rate	1,401	-
Write-off of deferred income tax asset	46,403	-
Deferred income tax expense	30,297	459

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 cashflows and expenditures and factoring in expected corporate general and administrative and interest expenses. As a result of the decrease in these future cashflows, the deferred tax asset was reduced by \$46.4 million as at March 31, 2020 (March 31, 2019: nil) 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 \$1.4 million during the quarter ended March 31, 2020 due to the decrease in value of future deductibility of tax losses generated during the quarter.

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.

12. SHARE CAPITAL

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

	Number of Common Shares	Amount (\$'000s)
Balance at December 31, 2018	68,256,616	234,391
Balance at December 31, 2019 and March 31, 2020	68,256,616	234,391

13. SHARE-BASED COMPENSATION

13(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, 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
Granted during the year	148,500	4.92	0.50
Forfeited during the year	(63,000)	3.56	1.27
Outstanding at March 31, 2020	5,327,800	4.04	0.96
Exercisable at March 31, 2020	860,700	2.46	1.64

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

The Company has 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 and March 31, 2020	500,000

There were no cash payments relating to DSUs during the three months ended March 31, 2020. As the amortized amount of DSUs was immaterial, no share-based compensation expense or liability was recognized for the three months ended and as at March 31, 2020 (March 31, 2019: nil).

13(c) Share-based compensation amounts recognized

Share-based compensation in the amount of \$0.2 million was recognized in the three months ended March 31, 2020 (March 31, 2019: \$0.2 million), in addition to \$0.1 million (March 31, 2019: \$0.1 million) of capitalized stock based compensation recognized for three months ended March 31, 2020, all with a corresponding credit to contributed surplus.

The fair value of each stock option granted in the three months ended March 31, 2020 and March 31, 2019 is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended	
	2020	2019
Risk free interest rate	1.12%	-
Expected volatility	57%	-
Expected life	3.5 years	-
Dividend yield	nil	-
Expected forfeiture rate	nil	-
Stock price on grant date	\$0.53	-
Fair value per option	\$0.23	-

14. PROFIT (LOSS) PER SHARE

(\$'000s except per share amounts)	Three Months Ended March 31	
	2020	2019
Profit (loss) for the year	(100,497)	1,035
Weighted average number of common shares (basic and diluted)	68,256,616	68,256,616
Basic and diluted profit (loss) per share ⁽¹⁾	(1.47)	0.02

⁽¹⁾ A total of 5,327,800 options are excluded from the per share calculations as they are anti-dilutive. (March 31, 2019: 6,364,500 options).

15. REVENUE AND DERIVATIVE CONTRACTS

(\$'000s)	Three Months Ended March 31	
	2020	2019
Oil sales	10,412	15,634
Natural Gas sales	1,738	2,303
NGL sales	942	1,273
Total	13,092	19,210
Changes in fair value of derivative contracts:		
Realized gain on derivative contracts	-	22
Unrealized (loss) on derivative contracts	-	(149)
(Loss) on derivative contracts	-	(127)

16. GENERAL AND ADMINISTRATIVE EXPENSES

(\$'000s)	Three Months Ended March 31	
	2020	2019
Gross general and administrative	1,715	1,969
Capitalized G&A and recoveries	(330)	(386)
General and administrative expense	1,385	1,583

17. FINANCE EXPENSE

(\$'000s)	Three Months Ended March 31	
	2020	2019
Interest expense (Credit Facility and other)	633	615
Interest expense (Lease liabilities)	16	4
Accretion expense on decommissioning obligation	308	331
Finance expense	957	950

18. SUPPLEMENTAL CASH FLOW INFORMATION

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

(\$'000s)	Three Months Ended	
	March 31	
Source (use) of cash	2020	2019
Accounts receivable and accruals	3,549	(6,289)
Prepaid expenses and deposits and inventory	498	628
Accounts payable and accruals	5,544	7,215
	9,591	1,554
Related to operating activities	2,628	(3,143)
Related to investing activities	6,963	4,697
	9,591	1,554

19. 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.

19(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 at March 31, 2020 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 three month periods ended March 31, 2020 and March 31, 2019, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

19(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 \$0.5 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 March 31, 2020 was \$0.2 million (December 31, 2019: \$0.2 million). The Company has considered the impact of the COVID-19 outbreak and the resulting decreases to commodity prices on the expected credit loss of the Company and has not noted a significant impact.

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	
	March 31, 2020	December 31, 2019
Oil and natural gas customers	2,979	6,728
Joint operations partners	793	950
Accruals & Other	1,445	1,088
Total	5,217	8,766

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 March 31, 2020 and December 31, 2019, the Company's accounts receivable and accrued receivables was aged as follows:

Aging (\$'000s)	March 31, 2020	December 31, 2019
0 – 30 days	3,538	7,267
30- 90 days	1,007	310
Greater than 90 days	872	1,389
Expected credit loss	(200)	(200)
Total	5,217	8,766

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 March 31, 2020 \$0.9 million (December 31, 2019: \$1.4 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.

19(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 impacts of the COVID-19 outbreak and the resulting decreases to commodity prices has increased the liquidity risk of the Company. 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. The Company's 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. 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. The Credit Facility is described further in note 9. 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 March 31, 2020:

(\$'000s)	Less than one year	One to two years
Non-derivative financial liabilities:		
Accounts payable and accrued liabilities	19,477	-
Bank loans – principal ⁽¹⁾	-	52,586
Bank loans – interest ⁽²⁾	2,405	401
Total	21,882	52,987

⁽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 March 31, 2020 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 breakdown of the Company's accounts payable and accrued liabilities:

(\$'000s)	Carrying Amount	
	March 31, 2020	December 31, 2019
Trade payables ⁽¹⁾	12,262	7,637
Joint operations partners	1,883	2,967
Accruals ⁽²⁾	5,332	3,329
Total	19,477	13,933

⁽¹⁾ Includes all payables related to operations, including royalties payable.

⁽²⁾ 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.

19(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 March 31, 2020 or December 31, 2019.

(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. The impacts of the COVID-19 outbreak and the resulting decreases to commodity prices has significantly increased volatility of commodity prices and has increased the commodity price risk of the Company.

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 March 31, 2020 the following commodity-based derivative contracts were outstanding and recorded at estimated fair value.

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

Currency denomination	Volume (GJ/day)	Average swap price	Term	Fair value (\$'000s CAD)
Canadian dollar	4,000	1.61/GJ	April 1, 2020 – October 31, 2020	\$nil

The estimated fair value of the financial option contracts has been determined on the amounts the Company would receive or pay for another party to assume the contracts. At March 31, 2020, the Company estimates that it would receive \$nil million to terminate these contracts.

An increase or decrease of \$0.25 per Mcf AECO of natural gas would decrease the fair value of derivative contracts by \$nil and increase the fair value of derivative contracts by \$nil respectively as at March 31, 2020.

Subsequent to March 31, 2020 the Company entered into crude oil derivative and natural gas contracts as follows:

Type of contract: swap (crude oil pricing WTI):

Currency denomination	Volume (bbl/day)	Average swap price	Term
US dollar	500	32.00/bbl	May 1, 2020 – June 30, 2020
US dollar	250	31.85/bbl	May 1, 2020 – July 31, 2020

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

Currency denomination	Volume (GJ/day)	Average swap price	Term
Canadian dollar	1,500	2.22/GJ	January 1, 2021 – December 31, 2021
Canadian dollar	1,000	1.76/GJ	May 1, 2020 – October 31, 2020
Canadian dollar	1,000	2.145/GJ	June 1, 2020 – October 31, 2020

The fair value of the financial commodity risk management contracts at March 31, 2020 was \$nil (December 31, 2019: \$nil).

(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 \$0.1 million for the three months ended March 31, 2020 (March 31, 2019: \$0.1 million).

19(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 March 31, 2020, 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)	March 31, 2020	December 31, 2019
Bank debt	52,586	53,635
Accounts payable and accrued liabilities	19,477	13,933
Accounts receivable and accrued receivables, prepaid expenses and deposits and inventory	(8,350)	(12,398)
Net debt	63,713	55,170
Shareholders' equity	57,323	157,608
Total capitalization	121,036	212,778

20. COMMITMENTS

20(a) Lease commitments

The Company has the following estimated annual obligations related to leases recorded as a Lease liability on the statement of financial position. The minimum undiscounted future payments for these leases are as follows:

(\$'000s)	2020	2021	2022
Office lease payments	283	377	31
Other leases	140	84	20
Total	423	461	51

20(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⁾	219	224	79	66	152

⁽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.

21. SUBSEQUENT EVENTS

Subsequent to March 31, 2020, additional significant declines in crude oil spot prices and in stock markets have continued 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 at March 31, 2020. As required by IFRS, we have not reflected these subsequent conditions in the recoverable amount estimates of our oil and gas assets as at March 31, 2020.

Impairment indicators for the Company's oil and gas assets could exist at June 30, 2020, if current conditions persist. The borrowing base for the Company's Credit Facility could also be negatively impacted. Refer to note 9 for further information regarding the Company's Credit Facility.