Financial Statements

For the three and six months ended June 30, 2019

Statements of Financial Position

(unaudited)

(Thousands of Canadian dollars)	Note	**June 30, 2019**	Dec. 31, 2018
ASSETS			
Current assets			
Accounts receivable and accrued receivables	18	**6,456**	3,263
Prepaid expenses and deposits		**2,447**	2,385
Inventory		**1,321**	1,778
Derivative contracts	18	**-**	149
Total current assets		**10,224**	7,575
Property, plant and equipment	5, 6	**243,060**	227,650
Exploration and evaluation	7	**21,493**	21,661
Right-of-use asset		**442**	-
Deferred tax		**48,297**	57,135
Total assets		**323,516**	314,021
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	18	**14,735**	15,696
Decommissioning obligation	9	**811**	811
Total current liabilities		**15,546**	16,507
Bank debt	8	**51,793**	45,400
Lease liability		**443**	-
Decommissioning obligation	9	**78,280**	68,525
Total long term liabilities		**130,516**	113,925
Total liabilities		**146,062**	130,432
Shareholders' equity			
Share capital	11	**234,391**	234,391
Contributed surplus	12	**14,997**	14,538
Deficit		**(71,934)**	(65,340)
		177,454	183,589
Total liabilities and shareholders' equity		**323,516**	314,021
Commitments	19		

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

(signed) "Doug Bartole"
Doug Bartole

Statements of Profit (Loss) and Comprehensive Income (Loss)

(unaudited)

(Thousands of Canadian dollars, except per share amounts)	Note	Three Months Ended June 30		Six Months Ended June 30	
		2019	2018	**2019**	2018
Oil and natural gas sales	14	**19,995**	20,993	**39,205**	40,902
Royalties		**(1,609)**	(2,245)	**(3,101)**	(4,236)
Revenue		**18,386**	18,748	**36,104**	36,666
(Loss) on derivative contracts	14	**-**	(1,837)	**(127)**	(3,612)
		18,386	16,911	**35,977**	33,054
Operating expenses		**6,744**	6,953	**12,838**	13,301
Transportation expenses		**420**	298	**810**	611
Exploration and evaluation expenses	7	**-**	49	**60**	79
General and administrative expenses	15	**1,795**	1,608	**3,378**	3,230
Share-based compensation	12	**162**	285	**360**	489
Transaction & integration costs		**-**	-	**-**	28
Depletion and depreciation	6	**7,548**	6,416	**14,370**	12,762
Finance expenses	16	**966**	948	**1,917**	1,902
Gain on asset disposition	6	**-**	-	**-**	(2,654)
		17,635	16,557	**33,733**	29,748
Profit before tax		**751**	354	**2,244**	3,306
Deferred income tax expense	10	**8,380**	680	**8,838**	2,242
Profit (loss) and comprehensive income (loss)		**(7,629)**	(326)	**(6,594)**	1,064
PROFIT (LOSS) PER COMMON SHARE					
Basic and diluted	13	**(0.11)**	0.00	**(0.10)**	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, 2017		233,957	12,966	(56,742)	190,181
Share-based compensation	12	-	714	-	714
Profit for the period		-	-	1,064	1,064
Balance at June 30, 2018		233,957	13,680	(55,678)	191,959
Issuance of share capital	11	443	-	-	443
Share-issue costs, net of deferred tax	11	(9)	-	-	(9)
Share-based compensation	12	-	858	-	858
(Loss) for the period		-	-	(9,662)	(9,662)
Balance at December 31, 2018		234,391	14,538	(65,340)	183,589
Share-based compensation	12	-	459	-	459
(Loss) for the period		-	-	(6,594)	(6,594)
Balance at June 30, 2019		**234,391**	**14,997**	**(71,934)**	**177,454**

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 June 30		Six Months Ended June 30	
Cash flows provided by (used in):		**2019**	2018	**2019**	2018
OPERATING ACTIVITIES					
Profit (loss) for the period		**(7,629)**	(326)	**(6,594)**	1,064
Non-cash items:					
Depletion and depreciation	6	**7,548**	6,416	**14,370**	12,762
Unrealized loss (gain) on derivative contracts	14	**-**	(126)	**149**	568
Accretion on decommissioning obligation	9	**294**	398	**625**	764
Share-based compensation	12	**162**	285	**360**	489
Exploration expense	7	**-**	49	**60**	79
Deferred income tax expense	10	**8,380**	680	**8,838**	2,242
Gain on asset dispositions	6	**-**	-	**-**	(2,654)
Decommissioning expenditures	9	**(294)**	(71)	**(814)**	(915)
Net change in non-cash working capital	17	**2,188**	(290)	**(954)**	(161)
Net cash flow provided by operating activities		**10,649**	7,015	**16,040**	14,238
FINANCING ACTIVITIES					
Principal portion of finance lease payments		**(53)**	-	**(99)**	-
Increase in bank debt	8	**1,585**	5,655	**6,393**	6,678
Net cash flow provided by financing activities		**1,532**	5,655	**6,294**	6,678
INVESTING ACTIVITIES					
Capital expenditures – Property, plant and equipment	6	**(4,662)**	(6,226)	**(19,392)**	(19,760)
Capital expenditures – Exploration and evaluation	7	**(26)**	(6,103)	**(59)**	(6,116)
Property acquisitions	5	**-**	(184)	**(87)**	(5,862)
Property dispositions	6	**9**	-	**9**	10,000
Net change in non-cash working capital	17	**(7,502)**	(887)	**(2,805)**	892
Net cash flow (used in) investing activities		**(12,181)**	(13,400)	**(22,334)**	(20,846)
Increase (decrease) in cash and cash equivalents		**-**	(730)	**-**	70
Cash and cash equivalents, beginning of the period		**-**	800	**-**	-
Cash and cash equivalents, end of the period		**-**	70	**-**	70
Interest paid in cash		**668**	550	**1,283**	1,138
Short term lease payments		**113**	-	**229**	-

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

Notes to the Financial Statements

(unaudited)

JUNE 30, 2019 AND JUNE 30, 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. InPlay has 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, 2018.

The financial statements were approved and authorized for issuance by the Board of Directors on August 6, 2019.

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, 2018, except as noted below.

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.

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, 2018, except for the adoption of IFRS 16 "Leases".

3(a) Impact of adoption of 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 profit and comprehensive income, 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 19 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

(i) Recognition and measurement

The Company applied IFRS 16 using the modified retrospective approach. Therefore, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy found in the audited financial statements as at and for the year ended December 31, 2018.

The following accounting policy is applicable from January 1, 2019:

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.

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.

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, 2018, except as noted above.

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 six months ended June 30, 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	**19,490**	**-**	**19,490**
Additions/revisions to decommissioning obligation	**9,944**	**-**	**9,944**
Acquisitions	**87**	**-**	**87**
(Dispositions)	**(9)**	**-**	**(9)**
Transfer from Exploration and evaluation assets	**167**	**-**	**167**
Balance at June 30, 2019	**442,383**	**534**	**442,917**

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
Depletion and depreciation(1)	**14,240**	**29**	**14,269**
Balance at June 30, 2019	**199,546**	**311**	**199,857**

(1) Excludes $0.1 million of depreciation relating to Right-of-use assets.

Net book value ($'000s)	**Oil & Natural Gas Assets**	**Other Equipment**	**Total**
At December 31, 2018	227,398	252	227,650
At June 30, 2019	**242,837**	**223**	**243,060**

For the six months ended June 30, 2019, additions to property, plant and equipment included capitalized general and administrative expenses of $0.8 million (June 30, 2018: $0.7 million) and costs related to share-based compensation of $0.1 million (June 30, 2018: $0.2 million). Future development costs in the amount of $225 million were included in the depletion calculation for the three months ended June 30, 2019 (June 30, 2018 - $201 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.

At June 30, 2019 there were no indicators of impairment or impairment reversal.

7. EXPLORATION AND EVALUATION

($'000s)	June 30, 2019	Dec. 31, 2018
Opening balance	**21,661**	25,987
Additions	**59**	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	**(60)**	(7,034)
Ending balance	**21,493**	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 June 30, 2019 there were no indicators of impairment relating to the Company's Exploration and evaluation assets.

8. BANK DEBT

At June 30, 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 June 30, 2019 the Company had drawn $51.8 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 June 30, 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 semi-annual review on November 30, 2019 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 reducee 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.

9. DECOMMISSIONING OBLIGATION

($'000s)	**June 30, 2019**	Dec. 31, 2018
Opening balance	**69,336**	67,158
Provisions incurred	**361**	1,053
Acquired through Business Combinations	**-**	1,337
Dispositions	**-**	(2,422)
Provisions settled	**(814)**	(1,240)
Revaluation of liabilities acquired based on discount rate	**-**	3,427
Change in estimates	**9,583**	(1,524)
Accretion expense	**625**	1,547
Ending balance	**79,091**	69,336
Expected to be incurred within one year	**811**	811
Expected to be incurred beyond one year	**78,280**	68,525

The estimated future cash out flows as at June 30, 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 2.0% 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 1.4% to 1.7% depending on the estimated timing of the future settlement of the obligations (December 31, 2018 – 1.9% to 2.18%). The total inflation adjusted undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at June 30, 2019 was approximately $126.5 million (December 31, 2018 - $125.9 million).

At the date of the 2018 business combination, the acquired decommissioning obligations were recognized at fair value which was estimated using a credit adjusted discount rate 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.

10. INCOME TAX

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

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Profit before tax	**751**	354	**2,244**	3,306
Expected income tax rate	**26.5%**	27%	**26.5%**	27%
Expected income tax	**199**	96	**595**	893
Increase (decrease) in income taxes resulting from:				
Non-taxable permanent differences – stock based comp.	**42**	77	**95**	132
Flow through share expenditure effect	**-**	496	**-**	1,204
Other	**3**	11	**5**	13
Change in opening tax pools	**(270)**	-	**(270)**	-
Change in effective tax rate	**8,406**	-	**8,413**	-
Deferred income tax expense	**8,380**	680	**8,838**	2,242

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 $8.4 million during the quarter ended June 30, 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.

11. 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 June 30, 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.

12. SHARE-BASED COMPENSATION

12(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 period	1,519,200	4.26	1.39
Forfeited during the period	(20,100)	3.52	1.88
Outstanding at December 31, 2018	**6,364,500**	**3.31**	**1.84**
Granted during the period	217,500	4.76	1.02
Outstanding at June 30, 2019	**6,582,000**	**2.88**	**1.81**
Exercisable at June 30, 2019	**3,721,300**	**2.68**	**1.90**

12(b) Share-based compensation amounts recognized

Share-based compensation in the amount of $0.2 million and $0.4 million was recognized in the three and six months ended June 30, 2019 (three months ended June 30, 2018 - $0.3 million; six months ended June 30, 2018 - $0.5 million), in addition to $0.1 million (six months ended June 30, 2018 - $0.2 million) of capitalized stock based compensation recognized in the six months ended June 30, 2019, all with a corresponding credit to contributed surplus.

The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Risk free interest rate	**1.58%**	1.92%	**1.58%**	1.92%
Expected volatility	**56%**	57%	**56%**	57%
Expected life	**3.5 years**	3.5 years	**3.5 years**	3.5 years
Dividend yield	**nil**	nil	**nil**	nil
Expected forfeiture rate	**nil**	nil	**nil**	nil
Stock price on grant date	**1.04**	1.41	**1.04**	1.41
Fair value per option	**$0.44**	$0.61	**$0.44**	$0.61

13. PROFIT PER SHARE

($'000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Profit (loss) for the period	**(7,629)**	(326)	**(6,594)**	1,064
Weighted average number of shares (basic and diluted)	**68,256,616**	67,886,619	**68,256,616**	67,886,619
Basic and diluted profit per share[1]	**(0.11)**	0.00	**(0.10)**	0.02

[1] A total of 6,582,000 options are excluded from the per share calculations as they are anti-dilutive. (June 30, 2018: 6,384,600 options).

14. REVENUE AND DERIVATIVE CONTRACTS

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Oil sales	**17,835**	18,491	**33,469**	35,430
Natural gas sales	**970**	812	**3,273**	2,334
Natural gas liquids sales	**1,190**	1,690	**2,463**	3,138
Total	**19,995**	20,993	**39,205**	40,902
Changes in fair value of derivative contracts:				
Realized gain (loss) on derivative contracts	**-**	(1,963)	**22**	(3,044)
Unrealized gain (loss) derivative contracts	**-**	126	**(149)**	(568)
Total	**-**	(1,837)	**(127)**	(3,612)

15. GENERAL AND ADMINISTRATIVE EXPENSES

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Gross general and administrative	**2,308**	2,038	**4,277**	4,014
Capitalized G&A and recoveries	**(513)**	(430)	**(899)**	(784)
General and administrative expense	**1,795**	1,608	**3,378**	3,230

16. FINANCE EXPENSE

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2019	2018	**2019**	2018
Interest expense (Credit Facility and other)	**668**	550	**1,283**	1,138
Interest expense (Lease liabilities)	**4**	-	**9**	-
Accretion on decommissioning obligation	**294**	398	**625**	764
Finance expense	**966**	948	**1,917**	1,902

17. SUPPLEMENTAL CASH FLOW INFORMATION

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

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
Source (use) of cash:	**2019**	2018	**2019**	2018
Accounts receivable and accruals	**3,096**	1,568	**(3,193)**	176
Prepaid expenses, deposits and inventory	**(234)**	(981)	**395**	(1,103)
Accounts payable and accruals	**(8,176)**	(1,764)	**(961)**	1,658
	(5,314)	(1,177)	**(3,759)**	731
Relating to operating activities	**2,188**	(290)	**(954)**	(161)
Relating to investing activities	**(7,502)**	(887)	**(2,805)**	892
	(5,314)	(1,177)	**(3,759)**	731

18. 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 the 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.

18(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 the 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 June 30, 2019 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 volumes.

During the six month periods ended June 30, 2019 and June 30, 2018, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

18(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.

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 June 30, 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:

	Carrying Amount	
($'000s)	**June 30, 2019**	Dec. 31, 2018
Oil and natural gas customers	**4,885**	1,666
Joint operations partners	**941**	1,015
Accruals & Other	**630**	582
Total	**6,456**	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 June 30, 2019 and December 31, 2018, the Company's accounts receivable and accrued receivables, was aged as follows:

Aging ($'000s)	June 30, 2019	Dec. 31, 2018
0 – 30 days	**5,241**	2,258
31 – 90 days	**323**	531
Greater than 90 days	**1,092**	674
Expected credit loss	**(200)**	(200)
Total	**6,456**	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 June 30, 2019, $1.1 million (December 31, 2018 – $0.7 million) in accounts receivable was 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.

18(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. This facility is described in note 8. 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 June 30, 2019:

($'000s)	Less than one year	One to two years
Non-derivative financial liabilities:		
Accounts payable and accrued liabilities	14,735	-
Bank debt – principal[1]	-	51,793
Bank debt – interest[2]	2,527	2,316
Total	17,262	54,109

(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 June 30, 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)	June 30, 2019	Dec. 31, 2018
Trade payables[3]	**6,696**	9,475
Joint operations partners	**2,532**	2,358
Accruals[4]	**5,507**	3,863
Total	**14,735**	15,696

(3) Includes all accounts payable 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.

18(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 June 30, 2019 and 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 June 30, 2019 the Company did not have any commodity-based derivative contracts outstanding.

The fair value of the financial commodity risk management contracts have been allocated as follows:

($'000s)	**June 30, 2019**	Dec. 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 interest expense on bank debt by approximately $0.1 million for the three months ended June 30, 2019 (June 30, 2018 - $0.1 million).

18(e) Capital management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility which would allow InPlay 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 June 30, 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)	June 30, 2019	Dec. 31, 2018
Bank debt	**51,793**	45,400
Accounts payable and accrued liabilities	**14,735**	15,696
Accounts receivable and accrued receivables, prepaid expenses and deposits and inventory	**(10,224)**	(7,426)
Net debt	**56,304**	53,670
Shareholders' equity	**177,454**	183,589
Total capitalization	**233,758**	237,259

19. COMMITMENTS

19(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)	2019	2020	2021	2022
Office lease payments[1]	206	-	-	-
Other leases	138	120	53	16
Total	344	120	53	16

(1) Both parties are entitled to terminate the lease agreement at any point after January 31, 2019 provided six months' notice is provided to the other party. This commitment table above assumes that this termination will occur on January 1, 2020.

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

($'000s)	Commitments
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**

19(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)	2019	2020	2021	2022	Thereafter
Firm service commitment(2)	151	230	70	44	138

(2) 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.