INPLAY OIL

Financial Statements

For the three and six months ended June 30, 2021

Statements of Financial Position

(unaudited)

(Thousands of Canadian dollars)	Note	June 30, 2021	December 31, 2020
ASSETS			
Current assets			
Accounts receivable and accrued receivables	20	**$ 11,519**	$ 6,269
Prepaid expenses and deposits		**2,127**	2,200
Inventory		**740**	874
Total current assets		**14,386**	9,343
Property, plant and equipment	5, 6, 7	**243,570**	180,019
Exploration and evaluation	8	**15,599**	21,136
Right-of-use asset	9	**305**	537
Total assets		**$ 273,860**	$ 211,035
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	20	**16,468**	19,192
Lease liability	9	**277**	455
Decommissioning obligation	11	**796**	796
Deferred share unit liability	14	**379**	-
Derivative contracts	20	**4,347**	1,316
Bank debt	10	**48,198**	38,630
Total current liabilities		**70,465**	60,389
Bank debt	10	**25,833**	25,202
Lease liability	9	**40**	98
Decommissioning obligation	11	**79,971**	79,625
Total long term liabilities		**105,844**	104,925
Total liabilities		**176,309**	165,314
Shareholders' equity			
Share capital	13	**234,414**	234,391
Contributed surplus	14	**16,357**	16,141
Deficit		**(153,220)**	(204,811)
Total shareholders' equity		**97,551**	45,721
Total liabilities and shareholders' equity		**$ 273,860**	$ 211,035
Commitments	22		

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

On behalf of the Board of Directors:

(signed) "Steve Nikiforuk"
Steve Nikiforuk
Director

(signed) "Doug Bartole"
Doug Bartole
Director

Statements of 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	
		2021	2020	**2021**	2020
Oil and natural gas sales	16	**$ 25,267**	$ 5,167	**$ 45,268**	$ 18,259
Royalties		**(2,366)**	(528)	**(3,611)**	(1,437)
Revenue		**22,901**	4,639	**41,657**	16,822
(Loss) on derivative contracts	16	**(5,403)**	(786)	**(10,678)**	(786)
		17,498	3,853	**30,979**	16,036
Operating expenses		**6,129**	4,070	**12,551**	10,455
Transportation expenses		**547**	288	**965**	634
Exploration and evaluation expenses	8	**-**	-	**5,418**	1
General and administrative expenses	17	**1,579**	784	**2,668**	2,169
Share-based compensation	14	**286**	135	**573**	302
Depletion and depreciation	6	**6,215**	3,979	**11,949**	11,411
Impairment loss (reversal)	7	**(58,295)**	-	**(58,295)**	65,710
Finance expenses	18	**1,910**	785	**3,559**	1,742
		(41,629)	10,041	**(20,612)**	92,424
Profit (loss) before tax		**59,127**	(6,188)	**51,591**	(76,388)
Deferred income tax expense	12	**-**	-	**-**	30,297
Profit (loss) and comprehensive income (loss)		**$ 59,127**	$ (6,188)	**$ 51,591**	$ (106,685)
PROFIT (LOSS) PER COMMON SHARE					
Basic	15	**$ 0.87**	$ (0.09)	**$ 0.76**	$ (1.56)
Diluted	15	**$ 0.85**	$ (0.09)	**$ 0.75**	$ (1.56)

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, 2019		234,391	15,399	(92,182)	157,608
Share-based compensation	14	-	390	-	390
(Loss) for the period		-	-	(106,685)	(106,685)
Balance at June 30, 2020		234,391	15,789	(198,867)	51,313
Share-based compensation	14	-	352	-	352
(Loss) for the period		-	-	(5,944)	(5,944)
Balance at December 31, 2020		234,391	16,141	(204,811)	45,721
Share-based compensation	14	-	223	-	223
Option exercises	14	23	(7)	-	16
Profit for the period		-	-	51,591	51,591
Balance at June 30, 2021		**234,414**	**16,357**	**(153,220)**	**97,551**

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):		**2021**	2020	**2021**	2020
OPERATING ACTIVITIES					
Profit (loss) for the period		**$ 59,127**	$ (6,188)	**$ 51,591**	$ (106,685)
Non-cash items:					
Depletion and depreciation	6	**6,215**	3,979	**11,949**	11,411
Unrealized loss on derivative contracts	16	**801**	485	**3,031**	485
Accretion on decommissioning obligation	11	**309**	310	**473**	618
Share-based compensation	14	**62**	135	**157**	302
Exploration expense	8	**-**	-	**5,418**	1
Deferred income tax expense	12	**-**	-	**-**	30,297
Impairment loss (reversal)	7	**(58,295)**	-	**(58,295)**	65,710
Decommissioning expenditures	11	**(31)**	(116)	**(44)**	(299)
Funds flow		**8,188**	(1,395)	**14,280**	1,840
Net change in non-cash working capital	19	**(1,629)**	1,107	**(1,893)**	3,734
Net cash flow provided by (used in) operating activities		**6,559**	(288)	**12,387**	5,574
FINANCING ACTIVITIES					
Principal portion of finance lease payments	9	**(118)**	(150)	**(236)**	(295)
Proceeds from exercise of stock options		**16**	**-**	**16**	**-**
Increase in bank debt	10	**4,346**	6,378	**10,199**	5,329
Net cash flow provided by (used in) financing activities		**4,244**	6,228	**9,979**	5,034
INVESTING ACTIVITIES					
Capital expenditures – Property, plant and equipment	6	**$ (4,735)**	$ (472)	**$ (16,922)**	$ (12,082)
Capital expenditures – Exploration and evaluation	8	**(9)**	(16)	**(32)**	(38)
Property dispositions	5	**101**	260	**82**	260
Net change in non-cash working capital	19	**(6,160)**	(5,712)	**(5,494)**	1,252
Net cash flow (used in) investing activities		**(10,803)**	(5,940)	**(22,366)**	(10,608)
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		**$ 1,597**	$ 475	**$ 3,075**	$ 1,124

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

Notes to the Financial Statements

(unaudited)

JUNE 30, 2021 AND JUNE 30, 2020

(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, 2020.

The financial statements were approved and authorized for issuance by the Board of Directors on August 10, 2021.

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, 2020, except as where noted.

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 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, 2020, except as where noted.

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 pandemic and subsequent measures intended to limit its spread, contributed to significant volatility in global financial markets. The pandemic has adversely impacted global commercial activity and has reduced worldwide demand for commodities including crude oil, natural gas and natural gas liquids. The result was significant economic uncertainty and a decline in commodity prices through most of 2020. In general, the oil and gas industry reacted with reductions to capital and other spending, as well as production shut-ins, to try to manage through this price environment.

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 Company’s financial performance, operations and business are particularly sensitive to volatility in the demand for and prices of crude oil and natural gas. The potential direct and indirect impact of the economic downturn related to COVID-19 have been considered in management’s estimates and assumptions at period end and have been reflected in the Company’s results with any significant changes described in the relevant financial statements note 2.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for the Company’s business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Company’s financial statements in fiscal 2021 and beyond.

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 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, 2020, except as where noted.

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 in 2020, 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 period in which the estimates are revised and in any future periods affected.

5. ASSET ACQUISITIONS

2020 Acquisitions

Effective October 15, 2020, 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 an asset acquisition under IFRS 3.

The fair value at October 15, 2020 of the total consideration transferred (net of adjustments) and the amounts recognized attributed to the assets acquired was as follows:

Consideration:	**($'000s)**
Cash consideration	**1,875**
Total Consideration	**1,875**
Recognized amounts of assets acquired and liabilities assumed:	
Property, plant and equipment	**4,620**
Decommissioning obligation	**(2,745)**
Total identifiable net assets	**1,875**

The fair value of the decommissioning obligation at October 15, 2020 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 7.2%. At December 31, 2020 the decommissioning liability was revalued at a risk-free rate of 1.1%, resulting in incremental additions of $5.9 million of decommissioning obligation and corresponding additions to property, plant and equipment.

The acquired assets contributed revenues consisting of oil and natural gas sales net of royalties of approximately $0.5 million and operating income, which is defined as oil and natural gas sales net of royalties less operating and transportation costs, of $0.2 million to InPlay for the period from October 15, 2020 to December 31, 2020. Had the asset acquisition occurred on January 1, 2020, an additional pro-forma oil and natural gas sales net of royalties of approximately $1.5 million and operating income of $0.6 million would have been recognized over the year ended December 31, 2020.

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.

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($'000s)	**Total**
Balance at December 31, 2019	448,235
Additions	23,235
Additions/revisions to decommissioning obligation	5,238
Acquisitions	4,355
Balance at December 31, 2020	481,063
Additions	**16,989**
Additions/revisions to decommissioning obligation	**(84)**
Dispositions	**(82)**
Transferred from Exploration and evaluation assets	**151**
Balance at June 30, 2021	**498,037**

Accumulated Depletion & Impairment ($'000s)	Total
Balance at December 31, 2019	215,066
Impairment loss	65,710
Depletion and depreciation[1]	20,268
Balance at December 31, 2020	301,044
Impairment reversal	**(58,295)**
Depletion and depreciation[1]	**11,718**
Balance at June 30, 2021	**254,467**

(1) Excludes $0.2 million of depreciation relating to Right-of-use assets (December 31, 2020 - $0.6 million).

Net book value ($'000s)	Total
At December 31, 2020	180,019
At June 30, 2021	**243,570**

For the six months ended June 30, 2021, additions to property, plant and equipment included capitalized general and administrative expenses of $0.6 million (June 30, 2020 - $0.4 million) and costs related to share-based compensation of $0.1 million (June 30, 2020 - $0.1 million). Future development costs in the amount of $255 million were included in the depletion calculation for the three months ended June 30, 2021 (June 30, 2020 - $216 million).

7. IMPAIRMENT LOSS (REVERSAL)

2021 Impairment Considerations

At June 30, 2021 there were indicators of impairment reversal due to significant increases in estimated future commodity prices. Impairment reversal tests were performed for each the Company's CGUs which resulted in an impairment reversal of historical impairment charges of $58.3 million being recorded in the Company's statement of profit (loss) and comprehensive income (loss) relating to the Company's Pigeon Lake ($18.3 million), Pembina ($24.1 million), Rocky ($13.8 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, 2020 have been updated by internal qualified reserve engineers to June 30, 2021.

At June 30, 2021, a 1% change to discount rate used would result in a decrease to the impairment reversal of approximately $3.6 million relating to the Company's Rocky ($3.4 million) and Huxley ($0.2 million) CGUs. A 5% change to commodity prices used would result in a decrease to the impairment reversal of approximately $10.8 million relating to the Company's Pigeon Lake ($2.3 million), Rocky ($8.0 million) and Huxley ($0.5 million) CGUs.

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.

The following table shows the benchmark commodity prices used in the impairment and impairment reversal calculation of Property, plant and equipment at June 30, 2021 and March 30, 2020 of which are based on an average of independent reserve evaluator pricing estimates.

	Light, Sweet Crude Edmonton ($Cdn/bbl)			AECO Gas Price ($Cdn/MMBtu)		
Year	**June 30, 2021**	March 31, 2020	Change	**June 30, 2021**	March 31, 2020	Change
2021	**82.09**	46.85	35.24	**3.38**	2.20	1.18
2022	**76.88**	59.27	17.61	**3.09**	2.38	0.71
2023	**71.81**	65.02	6.79	**2.73**	2.45	0.28
2024	**71.37**	68.43	2.94	**2.73**	2.53	0.20
2025	**72.80**	69.81	2.99	**2.79**	2.60	0.19
2026	**74.24**	71.24	3.00	**2.85**	2.66	0.19
2027	**75.74**	72.70	3.04	**2.91**	2.72	0.19
2028	**77.25**	74.19	3.06	**2.96**	2.79	0.17
2029	**78.80**	75.71	3.09	**3.02**	2.85	0.17

8. EXPLORATION AND EVALUATION

($'000s)	**June 30, 2021**	December 31, 2020
Opening balance	**21,136**	21,085
Additions	**32**	73
Transfers to property, plant and equipment	**(151)**	-
Transfers to exploration and evaluation expense	**(5,418)**	(22)
Ending balance	**15,599**	21,136

An amount of $5.4 million was recorded as Exploration and evaluation expense during the six months ended June 30, 2021 relating to the expiry of undeveloped land leases during the period and anticipated near term undeveloped land lease expiries.

At June 30, 2021, the Company evaluated its remaining Exploration and evaluation assets for indicators of any potential impairment. As a result of this assessment, no indicators were identified and no impairment was recorded relating to the Company's Exploration and evaluation assets.

9. LEASES

9(a) Right-of-use asset

Cost ($'000s)	**Office Lease**	**Equipment**	**Total**
Balance at December 31, 2019	805	542	1,347
Additions	-	89	89
Balance at December 31, 2020	805	631	1,436
Balance at June 30, 2021	**805**	**631**	**1,436**

Accumulated Depreciation ($'000s)	**Office Lease**	**Equipment**	**Total**
Balance at December 31, 2019	60	230	290
Depreciation	358	251	609
Balance at December 31, 2020	418	481	899
Depreciation	**179**	**53**	**232**
Balance at June 30, 2021	**597**	**534**	**1,131**

Net book value ($'000s)	**Office Lease**	**Equipment**	**Total**
At December 31, 2020	387	150	537
At June 30, 2021	**208**	**97**	**305**

9(b) Lease liability

The following table details the movement in lease liabilities for the six months ended June 30, 2021.

	($'000s)
Balance at December 31, 2019	1,063
Additions	89
Repayments	(646)
Interest	47
Balance at December 31, 2020	553
Repayments	**(247)**
Interest	**11**
Balance at June 30, 2021	**317**
Expected to be incurred within one year	**277**
Expected to be incurred beyond one year	**40**

Payments relating to short-term leases and leases of low-value assets were $nil for the six months ended June 30, 2021 (June 30, 2020 - $nil).

The Company does not have any lease contracts that are entered into by a joint arrangement, or on behalf of the joint arrangement, at June 30, 2021.

10. BANK DEBT

On June 30, 2021, the Company renewed its credit facility with its syndicate of lenders (the "Senior Credit Facility") which totals $65 million and consists of a $55 million revolving line of credit and a $10 million operating line of credit. The Senior Credit Facility has a maturity date of May 30, 2022, and if not extended, additional advances would not be permitted and any outstanding advances would become repayable at May 30, 2022. The Senior Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company. At June 30, 2021 the Company had drawn $48.2 million on the Senior Credit Facility. There are standard reporting covenants under the Senior Credit Facility, however there are no financial covenants. The Company was in compliance with these standard reporting covenants as at June 30, 2021.

Under the Senior Credit Facility, advances can be drawn as prime rate loans and bear interest at the bank's prime lending rate plus interest rates between 2.00% and 5.50%. Advances may also be drawn as banker's acceptances, Libor loans, and letters of credit, subject to Canadian interest benchmark rates plus margins ranging from 3.00% to 6.50%. Standby fees are charged on the undrawn portion of the Senior Credit Facility at rates ranging from 0.750% to 1.625%. These interest rates, fees and margins vary based on adjusted debt to earnings metrics determined at each quarter end for the preceding 12 months.

The available lending limit of the Senior Credit Facility is scheduled for semi-annual renewal by November 30, 2021, and is based on the Lenders' interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Senior Credit Facility will not be adjusted at the next semi-annual review. In the event that the lenders reduce the Senior Credit Facility's 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.

On October 30, 2020 the Company entered into a term loan with the Business Development Bank of Canada ("BDC") under their Business Credit Availability Program ("BCAP") which provided the Company with a non-revolving $25 million, second lien, four year term loan facility (the "BDC Term Facility"). The BDC Term Facility has a maturity date of October 30, 2024 and is secured by a floating charge debenture and a general security agreement on the assets of the Company. At June 30, 2021 the Company had drawn the full $25.0 million on the BDC Term Facility and had accrued $0.8 million in interest that was added to the principal amount. There are standard reporting covenants under the BDC Term Facility and certain operational covenants, however there are no financial covenants.

Under the BDC Term Facility, draws incur an interest rate equal to the greater of the interest rate charged on the Company's operating line of credit or 5% for the first year and increasing by 1% at each anniversary date of the facility. Standby fees are charged on the undrawn portion of the BDC Term Facility at a rate of 0.50%. Annual renewal fees are charged on the full BDC Term Facility amount at a rate of 1.25% at inception, 1% on the first anniversary date, 1.25% on the second anniversary date and 1.5% on the third anniversary date.

The Company had letters of credit in the amount of $0.3 million outstanding at June 30, 2021 (December 31, 2020 - $0.3 million) and no additional guarantees.

11. DECOMMISSIONING OBLIGATION

($'000s)	June 30, 2021	December 31, 2020
Opening balance	**80,421**	71,767
Provisions incurred	**434**	567
Revaluation of liabilities acquired based on discount rate	**-**	6,161
Provisions acquired	**-**	2,745
Provisions settled	**(44)**	(602)
Change in estimates	**(473)**	(1,086)
Accretion expense	**473**	1,274
Government grants	**(44)**	(405)
Ending balance	**80,767**	80,421
Expected to be incurred within one year	**796**	796
Expected to be incurred beyond one year	**79,971**	79,625

The estimated future cash out flows as at June 30, 2021 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 1.58% per annum (December 31, 2020 – 0.92%) 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 1.2% to 1.8% depending on the estimated timing of the future settlement of the obligations (December 31, 2020 – 0.5% to 1.2%). The total inflation adjusted undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at June 30, 2021 was approximately $119.7 million (December 31, 2020 - $102.5 million). The total uninflated undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at June 30, 2021 was approximately $80.8 million (December 31, 2020 - $80.4 million).

At the date of the October 15, 2020 asset acquisition, the acquired decommissioning obligations were recognized at fair value which was estimated using credit adjusted discount rates of 7.2%. 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'.

For the six months ended June 30, 2021, the Company received $0.05 million (December 31, 2020 - $0.4 million) in Government grants from the Government of Alberta's Site Rehabilitation Program ("SRP") which has been recorded as a reduction to Decommissioning Obligation and a credit to Depletion and Depreciation expense.

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

12. INCOME TAX

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

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	**2021**	2020
Profit (loss) before tax	**59,127**	(6,188)	**51,591**	(76,388)
Expected income tax rate	**23%**	25%	**23%**	25%
Expected income tax expense (recovery)	**13,599**	(1,547)	**11,866**	(19,097)
Increase (decrease) in income taxes resulting from:				
Non-taxable permanent differences – stock based comp.	**67**	35	**133**	77
Other	**1**	1	**2**	2
Change in opening tax pools	**(138)**	-	**(138)**	-
Change in effective tax rate	**-**	119	**-**	1,520
Change in estimate	**-**	-	**-**	2,746
Write-off of deferred income tax asset	**(13,529)**	1,392	**(11,863)**	45,049
Deferred income tax expense	**-**	-	**-**	30,297

The Company's non-capital losses will begin to expire between 2032 and 2039. The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. With the exception of the temporary differences related to derivative contracts, 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 proved 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 increased by $11.9 million as at June 30, 2021 (June 30, 2020 - $47.8 million) with a corresponding charge to deferred income tax expense (recovery).

During the quarter ended June 30, 2019, the Government of Alberta enacted a reduction in the provincial corporate tax rate from 12% to 8% over four years. 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. During the quarter ended September 30, 2020, this tax rate decrease was accelerated to 8% effective July 1, 2020. 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 six months ended June 30, 2020 due to the decrease in value of future deductibility of tax losses generated during the period.

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

13. SHARE CAPITAL

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

	Number of Common Shares	Amount ($'000s)
Balance at December 31, 2019	68,256,616	234,391
Balance at December 31, 2020	**68,256,616**	**234,391**
Issued on exercise of options	**32,000**	**23**
Balance at June 30, 2021	**68,288,616**	**234,414**

14. SHARE-BASED COMPENSATION

14(a) Stock option plan

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

	Number of options	Weighted avg. remaining life (years)	Weighted avg. exercise price
Outstanding at December 31, 2019	5,242,300	4.26	0.98
Granted during the period	148,500	4.42	0.50
Forfeited during the period	(78,000)	3.44	1.29
Outstanding at December 31, 2020	5,312,800	3.29	0.96
Granted during the period	1,042,900	4.54	0.35
Exercised during the period	(32,000)	3.70	0.50
Outstanding at June 30, 2021	**6,323,700**	**3.08**	**0.86**
Exercisable at June 30, 2021	**3,001,833**	**2.27**	**1.19**

Share-based compensation in the amount of $0.1 million and $0.2 million was recognized in the three and six months ended June 30, 2021 (three months ended June 30, 2020: $0.1 million; six months ended June 30, 2020: $0.3 million) relating to stock options, in addition to $0.1 million (June 30, 2020 - $0.1 million) of capitalized stock based compensation recognized for three months ended June 30, 2021, all with a corresponding credit to Contributed Surplus.

The fair value of each stock option granted during the three and six months ended June 30, 2021 and June 30, 2020 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	
	2021	2020	**2021**	2020
Risk free interest rate	**-**	-	**0.25%**	1.12%
Expected volatility	**-**	-	**69%**	57%
Expected life	**-**	-	**3.5 years**	3.5 years
Dividend yield	**-**	-	**Nil**	nil
Expected forfeiture rate	**-**	-	**Nil**	nil
Stock price on grant date	**-**	-	**$0.37**	$0.53
Fair value per option	**-**	-	**$0.18**	$0.23

14(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, 2019	500,000
Outstanding at December 31, 2020	500,000
Granted during the period	617,650
Vested during the period	(166,667)
Outstanding at June 30, 2021	**950,983**

There were immaterial cash payments relating to DSUs vesting during the six months ended June 30, 2021. 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, 2021 (three months ended June 30, 2020: $nil; six months ended June 30, 2020: $nil) relating to DSUs, with a corresponding credit to Deferred share unit liability.

15. PROFIT (LOSS) PER SHARE

($'000s, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	**2021**	2020
Profit (loss) for the period	**59,127**	(6,188)	**51,591**	(106,685)
Weighted average number of common shares (basic)	**68,259,781**	68,256,616	**68,258,207**	68,256,616
Weighted average number of common shares (diluted)[(1)]	**69,187,825**	68,256,616	**68,687,889**	68,256,616
Basic profit (loss) per share	**0.87**	(0.09)	**0.76**	(1.56)
Diluted profit (loss) per share	**0.85**	(0.09)	**0.75**	(1.56)

(1) A total of 1,992,600 options are excluded from the per share calculations for the three months ended June 30, 2021 as they are anti-dilutive (three months ended June 30, 2020 – 5,312,800 options). A total of 5,164,300 options are excluded from the per share calculations for the six months ended June 30, 2021 as they are anti-dilutive (six months ended June 30, 2020 – 5,312,800 options).

16. REVENUE AND DERIVATIVE CONTRACTS

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	**2021**	2020
Oil sales	**20,196**	3,385	**35,466**	13,797
Natural Gas sales	**3,061**	1,187	**5,669**	2,925
NGL sales	**2,010**	595	**4,133**	1,537
Total	**25,267**	5,167	**45,268**	18,259
Changes in fair value of derivative contracts				
Realized (loss) on derivative contracts	**(4,602)**	(301)	**(7,647)**	(301)
Unrealized (loss) on derivative contracts	**(801)**	(485)	**(3,031)**	(485)
(Loss) on derivative contracts	**(5,403)**	(786)	**(10,678)**	(786)

17. GENERAL AND ADMINISTRATIVE EXPENSES

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	**2021**	2020
Gross general and administrative	**1,900**	965	**3,352**	2,682
Capitalized G&A and recoveries	**(321)**	(181)	**(684)**	(513)
General and administrative expense	**1,579**	784	**2,668**	2,169

18. FINANCE EXPENSE

($'000s)	Three Months Ended June 30		Six Months Ended June 30	
	2021	2020	**2021**	2020
Interest expense (Credit Facility and other)	**1,597**	463	**3,075**	1,096
Interest expense (Lease liabilities)	**4**	12	**11**	28
Accretion on decommissioning obligation	**309**	310	**473**	618
Finance expense	**1,910**	785	**3,559**	1,742

19. 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	**2021**	2020	**2021**	2020
Accounts receivable and accruals	**(2,785)**	1,287	**(5,250)**	4,836
Prepaid expenses, deposits and inventory	**(90)**	(82)	**207**	417
Accounts payable and accruals	**(5,138)**	(5,810)	**(2,724)**	(267)
Deferred share unit liability	**224**	-	**380**	-
	(7,789)	(4,605)	**(7,387)**	4,986
Related to operating activities	**(1,629)**	1,107	**(1,893)**	3,734
Related to investing activities	**(6,160)**	(5,712)	**(5,494)**	1,252
	(7,789)	(4,605)	**(7,387)**	4,986

20. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT

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

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

20(a) Fair value of financial instruments

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

The carrying amounts for cash and cash equivalents, accounts receivable and accrued receivables, and accounts payable and accrued liabilities are reasonable approximations of their respective fair values due to the short-term maturities of those instruments. Lease liabilities 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 June 30, 2021 and December 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 six months ended June 30, 2021 and June 30, 2020, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

20(b) Credit risk

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

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

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

The Company does not typically obtain collateral from oil and natural gas customers or joint interest partners; however, the Company does have the ability to withhold production from joint interest partners in the event of non-payment. In addition, the Company has approximately $0.7 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 June 30, 2021 was $0.2 million (December 31, 2020 – $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:

	Carrying Amount	
($'000s)	**June 30, 2021**	December 31, 2020
Oil and natural gas customers	**9,797**	4,227
Joint operations partners	**716**	916
Accruals & Other	**1,006**	1,126
Total	**11,519**	6,269

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, 2021 and December 31, 2020, the Company's accounts receivable and accrued receivables was aged as follows:

Aging **($'000s)**	**June 30, 2021**	December 31, 2020
0 – 30 days	**10,479**	5,093
30- 90 days	**121**	292
Greater than 90 days	**1,119**	1,084
Expected credit loss	**(200)**	(200)
Total	**11,519**	6,269

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, 2021 $1.1 million (December 31, 2020 – $1.1 million) in receivables were over 90 days due and considered past due.

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

20(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The 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 and a term loan with the BDC. On June 30, 2021, the Company renewed its credit facility with its syndicate of lenders (the "Senior Credit Facility") which totals $65 million and consists of a $55 million revolving line of credit and a $10 million operating line of credit. The Senior Credit Facility has a maturity date of May 30, 2022, and if not extended, additional advances would not be permitted and any outstanding advances would become repayable at May 30, 2022. The Senior Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company. At June 30, 2021 the Company had drawn $48.2 million on the Senior Credit Facility. There are standard reporting covenants under the Senior Credit Facility, however there are no financial covenants. The Company was in compliance with these standard reporting covenants as at June 30, 2021.

The available lending limit of the Senior Credit Facility is scheduled for semi-annual renewal by November 30, 2021, and is based on the Lenders' interpretation of the Company's reserves and future commodity prices. There can be no assurance that the amount or terms of the Senior Credit Facility will not be adjusted at the next semi-annual review. In the event that the lenders reduce the Senior Credit Facility's 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.

On October 30, 2020 the Company entered into a term loan with the Business Development Bank of Canada ("BDC") under their Business Credit Availability Program ("BCAP") which provided the Company with a non-revolving $25 million, second lien, four year term loan facility (the "BDC Term Facility"). The BDC Term Facility has a maturity date of October 30, 2024 and is secured by a floating charge debenture and a general security agreement on the assets of the Company. At June 30, 2021 the Company had drawn the full $25.0 million on the BDC Term Facility and had accrued $0.8 million in interest that was added to the principal amount. There are standard reporting covenants under the BDC Term Facility and certain operational covenants, however there are no financial covenants. The Senior Credit Facility and BDC Term Facility are described further in note 10.

The Company also attempts to match its payment cycle with collection of oil and natural gas revenue on the 25th of each month.

The following are the contractual maturities of non-derivative financial liabilities at June 30, 2021:

($'000s)	Less than one year	One to two years	Two to three years	Three to four years
Non-derivative financial liabilities:				
Accounts payable and accrued liabilities	16,468	-	-	-
Bank loans – principal (1)	48,198	-	-	25,000
Bank loans – interest (2) (3)	4,822	1,752	2,015	1,980
Bank loans – fees (4)	250	313	375	-
Total	69,738	2,065	2,390	26,980

(1) Assumes the Senior Credit Facility is not renewed on May 30, 2022, whereby outstanding balances become due on May 30, 2022 and the BDC Term Facility is payable on October 30, 2024.

(2) Assumes interest is incurred on bank debt outstanding on the Senior Credit Facility at June 30, 2021 at the Company's effective interest rate during the current quarter and the principal balance of the Senior Credit Facility is repaid on May 30, 2022.

(3) Assumes interest is incurred on the BDC Term Facility outstanding at June 30, 2021 at the interest rates prescribed in the term facility agreement, with interest in the first year added to the principal balance of the BDC Term Facility to be repaid on October 30, 2024.

(4) Annual renewal fees are charged on the full BDC Term Facility amount at a rate of 1.25% at inception, 1% on the first anniversary date, 1.25% on the second anniversary date and 1.5% on the third anniversary date.

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

	Carrying Amount	
($'000s)	**June 30, 2021**	December 31, 2020
Trade payables (5)	**9,418**	13,455
Joint operations partners	**1,884**	2,135
Accruals (6)	**5,166**	3,602
Total	**16,468**	19,192

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

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

20(d) Market risk

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

(i) Foreign currency exchange rate risk

The Company is exposed to the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. At June 30, 2021 the following forward exchange rate contracts were outstanding and recorded at estimated fair value.

Type of contract: swap (USD/CAD):

Reference currency	USD Amount ($'000s)	Exchange Rate (USD/CAD)	Term	Fair value ($'000s CAD)
US dollar	$4,680	1.2682	July 1, 2021 – Dec. 31, 2021	$133
US dollar	$3,600	1.2785	April 1, 2021 – Dec. 31, 2021	$94

An increase or decrease of $0.05 in the USD/CAD exchange rate would decrease the fair value of exchange rate derivative contracts by $0.4 million and increase the fair value of exchange rate derivative contracts by $0.4 million respectively as at June 30, 2021.

(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 June 30, 2021 the following commodity-based derivative contracts were outstanding and recorded at estimated fair value.

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

Currency denomination	Volume (bbl/day)	Average swap price	Term	Fair value ($'000s CAD)
Canadian dollar	250	65.00/bbl	February 1, 2021 – December 31, 2021	($1,066)

Type of contract: costless collar[(1)] (crude oil pricing WTI):

Currency denomination	Volume (bbl/day)	Bought put price	Sold call price	Term	Fair value ($'000s CAD)
US dollar	250	52.00/bbl	69.00/bbl	July 1, 2021 – Dec. 31, 2021	($277)

(1) Costless collar indicates InPlay concurrently bought put and sold call options at strike prices such that the costs and premiums received offset each other, thereby completing the derivative contracts on a costless basis.

Type of contract: three-way collar(2) (crude oil pricing WTI):

Currency denomination	Volume (bbl/day)	Bought put price	Sold call price	Sold put price	Term	Fair value ($'000s CAD)
US dollar	250	45.00/bbl	49.50/bbl	61.00/bbl	April 1, 2021 – Dec. 31, 2021	($645)
US dollar	750	45.33/bbl	50.67/bbl	63.00/bbl	July 1, 2021 – Dec. 31, 2021	($1,676)

(2) The WTI three-way collars are a combination of a sold call, bought put and a sold put. The sold put price is the maximum the Company will receive for the contract volumes. The sold call price is the minimum price InPlay will receive, unless the market price falls below the bought put strike price.

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

Currency denomination	Volume (GJ/day)	Average swap price	Term	Fair value ($'000s CAD)
Canadian dollar	2,000	2.34/GJ	January 1, 2021 – December 31, 2021	($431)
Canadian dollar	2,750	2.54/GJ	April 1, 2021 – October 31, 2021	($324)

Type of contract: costless collar(3) (natural gas pricing AECO):

Currency denomination	Volume (GJ/day)	Bought put price	Sold call price	Term	Fair value ($'000s CAD)
Canadian dollar	2,000	2.70/GJ	3.36/GJ	Nov. 1, 2021 – March 31, 2022	($155)

(3) Costless collar indicates InPlay concurrently bought put and sold call options at strike prices such that the costs and premiums received offset each other, thereby completing the derivative contracts on a costless basis.

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 June 30, 2021, the Company estimates that it would pay $4.6 million to terminate these contracts.

An increase or decrease of $5.00 per barrel WTI of oil and $0.25 per Mcf AECO of natural gas would decrease the fair value of derivative contracts by $1.7 million and increase the fair value of derivative contracts by $1.7 million respectively as at June 30, 2021.

The fair value of the financial commodity risk management contracts at June 30, 2021 was a liability of $4.6 million (December 31, 2020 - $1.3 million).

(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 $0.2 million for the three months ended June 30, 2021 (June 30, 2020 - $0.1 million).

20(e) Capital management

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

At June 30, 2021, InPlay's capital structure includes shareholders' equity, bank debt 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, 2021**		December 31, 2020
Bank debt	$	**74,031**	$	63,832
Accounts payable and accrued liabilities		**16,468**		19,192
Accounts receivable and accrued receivables, prepaid expenses and deposits and inventory		**(14,386)**		(9,343)
Net debt		**76,113**		73,681
Shareholders' equity		**97,551**		45,721
Total capitalization	$	**173,664**	$	119,402

21. COMMITMENTS

21(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)	2021	2022	2023	2024
Office lease payments	189	31	-	-
Other leases	56	50	17	8
Total	245	81	17	8

21(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)	2021	2022	2023	2024	Thereafter
Firm service commitment(1)	194	355	271	148	102

(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.