INPLAY OIL

Financial Statements

December 31, 2016 and 2015

March 22, 2017

Independent Auditor's Report

To the Shareholders of InPlay Oil Corp.

We have audited the accompanying financial statements of InPlay Oil Corp., which is comprised of the statements of financial position as at December 31, 2016 and December 31, 2015 and the statements of profit (loss) and comprehensive income (loss), statements of change in equity, and the statements of cash flow for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of InPlay Oil Corp. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

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Statements of Financial Position

AS AT DECEMBER 31,

(Thousands of dollars)	Note		2016		2015
ASSETS					
Current assets					
Cash and cash equivalents		$	**100**	$	-
Accounts receivable and accrued receivables	21		**8,456**		3,764
Prepaid expenses and deposits			**2,119**		690
Derivative contracts	21		**-**		3,204
Total current assets			**10,675**		7,658
Property, plant and equipment	5, 6		**225,067**		118,422
Exploration and evaluation	8		**11,599**		5,715
Deferred tax	12		**56,149**		11,532
Total assets		$	**303,490**	$	143,327
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Deferred lease credits	9	$	**129**	$	129
Accounts payable and accrued liabilities	21		**15,476**		5,712
Flow-through share premium	13		**244**		-
Derivative contracts	21		**1,549**		-
Bank debt	10		**-**		57,901
Total current liabilities			**17,398**		63,742
Deferred lease credits	9		**11**		140
Bank debt	10		**29,755**		-
Decommissioning obligation	11		**68,948**		22,763
Total long term liabilities			**98,714**		86,645
Shareholders' equity					
Share capital	13		**226,541**		118,262
Contributed surplus	14		**9,878**		7,480
Deficit			**(49,041)**		(69,060)
Total shareholders' equity			**187,378**		56,682
Total liabilities and shareholders' equity		$	**303,490**	$	143,327

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)

FOR THE YEARS ENDED DECEMBER 31,

(Thousands of dollars, except per share amounts)	Note		2016		2015
Oil and natural gas sales		$	**27,850**	$	32,556
Royalties			**(2,468)**		(2,984)
Revenue			**25,382**		29,572
Gain (loss)on derivative contracts	16		**(2,096)**		7,103
			23,286		36,675
Operating expenses			**(12,322)**		(11,432)
Transportation expenses			**(587)**		(162)
Exploration and evaluation expenses	8		**(1,398)**		(124)
General and administrative expenses	18		**(4,475)**		(4,185)
Share-based compensation expenses	14		**(1,856)**		(3,325)
Transaction costs	17		**(2,412)**		-
Depletion and depreciation	6		**(13,725)**		(16,916)
Impairment loss	7		**(12,162)**		(38,931)
Gain on acquisition	5		**41,376**		483
Gain (loss) on disposition of assets	6		**-**		(1)
Finance expenses	19		**(2,283)**		(2,176)
			(9,844)		(76,769)
Profit (loss) before tax			**13,442**		(40,094)
Deferred income tax recovery	12		**6,577**		9,993
Profit (loss) and comprehensive income (loss)		$	**20,019**	$	(30,101)
PROFIT (LOSS) PER COMMON SHARE					
Basic and diluted	15	$	**1.02**	$	(2.50)

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

Statements of Changes in Equity

(Thousands of dollars)	Note	Share capital	Contributed surplus	Deficit	Total shareholders' equity
Balance at December 31, 2014		$ 117,462	$ 3,185	$ (38,959)	$ 81,688
Issuance of shares on acquisition	13	800	-	-	800
Share-based compensation	14	-	4,295	-	4,295
Profit (loss) for the year		-	-	(30,101)	(30,101)
Balance at December 31, 2015		$ 118,262	$ 7,480	$ (69,060)	$ 56,682
Issuance of share capital	**13**	**109,859**	**-**	**-**	**109,859**
Share-issue costs, net of deferred tax		**(1,580)**	**-**	**-**	**(1,580)**
Share-based compensation	**14**	**-**	**2,398**	**-**	**2,398**
Profit (loss) for the year				**20,019**	**20,019**
Balance at December 31, 2016		**$ 226,541**	**$ 9,878**	**$ (49,041)**	**$ 187,378**

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

Statements of Cash Flows

FOR THE YEARS ENDED DECEMBER 31,

(Thousands of dollars)	Note		2016		2015
Cash flows provided by (used in):					
OPERATING ACTIVITIES					
Profit (loss) for the year		$	**20,019**	$	(30,101)
Adjustments					
Depletion and depreciation	6		**13,725**		16,916
Loss on disposition of asset	6		**-**		1
Unrealized loss (gain) on derivative contract	16		**4,753**		(3,204)
Accretion on decommissioning obligation	11		**566**		477
Share-based compensation expense	14		**1,856**		3,325
Exploration expense	8		**1,398**		124
Gain on acquisition	5		**(41,376)**		(483)
Impairment loss	7		**12,162**		38,931
Deferred income tax (recovery)	12		**(6,577)**		(9,993)
Decommissioning expenditures	11		**(119)**		(201)
Funds flow from operations			**6,407**		15,792
Net change in non-cash working capital	20		**(1,107)**		140
Net cash flow provided by operating activities			**5,300**		15,932
FINANCING ACTIVITIES					
Issuance of share capital – net of issue costs	13	$	**68,183**	$	-
Increase in bank debt	10		**30,870**		18,426
Repayment in bank debt	10		**(59,016)**		
Net cash flow provided by financing activities			**40,037**		18,426
INVESTING ACTIVITIES					
Property, plant and equipment	6	$	**(10,611)**	$	(22,224)
Property acquisitions	5		**(41,104)**		(85)
Cash from corporate acquisition	5		**2,459**		-
Exploration and evaluation assets	8		**(471)**		(289)
Net change in non-cash working capital	20		**4,490**		(12,030)
Net cash flow (used in) investing activities			**(45,237)**		(34,628)
Increase (decrease) in cash and cash equivalents			**100**		(270)
Cash and cash equivalents, beginning of the year			**-**		270
Cash and cash equivalents, end of the year		$	**100**	$	-
Interest paid in cash		$	**1,517**	$	1,637

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

Notes to the Financial Statements

DECEMBER 31, 2016 AND DECEMBER 31, 2015

(Tabular amounts in thousands of 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 S.W. 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 the InPlay common shares commenced trading on the TSX in substitution of the Anderson common shares. All regulatory filings of InPlay and Anderson can be accessed electronically under InPlay's profile on the SEDAR website at www.sedar.com.

2. BASIS OF PRESENTATION

2(a) Compliance with IFRS

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

The financial statements were approved and authorized for issuance by the Board of Directors on March 22, 2017.

2(b) Historical cost convention

These financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value. The methods used to measure fair values are discussed in note 21.

2(c) Functional and presentation currency

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

2(d) Function and nature of expenses

Expenses in the statements of profit (loss) and comprehensive income (loss) are presented as a combination of function and nature in conformity with industry practice. Transportation expenses, share-based compensation expenses, depletion and depreciation, and impairment of property, plant and equipment are presented in separate lines by their nature, while operating expenses, general and administrative expenses and transaction costs are presented on a functional basis. Significant general and administrative and transaction expenses are presented by their nature in note 17 & 18.

3. SUMMARY OF ACCOUNTING POLICIES

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

3(a) Jointly-controlled assets

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

3(b) Business combinations

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

3(c) Cash and cash equivalents

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

3(d) Financial instruments

InPlay recognizes a financial asset or liability when it becomes a party to the contractual provisions of a financial instrument. Financial assets and liabilities within the scope of IAS 39, financial instruments: recognition and measurement are classified as either financial assets or liabilities at fair value through profit and loss, loans and receivables, held to maturity investments, available for sale financial assets, or financial liabilities at amortized cost as appropriate. InPlay does not designate derivative instruments as hedges and does not have available-for-sale financial assets or held-to-maturity investments. Transaction costs are included in the initial carrying amount of financial instruments except for fair value through profit and loss items, in which case they are expensed as incurred.

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

Financial assets and liabilities at fair value through profit or loss include financial assets and liabilities held-for-trading and financial assets and liabilities designated upon initial recognition at fair value through profit or loss. Financial assets and liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as financial assets and liabilities at fair value through profit of loss. Gains or losses on financial assets and liabilities are recognized at fair value in the statement of profit (loss) and comprehensive income (loss).

(ii) Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of profit (loss) and comprehensive income (loss) when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(iii) Financial liabilities at amortized cost

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method.

Gains and losses are recognized in the statement of profit (loss) and comprehensive income (loss) when the liabilities are derecognized, as well as through the amortization process.

(iv) Fair value

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

(v) Derivative financial instruments

The Company has entered into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices. These instruments are not used for trading or speculative purposes. The Company has not designated its financial derivative contracts as effective accounting hedges and, therefore, has not applied hedge accounting, even though the Company considers all commodity contracts to be economic hedges. As a result, all financial derivative contracts are classified as fair value through profit or loss and are recorded on the statement of financial position at fair value. Transaction costs are recognized in profit (loss) and comprehensive income (loss) when incurred.

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

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

(i) Prior to obtaining the right to explore

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

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

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

(iii) Upon demonstration of technical feasibility and commercial viability

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

3(f) Property, plant and equipment

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

(i) Development and production expenditures

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

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

(ii) Impairment and reversals of impairment

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

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

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

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

3(g) Depletion and depreciation

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

3(h) Decommissioning obligations

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

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

3(i) Income taxes

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

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

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

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

3(j) Share capital

Shares, consisting of common shares are classified as equity.

3(k) Profit (loss) per share

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

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

3(l) Revenue Recognition

Revenue from the sale of oil and natural gas is recognized when the significant risks and rewards of ownership is transferred, which is, generally, when title passes to the customer in accordance with the terms of the sales contract.

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

3(m) Future accounting pronouncements not yet adopted

The Company has reviewed the following reporting and accounting standards that have been issued, but are not yet effective:

(i) IFRS 9 "Financial Instruments"

This new standard replaces IAS 39 "Financial Instruments: Recognition and Measurement" and provides a logical model for classification and measurement, a single, forward looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018, and does not expect the standard to have a material impact on the determination of profit or loss. The extent of the impact of the adoption of this new standard has not yet been determined.

(ii) IFRS 15 "Revenue from Contracts with Customers"

The new standard replaces IAS 18 "Revenue" and established principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018.

(iii) IFRS 16 "Leases"

The new standard replaces IAS 17 "Leases" and addresses recognition and measurement of assets and liabilities for most leases. The Company intends to adopt IFRS 16 in its financial statements for the annual periods beginning on January 1, 2019. The extent of the impact of the adoption of this new standard has not yet been determined.

3(n) Changes in accounting policies

There were no new or amended accounting policies adopted during the year ended December 31, 2016 that had a material impact on the determination of financial position or profit or loss.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

4(a) Significant judgements in applying accounting policies

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

(i) Exploration and evaluation expenditures

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

(ii) Identification of CGUs

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

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

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

4(b) Major sources of estimation uncertainty

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

(i) Estimation of oil and natural gas reserves

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

(ii) Impairment of non-financial assets

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

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

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

(iii) Business combinations

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

(iv) Decommissioning obligation

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

(v) Deferred tax

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

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

On November 7, 2016, InPlay completed the Arrangement that included a reverse acquisition of Anderson, a publicly-traded company with an oil and gas production business in Alberta, Canada. See notes 1, 6 and 13**.** In connection with the Arrangement, InPlay also completed an issue of common shares for proceeds of $70.3 million and an asset acquisition of oil and natural gas properties for a purchase price of $47 million prior to purchase price adjustments (the "**Asset Acquisition**"). See notes 6 and 13.

5(a) 2016 Arrangement

As part of the Arrangement, Anderson's 17,771,472 outstanding common shares were effectively converted into InPlay common shares at an exchange ratio of one for one. As a part of the Arrangement Anderson was amalgamated with prior InPlay to form InPlay. The former shareholders of Prior InPlay owned 72% of the outstanding common shares of InPlay, and the management and board of directors of Prior InPlay became the management and board of directors of InPlay, thereby obtaining control of Anderson. The reverse acquisition of Anderson by InPlay has been accounted for as a business combination under IFRS 3.

InPlay completed the Arrangement with Anderson to expand InPlay's asset base with producing assets and interests in facilities in the Cardium assets as well as undeveloped lands in Pembina and other areas in Alberta that were complementary to those of InPlay. The transaction also enabled InPlay to become a publicly traded entity on the Toronto Stock Exchange.

The fair value at November 7, 2016 of the total consideration transferred and the amounts recognized attributed to the assets and liabilities acquired was as follows:

Consideration:		**($'000s)**
Share consideration	**$**	**35,543**
Total Consideration		**35,543**
Recognized amounts of assets acquired and liabilities assumed		
Cash		**2,459**
Accounts receivable and accrued receivables		**3,268**
Prepaid expenses		**1,076**
Exploration and Evaluation Assets		**5,410**
Property, plant and equipment		**45,332**
Deferred tax asset (liability)		**37,589**
Accounts payable and accrued liabilities		**(4,472)**
Decommissioning obligation		**(13,743)**
Total identifiable net assets		**76,919**
Gain on acquisition		**(41,376)**
	$	**35,543**

The fair value of the 17,771,472 common shares of InPlay effectively issued to the former shareholders of Anderson in exchange for the Anderson common shares outstanding immediately prior to the completion of the Arrangement on a one-for-one basis was $2.00 per common share, or $35.5 million, based on Anderson's closing price quoted on the TSX on November 7, 2016, the date of closing of the Arrangement. See note 13.

A gain on acquisition was recorded with this business combination as a result of the deferred tax asset on acquisition being recorded at book value rather than fair value in addition to the fact that final consideration is based upon a lower share price at closing compared to the price contemplated at the time the deal was negotiated.

The fair value of accounts receivable is $3.3 million, which consisted of trade receivables arising from the sale of oil and natural gas production and billings related to joint operations activities. The gross contractual amount for trade receivables is $3.7 million, of which $0.4 million is expected to be uncollectible.

The fair value of the decommissioning obligation at November 7, 2016 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 were credit adjusted risk-free rates that ranged from 7.5% to 8.4%. At December 31, 2016 the decommissioning liability was revalued at risk-free rates ranging from 1.4% to 2.3%, resulting in incremental additions of $17.4 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 $2.3 million and operating income which is defined as oil and natural gas sales net of royalties less operating and transportation costs of $1.6 million to InPlay for the period from November 7, 2016 to December 31, 2016. Had the Arrangement occurred on January 1, 2016, additional pro-forma oil and natural gas sales net of royalties of $11.2 million and operating income of $5.4 million would have been recognized over the year ended December 31, 2016.

5(b) 2016 Asset Acquisition

The Asset Acquisition involved the purchase of producing assets, undeveloped lands and interests in various facilities in the Pembina area of Alberta, Canada. The Asset Acquisition is a business combination and has been accounted for using the purchase method of accounting.

The fair value at November 7, 2016 of the total consideration transferred and the amounts recognized attributed to the assets acquired was as follows:

Consideration:		**($'000s)**
Cash consideration	**$**	**41,765**
Share consideration		**4,347**
Total Consideration		**46,112**
Recognized amounts of assets acquired and liabilities assumed		
Accounts receivable and accrued receivables		**470**
Prepaid expenses		**191**
Exploration and Evaluation assets		**1,457**
Property, plant and equipment		**47,832**
Decommissioning obligation		**(3,838)**
Total identifiable net assets	**$**	**46,112**

The fair value of the 2,171,667 common shares of InPlay, which were the 16,666,666 "Prior InPlay" common shares converted at the 0.1303 exchange ratio under the Arrangement, issued as partial consideration for the purchase of assets was $2.00 per common share, or $4.3 million. This price was based on Anderson's closing price quoted on the TSX on November 7, 2016, the date of closing of the Arrangement. See note 13.

The fair value of the decommissioning obligation at November 7, 2016 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 were credit adjusted risk-free rates that ranged from 8.0% to 8.3%. At December 31, 2016 the decommissioning liability was revalued at risk-free rates ranging from 2.0% to 2.3%, resulting in incremental additions of $12.6 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 $1.8 million and operating income which is defined as oil and natural gas sales net of royalties less operating and transportation costs of $0.6 million to InPlay for the from period November 7, 2016 to December 31, 2016. Had the Corporate Acquisition occurred on January 1, 2016, an additional pro-forma oil and natural gas sales net of royalties of $9.0 million and operating income of $3.9 million would have been recognized over the year ended December 31, 2016.

6. PROPERTY, PLANT AND EQUIPMENT

Cost ($'000s)

		Oil and natural gas assets		Other equipment		Total
Balance at December 31, 2014	$	199,575	$	260	$	199,835
Additions		23,108		78		23,186
Additions/revisions to decommissioning obligation		1,399		-		1,399
Acquisitions		1,914		-		1,914
Transfer from exploration and evaluation		130		-		130
Balance at December 31, 2015		226,127		338		226,464
Additions		**11,102**		**51**		**11,154**
Additions/revisions to decommissioning obligation		**28,156**		**-**		**28,156**
Acquisitions		**93,165**		**-**		**93,165**
Transfer from exploration and evaluation assets		**57**		**-**		**57**
Balance at December 31, 2016	**$**	**358,607**	**$**	**389**	**$**	**358,996**

Accumulated depletion, depreciation and impairment losses ($'000s)

		Oil and natural gas assets		Other equipment		Total
Balance at December 31, 2014	$	52,180	$	21	$	52,201
Impairment loss		38,931		-		38,931
Disposals		(6)		-		(6)
Depletion and depreciation		16,851		65		16,916
Balance at December 31, 2015		107,956		86		108,042
Impairment loss (note 7)		**12,162**		**-**		**12,162**
Depletion and depreciation		**13,669**		**56**		**13,725**
Balance at December 31, 2016	**$**	**133,787**	**$**	**142**	**$**	**133,929**

($'000s)		Oil and natural gas assets		Other equipment		Total
At December 31, 2015	$	118,170	$	252	$	118,422
At December 31, 2016	**$**	**224,820**	**$**	**247**	**$**	**225,067**

For the year ended December 31, 2016, additions to property, plant and equipment included capitalized G&A of $0.8 million (December 31, 2015: $0.9 million) and costs related to share-based compensation of $0.5 million (December 31, 2015: $1.0 million). Future development costs in the amount of $178 million (2015 -$77 million) was included in the depletion calculation.

7. IMPAIRMENT LOSS

Year End 2016 Impairment Considerations

Due to the significant expansion of the Company's oil and natural gas operations to new geographical locations, additional sales points and infrastructure resulting from the acquisition transactions completed by the Company in the fourth quarter of 2016, the Company has the following new CGUs in addition to the Company's previous Pembina and Minor CGUs: Rocky Mountain House, Pigeon Lake, and Red Deer as of December 31, 2016. In addition to the new CGUs, the Pembina and Minor CGUs were expanded as a result of the acquisition transactions.

Indicators of impairment were considered to exist as at December 31, 2016 as long-term commodity price forecasts continued to weaken in the fourth quarter. Impairment tests were performed for each the Company's CGUs which resulted in no impairment charges as of December 31, 2016. The Company used the income approach technique to measure fair value of the CGUs whereby the net present value of the future cash flows were calculated using a discount rate of 12%. The future cash flows were based on level 3 fair value hierarchy inputs: the Company's reserves prepared by its independent reserves evaluator, including key assumptions regarding the discount rate, quantities of reserves and production volumes, future commodity prices as prepared by its independent reserves evaluator, royalty obligations, operating expenses, development costs, and decommissioning costs.

If the discount rate used were one percent higher, additional impairment of approximately $1.4 would have been recorded. If the commodity prices used in the impairment tests were five percent lower, approximately $4.5 million of impairments would have been recorded.

Q2 2016 Impairment

During 2016, the Company actively reviewed potential acquisitions and completed three transactions, during which the Company considered reasonably comparable market transactions for assets similar to those owned by InPlay. The review of market prices of assets provided the Company with an indication of potential impairment of its assets, and impairment tests were performed on all of its CGUs at June 30, 2016, and impairment losses were recorded in the Company's statement of profit (loss) and comprehensive income (loss) on the Pembina CGU ($11.3 million) and the Minors CGU ($0.8 million) for a total impairment loss for the year ended December 31, 2016 of $12.2 million.

At the time of the impairment loss, the recoverable amounts of the Pembina and Minors CGUs were $69.7 million and $7.7 million respectively, and were determined using fair value less costs of disposal calculated based on the net present value of the future cash flows, based on the Company's mechanical update of its reserves, using a discount rate of 12%.

If the discount rate used in determining the above recoverable amounts were one percent higher, impairment recognized would have been approximately $6.6 million higher. If the commodity prices used were five percent lower the impairment recognized would have been approximately $18.5 million higher.

2015 Impairment Considerations:

In light of significant and sustained declines in forward commodity prices for crude oil during 2015, the Company performed impairment tests on all of the its CGUs resulting in impairment losses on the Pembina CGU ($32.1 million) and the Minors CGU ($6.8 million) for a total impairment loss for the year ended December 31, 2015 of $38.9 million.

The recoverable amounts of the Pembina and Minors CGUs at December 31, 2015 were $83.3 million and $9.4 million respectively, and were determined using fair value less costs of disposal. The Company used the income technique to measure fair value of the CGUs whereby the net present value of the future cash flows were determined using a discount rate of 10.5%. The future cash flows were based on level 3 fair value hierarchy inputs: the Company's reserves report as 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 the Company's independent reserves evaluator, royalty obligations, operating expenses, development costs, and decommissioning costs.

At December 31, 2015, if the discount rate used were one percent higher, the impairment recognized would have been approximately $7.6 million higher. If the commodity prices used were five percent lower, the impairment recognized would have been approximately $17.8 million higher.

The following table shows the differences in the future commodity price estimates used by the independent reserve evaluator at December 31, 2016 compared to December 31, 2015:

	Light, Sweet Crude Edmonton ($Cdn/bbl)			AECO Gas Price ($Cdn/MMBtu)		
Year	**December 31, 2016**	December 31, 2015	Difference	**December 31, 2016**	December 31, 2015	Difference
2017	**$ 65.58**	$ 69.00	$ (3.42)	**$ 3.44**	$ 2.95	$ 0.49
2018	**74.51**	78.43	(3.92)	**3.27**	3.42	(0.15)
2019	**78.24**	89.41	(11.17)	**3.22**	3.91	(0.69)
2020	**80.64**	91.71	(11.07)	**3.91**	4.20	(0.29)
2021	**82.25**	93.08	(10.83)	**4.00**	4.28	(0.28)
2022	**83.90**	94.48	(10.58)	**4.10**	4.35	(0.25)
2023	**85.58**	95.90	(10.32)	**4.19**	4.43	(0.24)
2024	**87.29**	97.34	(10.05)	**4.29**	4.51	(0.22)
2025	**89.03**	98.80	(9.77)	**4.40**	4.59	(0.19)
2026	**90.81**	100.28	(9.47)	**4.50**	4.67	(0.17)
2027	**$ 92.63**	$ 101.78	$ (9.15)	**$ 4.61**	$ 4.74	$ (0.13)

8. EXPLORATION AND EVALUATION

($'000s)	**December 31, 2016**	December 31, 2015
Balance at January 1	**$ 5,716**	$ 5,680
Additions	**471**	290
Acquisitions	**6,867**	-
Transfers to property, plant and equipment	**(57)**	(130)
Transfers to exploration and evaluation expense	**(1,398)**	(124)
Ending balance	**$ 11,599**	$ 5,716

9. DEFERRED LEASE CREDITS

The Company entered into a lease for its current head office location during 2014, at which time the Company received incentives to enter into the lease in the amount of $0.4 million. The Company has deferred recognition of the incentives and has amortized the credit as a reduction of lease expense over the initial term of the lease ending in early 2018.

10. BANK DEBT

At December 31, 2016, the Company has a $60.0 million senior secured revolving credit facility (the "**Credit Facility**") with a syndicate of Canadian financial institutions (the "**Lenders**"). The Credit Facility consists of a $50 million revolving line of credit and a $10 million operating line of credit. The Credit Facility has a term date of May 31, 2017, and if not extended, additional advances would not be permitted and any outstanding advances would become repayable one year later on May 31, 2018. The Credit Facility is secured by a floating charge debenture and a general security agreement on the assets of the Company. At December 31, 2016 the Company had drawn $29.8 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 1.00% and 3.25%. Advances may also be drawn as banker's acceptances, Libor loans, and letters of credit, subject to stamping fees and margins ranging from 2.00% to 4.25%. Standby fees are charged on the undrawn portion of the Credit Facility at rates ranging from 0.50% to 1.0625%. 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. Prior to this credit facility, up to Nov 7, 2016 Prior InPlay had in place a $60 million senior secured demand credit facility which was paid out in full at closing in conjunction with the closing of the Nov 7, 2016 financing, asset acquisition and Arrangement.

The available lending limit of the Credit Facility is scheduled for the first semi-annual review on or before May 31, 2017 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 available credit facility will not be adjusted at the next review.

11. DECOMMISSIONING OBLIGATION

($'000s)		**December 31, 2016**		December 31, 2015
Balance at January 1	$	**22,763**	$	20,542
Provisions incurred		**457**		329
Acquired through Business Combinations		**17,581**		546
Provisions settled		**(119)**		(201)
Revaluation of liabilities acquired based on discount rate		**30,061**		675
Change in estimates		**(2,361)**		395
Accretion expense		**566**		477
Ending balance	$	**68,948**	$	22,763

The estimated future cash out flows as at December 31, 2016 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 (2015 – 1.5%) until settlement of the obligations, which is assumed to occur over the next 7 to 50 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 2.3% depending on the estimated timing of the future settlement of the obligations (2015 –1.4% to 2.2%). The total undiscounted amount of estimated future cash flows required to settle the decommissioning obligation at December 31, 2016 was approximately $70.7 million (December 31, 2015 - $23.5 million).

At the date of business acquisitions, the acquired decommissioning liabilities were recognized at fair value which was estimated using credit adjusted discount rates of 7.4% to 8.3%, and the change in the estimated present value using risk-free discount rates is included in the amounts noted in the above table as change in discount rate.

There are material uncertainties about the amount and timing of the decommissioning obligation 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 (recovery) calculated using the statutory tax rates to the income tax expense per the statement of profit (loss) and comprehensive income (loss):

($'000s)		**December 31, 2016**		December 31, 2015
Profit (loss) before tax	**$**	**13,442**	$	(40,094)
Expected income tax rate		**27%**		26%
Expected income tax (recovery)		**3,629**		(10,424)
Increase in income taxes resulting from:				
Non taxable permanent differences – stock based comp		**501**		865
Non taxable flowthrough share expenditures		**442**		
Non taxable permanent differences – (gain) on purchase		**(11,171)**		(126)
Tax rate change		**-**		(363)
Other		**22**		53
Income tax expense (recovery)	**$**	**6,577**	$	(9,993)

Deferred tax asset and (liability) components and continuity:

($'000s)		December 31, 2014		Charged (credited) Profit or loss		Charged (credited) Directly to equity		Acquisitions		December 31, 2015
Property, plant and equipment, and E&E	$	(8,277)	$	7,464	$	-	$	-	$	(813)
Decommissioning obligation		5,135		1,011		-		-		6,146
Non-capital losses		4,089		2,591		-		-		6,680
Derivative contract		-		(865)		-		-		(865)
Share issue costs		591		(207)		-		-		384
Total	$	1,538	$	9,994	$	-	$	-	$	11,532

($'000s)	December 31, 2015	Charged (credited) Profit or loss	Charged (credited) Directly to equity	Acquisitions	**December 31, 2016**
Property, plant and equipment, and E&E	$ (813)	$ **(7,936)**	$ **(133)**	$ **29,051**	$ **20,169**
Decommissioning obligation	6,146	**8,759**	-	**3,710**	**18,615**
Non-capital losses	6,680	**4,730**	-	**4,563**	**15,973**
Derivative contract	(865)	**1,283**	-	-	**418**
Share issue costs	384	**(259)**	**584**	**265**	**974**
Total	$ 11,532	$ **6,577**	$ **451**	$ **37,589**	$ **56,149**

The Company's non-capital losses will begin to expire between 2029 and 2033. The amount and timing of reversals of temporary differences will be dependent upon a number of factors, including the Company's future operating results. With the exception of the temporary differences related to the derivative contract gain, the Company does not expect any deferred income tax assets or liabilities to reverse within the next twelve months. The deferred tax asset is supported by the expected future utilization of tax attributes based upon future cashflows derived from the company's independent year end reserve report using the total proven and probable cashflows and expenditures and factoring in expected corporate general and administrative and interest expenses.

13. SHARE CAPITAL

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

	Number of Common Shares[(1)]	Amount **($'000s)**
Balance at December 31, 2014	11,999,934	$ 117,462
Issued in exchange for property, plant and equipment	63,176	800
Balance at December 31, 2015	12,063,110	118,262
Issued in exchange for the Asset Acquisition	**2,171,667**	**4,347**
Issued for cash	**28,887,516**	**66,510**
CEE Flow-through shares issued	**635,642**	**1,708**
CDE Flow-through shares issued	**866,762**	**2,128**
Flow-through share premium liability	**-**	**(377)**
Issued under the Anderson Arrangement	**17,771,472**	**35,543**
Share issue costs	**-**	**(1,580)**
Balance at December 31, 2016	**62,396,169**	**$ 226,541**

(1) The number of common shares have been adjusted retrospectively to reflect the InPlay Exchange Ratio.

In connection with the Arrangement (see notes 1 and 5), Prior InPlay completed a private placement of common shares for proceeds of $0.4 million (195,015 common shares) and a subscription receipt financing for aggregate gross proceeds of approximately $69.9 million (the "**InPlay Financing**"). The private placement for $0.4 million was issued to insiders and management of InPlay in conjunction with the Arrangement. The outstanding common shares of Prior InPlay ("**Prior InPlay Shares**") and subscription receipts ("**Prior InPlay Subscription Receipts**") issued under the InPlay Financing were, through a series of steps under the Arrangement, exchanged for common shares of InPlay ("**InPlay Shares**") on the basis of 0.1303 of an InPlay Share for each one (1) Prior InPlay Share and each one (1) Prior InPlay Subscription Receipt previously held (the "**InPlay Exchange Ratio**"). Holders of Anderson common shares continued to hold one (1) InPlay Share for each one (1) Anderson common share held prior to completion of the Arrangement without any action on their part. The number of commons shares for all periods shown above were adjusted retrospectively to reflect the InPlay Exchange Ratio.

Also connected with the Arrangement, the Company issued 2.171 million InPlay common shares (reflecting the InPlay Exchange Ratio) having a deemed value of $4.3 million as partial consideration for the Asset Acquisition. See note 5.

As a part of the above noted financing 1,502,405 Subscription Receipts were also issued to be converted into flow-through common shares upon completion of the Arrangement. Following the conversion of these Subscription Receipts, 635,642 Canadian Exploration Expense ("CEE")flow-through common shares of InPlay were issued and 866,762 Canadian Development Expense ("CDE") flow-through common shares of InPlay were issued. Proceeds of $3,836,000 were raised and $377,000 of this amount was recorded to Flow-through share premium liability. Following this offering, the Company has spent the required $2,128,000 million in required CDE expenditures by December 31, 2016 and the $1,707,000 in CEE expenditures will be spent in 2017.

On February 28, 2015, 63,176 Prior InPlay common shares were issued at a deemed price of $12.66 per common share as partial consideration of $0.8 million for an acquisition of oil and natural gas properties and facilities.

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. All options of Prior InPlay were surrendered for cancellation in conjunction with the completion of the Arrangement.

	Number of options(1)	Weighted average remaining life (years)		Weighted average exercise price(1)
Balance at December 31, 2014 and 2015	927,215	4.5	$	9.59
Cancelled during the year	**(927,215)**	**3.5**		**9.59**
Balance at December 31, 2016	**-**	**-**	**$**	**-**

(1) The number of options and weighted average exercise price for all years have been adjusted retrospectively to reflect the InPlay Exchange Ratio. See note 13.

14(b) Performance Warrants

Prior InPlay had an incentive plan pursuant to which performance warrants were granted to officers, directors, employees and service providers of the Company. All performance warrants were surrendered for cancellation in conjunction with the completion of the Arrangement.

	Number of warrants[2]		Weighted average exercise price[2]
Balance at December 31, 2014 and 2015	2,045,059	$	19.19
Cancelled during the year	**(2,045,059)**		**19.19**
Balance at December 31, 2016	**-**	**$**	**-**

(2) The number of performance warrants and weighted average exercise price for all years have been adjusted retrospectively to reflect the InPlay Exchange Ratio. See note 13.

14(c) Share-based compensation amounts recognized

Share-based compensation of $1.9 million was expensed during the year ended December 31, 2016 (December 31, 2015 - $3.3 million). In addition, share-based compensation of $0.5 million was capitalized during the year ended December 31, 2016 (December 31, 2015 - $1.0 million) with a corresponding credit to contributed surplus.

For the year ended December 31, 2015, 927,215 stock options and 2,045,059 performance warrants were excluded from the per share calculation as they were anti-dilutive.

Subsequent to the end of the 2016 year the Company granted 4,889,400 stock options at an average exercise price of $1.98 per share.

15. PROFIT (LOSS) PER SHARE

($'000s except per share amounts)		**December 31, 2016**		December 31, 2015
Profit (loss) for the period	**$**	**20,019**	$	(30,101)
Weighted average number of common shares (basic and diluted) [1]		**19,626,821**		12,052,898
Basic and diluted profit (loss) per share	**$**	**1.02**	$	(2.50)

(1) The weighted average number of common shares and calculation of basic and diluted earnings (loss) per share for all periods presented have been adjusted retrospectively to reflect the InPlay Exchange Ratio. See note 13.

16. REVENUE AND DERIVATIVE CONTRACTS

($'000s)		**December 31, 2016**		December 31, 2015
Oil sales		**23,985**		30,971
Natural Gas sales		**2,659**		1,189
NGL sales		**1,206**		396
Total		**27,850**		32,556
Changes in fair value of derivative contracts:				
Realized gain (loss) on derivative contracts		**2,657**		3,898
Unrealized gain (loss) on derivative contracts		**(4,753)**		3,205
	$	**(2,096)**	$	7,103

17. TRANSACTION COSTS

For the year ended December 31, 2016 $2.4 million of transaction costs were incurred (December 31, 2015 - $nil) for advisory and professional fees associated with the Arrangement, Asset Acquisition and financing and related evaluations.

18. GENERAL AND ADMINISTRATIVE EXPENSES BY NATURE

($'000s)		**December 31, 2016**		December 31, 2015
Salaries, benefits and bonuses	**$**	**2,916**	$	2,585
Office Rent & Parking		**837**		935
Computer related fees		**378**		384
Professional Consulting Services		**415**		534
Legal Expenses		**60**		136
Other – (Office & Admin)		**843**		614
Capitalized Recoveries		**(974)**		(1,003)
Total General and Administrative Expense	**$**	**4,475**	$	4,185

19. FINANCE EXPENSE

($'000s)		**December 31, 2016**		December 31, 2015
Interest expense on credit facility	**$**	**1,517**	$	1,639
Commitment and renewal fee on credit facility		**200**		60
Accretion expense on decommissioning obligation		**566**		477
Finance expense	**$**	**2,283**	$	2,176

20. SUPPLEMENTAL CASH FLOW INFORMATION

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

($'000s)		**December 31, 2016**		December 31, 2015
Source (use) of cash				
Accounts receivable and accruals	**$**	**(1,424)**	$	1,761
Prepaid expenses, deposits and deferred lease credits		**(484)**		(224)
Accounts payable and accruals		**5,291**		(13,426)
	$	**3,383**	$	(11,889)
Related to operating activities	**$**	**(1,107)**	$	141
Related to financing activities	**$**	**-**	$	-
Related to investing activities	**$**	**4,490**	$	(12,030)

21. 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.

21(a) Fair value of financial instruments

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

The carrying amounts for cash and cash equivalents, accounts receivable and accrued receivables, deposits, and accounts payable and accrued liabilities are reasonable approximations of their respective fair values due to the short-term maturities of those instruments. 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 balance sheet date.

The Company classified the fair value of its financial instruments measured at fair value according to the following hierarchy based on the amount of observable 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 instrument in included in level 3.

The fair values of the derivative contracts used for risk management as shown in the statements of financial position as at December 31, 2016 and December 2015 were measured using level 2 observable inputs, including quoted prices received from financial institutions based on published forward price curves as at the measurement date, using the remaining contracted oil and natural gas volumes.

During the years ended December 31, 2016 and 2015, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities.

21(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 within a one month following the 25^{th} 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 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 allowance for doubtful accounts as at December 31, 2016 was $0.4 million (December 31, 2015 – $nil). This allowance was associated with the Corporate Acquisition and relates to either industry counterparties with financial solvency issues or potential joint interest billing disputes. See note 5.

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 allowance for doubtful accounts at the reporting date by type of customer was:

		Carrying Amount		
($'000s)		**December 31, 2016**		December 31, 2015
Oil and natural gas customers	**$**	**4,672**	$	2,127
Joint operations partners		**1,084**		593
Financial institution – derivative contract settlement		**-**		974
Accruals & Other		**2,700**		70
	$	**8,456**	$	3,764

As of December 31, 2016 and December 31, 2015, the Company's accounts receivable and accruals, net of allowance for doubtful accounts was aged as follows:

Aging **($'000s)**		**December 31, 2016**		December 31, 2015
0 – 30 days		**7,403**		3,566
30- 90 days		**437**		144
Greater than 90 days		**616**		54
Total	**$**	**8,456**	$	3,764

The Company considers amounts greater than 90 days past due. Receivables normally collectible within 30 to 60 days can take longer as information requests and timing can come into effect in dealing with receivables from joint venture partners. At December 31, 2016 $1.0 million (2015 – $0.1 million) in receivables were over 90 days due and considered past due. Of this amount $0.4 million had an allowance for doubtful accounts set up.

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.

21(c) Liquidity risk

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

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

The following are the contractual maturities of non-derivative financial liabilities at December 31, 2016:

Financial Liabilities **($'000s)**		Less than one year		One to two years
Non-derivative financial liabilities				
Accounts payable and accruals	$	15,476	$	-
Bank loans – principal & interest (1)		1,116		30,219
Total	$	16,592	$	30,219

(1) Assumes the credit facilities are not renewed on May 31, 2017, whereby outstanding balances become due one year later on May 31, 2018.

The following table shows the Company's accounts payable and accruals:

	Carrying Amount			
($'000s)		**December 31, 2016**		December 31, 2015
Trade payables (1)	**$**	**8,735**	$	4,131
Joint operations partners		**1,117**		744
Accruals (2)		**5,624**		837
	$	**15,476**	$	5,712

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

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

21(d) Market risk

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

(i) Foreign currency exchange rate risk

The Company is exposed to the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. While substantially all of the Company's sales are denominated in Canadian dollars, the market prices in Canada for oil and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company had no forward exchange rate contracts in place as at December 31, 2016 or December 31, 2015.

(ii) Commodity price risk

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

North American processing and supply considerations that influence the levels of supply and demand.

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

At December 31, 2016 the following commodity-based derivative contracts were outstanding and recorded at estimated fair value:

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

Currency denomination	Volume (GJ/day)	Average swap price	Term ending	Fair value ($'000 CAD)
Canadian dollar	1,000	$ 3.055/GJ	March 31, 2018	($105)

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

Currency denomination	Volume (bpd)	Average swap price	Term ending	Fair value ($'000 CAD)
US dollar	500	$ 53.65/bbl	June 30, 2017	($225)

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

Currency denomination	Volume (bpd)	Sold call price	Sold put price	End date of contract	Fair value ($'000 CAD)
Canadian dollar	200	$ 55.00/bbl	$ 73.65/bbl	December 31, 2017	($381)
Canadian dollar	200	$ 55.00/bbl	$ 74.00/bbl	December 31, 2017	($366)
US dollar	200	$ 47.50/bbl	$ 57.80/bbl	December 31, 2017	($189)
US dollar	500	$ 47.00/bbl	$ 59.60/bbl	December 31, 2017	($283)

(1) Costless collar indicates InPlay concurrently sold put and 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 to terminate the contracts. At December 31, 2016, the Company estimates that it would pay $1.5 million to terminate these contracts.

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

($'000s)		**December 31, 2016**		December 31, 2015
Current asset	**$**	**-**	$	3,204
Current liability		**(1,549)**		-
Net asset (liability) position	**$**	**(1,549)**	$	3,204

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 $2.5 million and increase the fair value of derivative contracts by $2.2 million respectively as at December 31, 2016 .

(iii) Interest rate risk

The Company is exposed to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's primary exposure is related to its floating interest rate credit facility. The Company estimates that an increase or decrease of 1% in interest rates would result in a change in total annual interest expense on bank debt by approximately $0.5 million over 2016 (2015 - $0.5 million).

21(d) Capital management

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

At December 31, 2016, InPlay's capital structure includes shareholders' equity, creditfacility and adjusted working capital. The Company manages its capital structure by continually monitoring its business conditions, including: changes in economic conditions, the risk profile of its drilling inventory, the efficiencies of past investments, the efficiencies of forecast investments and the timing of such investments, the forecast commodity prices and resulting cash flows.

InPlay's current capital structure is summarized below:

($'000s)		**December 31, 2016**		December 31, 2015
Current liabilities	$	**17,398**	$	63,743
Current assets		**(10,675)**		(7,658)
Working capital deficiency		**6,723**		56,085
Derivative contract		**(1,549)**		3,204
Deferred lease payments		**(129)**		(129)
Flow-through Share premium		**(244)**		-
Current portion of credit facility		**-**		(57,901)
Adjusted working capital deficiency		**4,801**		1,259
Credit Facility		**29,755**		57,901
Net debt		**34,556**		59,160
Shareholders' equity		**187,597**		56,682
Total capitalization	$	**222,153**	$	115,842

22. RELATED PARTY TRANSACTIONS

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

($'000s)		**December 31, 2016**		December 31, 2015
Salaries and bonuses	**$**	**1,221**	$	1,211
Stock-based compensation – expensed and capitalized		**1,640**		3,463
Total executive compensation	**$**	**2,861**	$	4,674

A director of the Company is an executive officer of a corporation to which the Company made office lease payments in the amount of $0.4 million during the year ended December 31, 2016 (December 31, 2015 - $0.4 million). The lease term ended in November 2016 and no amounts were outstanding as of December 31, 2016.

Several members of InPlay's board of directors and executive management participated in the InPlay Financing described in note 13. 283,402 common shares were acquired and 30,000 flow-through common shares were acquired for proceeds of $652,500 and $35,000 respectively. These share offerings were done under the same terms and conditions as the other participants as described in note 13.

23. COMMITMENTS

23(a) Capital commitments

At December 31, 2016, the Company had commitments for future capital expenditures of $0.5 million related to the drilling program underway at year end that are expected to be incurred during the first quarter of 2017. As at December 31, 2016, the Company had $1.7 million remaining of its commitment to incur qualifying exploration and development expenditures related to the $3.8 million raised from the issuance of flow-through shares in conjunction with the closing of the Arrangement.

23(b) Operating lease commitments

The Company has the following estimated annual obligations related to its office lease obligations.

The minimum future payments for these leases are as follows:

($'000s) except as noted	2017	2018
Office lease payments(1)	$ 1,120	$ 310

(1) Net of sublease income for 2017 of $108,000.

23(c) 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) except as noted	2017	2018	2019	2020	Thereafter
Firm service commitment	$ 550	$ 291	$ 78	$ 50	$ 22