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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Prairie Storm Energy Corp.

Opinion

We have audited the consolidated financial statements of Prairie Storm Energy Corp. (the "Entity"), which comprise:

- the consolidated statement of financial position as at December 31, 2019
- the consolidated statement of income (loss) and comprehensive income (loss) for the year then ended
- the consolidated statement of changes in shareholders' equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

April 30, 2020

PRAIRIE STORM ENERGY CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of Canadian Dollars)

	Notes	December 31, 2019	December 31, 2018
Assets			
Current assets			
Cash and cash equivalents		$ 4,340	$ 7,946
Accounts receivable		2,631	1,967
Prepaid expenses and deposits		513	595
Fair value of commodity contracts	14	-	2,448
		7,484	12,956
Fair value of commodity contracts	14	-	99
Property, plant and equipment	5	102,919	106,234
Total assets		$ 110,403	$ 119,289
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 1,938	$ 3,037
Fair value of commodity contracts	14	718	-
Deferred premium on commodity contracts	14	-	497
Lease obligations	7	200	-
		2,856	3,534
Lease obligations	7	660	-
Decommissioning liabilities	8	30,581	30,781
Deferred income taxes	11	1,465	2,353
		35,562	36,668
Shareholders' equity			
Share capital	9(a)	70,242	76,242
Retained earnings		4,599	6,379
		74,841	82,621
Total liabilities and shareholders' equity		$ 110,403	$ 119,289

Subsequent events (notes 14 and 16)
Commitments (note 16)

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors

(signed) "Bruce Waterman" Director

(signed) "Julian Din" Director

PRAIRIE STORM ENERGY CORP.
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)
(Expressed in thousands of Canadian Dollars, except per share amounts)

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Revenue			
Production revenue	10	$ 27,811	$ 34,046
Processing income	10	757	900
Royalties		(2,465)	(2,576)
		26,103	32,370
Realized gain on commodity contracts	14	334	129
Unrealized gain (loss) on commodity contracts	14	(2,768)	430
		23,669	32,929
Expenses			
Field operations		11,900	12,399
Transportation and marketing		57	124
General and administrative		3,360	3,443
Transaction costs	5	-	65
Depletion and depreciation	5	10,344	11,836
		25,661	27,867
Income (loss) from operations		(1,992)	5,062
Finance costs	12	(686)	(986)
Gain on dispositions	5	10	9,536
		(676)	8,550
Income (loss) before income taxes		(2,668)	13,612
Deferred income taxes (recovery)	11	(888)	2,353
Net income (loss) and comprehensive income (loss)		$ (1,780)	$ 11,259
Net income (loss) per share			
Basic	9(c)	$ (0.02)	$ 0.15
Diluted	9(c)	$ (0.02)	$ 0.15

See accompanying notes to the consolidated financial statements.

PRAIRIE STORM ENERGY CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in thousands of Canadian Dollars)

	Notes		Year ended December 31, 2019		Year ended December 31, 2018
Share Capital					
Balance, beginning of year		$	76,242	$	76,242
Return of capital	9(a)		(6,000)		-
Balance, end of year		$	70,242	$	76,242
Retained Earnings (deficit)					
Balance, beginning of year		$	6,379	$	(4,880)
Net income (loss) for the year			(1,780)		11,259
Balance, end of year		$	4,599	$	6,379
Total Shareholders' Equity		$	74,841	$	82,621

See accompanying notes to the consolidated financial statements.

PRAIRIE STORM ENERGY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Canadian Dollars)

	Notes	Year ended December 31, 2019	Year ended December 31, 2018
Cash provided by (used) in:			
Operations			
Net income (loss) for the year		$ (1,780)	$ 11,259
Non-cash and other items			
Unrealized (gain) loss on commodity contracts	14	2,768	(430)
Depletion and depreciation		10,344	11,836
Deferred taxes	11	(888)	2,353
Gain on dispositions		(10)	(9,536)
Finance costs	12	595	796
Decommissioning expenditures	8	(271)	(76)
Change in non-cash working capital	13	(767)	226
Net cash flows from operating activities		9,991	16,428
Financing			
Proceeds from (repayment of) bank debt	6	-	(718)
Return of capital	9(a)	(6,000)	-
Payments on lease obligations	7	(212)	-
Change in non-cash working capital	13	-	(5)
Net cash flows used in financing activities		(6,212)	(723)
Investing			
Property, plant and equipment expenditures	5	(6,481)	(13,116)
Proceeds from dispositions	5	10	9,703
Change in non-cash working capital	13	(914)	(4,346)
Net cash flows used in investing activities		(7,385)	(7,759)
Change in cash and cash equivalents		(3,606)	7,946
Cash and cash equivalents, beginning of year		7,946	-
Cash and cash equivalents, end of year		$ 4,340	$ 7,946

See accompanying notes to the consolidated financial statements.

1. CORPORATE INFORMATION

Prairie Storm Energy Corp. ("Prairie Storm" or the "Company") is a private corporation that was incorporated under the laws of the Province of Alberta, Canada on January 21, 2015. The principal and head office of the Company is located at 2000, 215 – 9th Ave SW, Calgary, AB T2P 1K3. The registered office of the Company is located at 4500, 855 – 2nd St SW, Calgary, AB T2P 4K7.

The Company is engaged in the acquisition, exploration, development and production of petroleum and natural gas reserves in western Canada. The consolidated financial statements of the Company are comprised of the accounts of Prairie Storm and its wholly owned subsidiary, 1986272 Alberta Ltd.

2. BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Company's significant accounting policies are presented in note 3.

These consolidated financial statements were authorized for issuance by the Board of Directors on April 30, 2020.

b) Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments which have been measured at fair value with the changes in fair value recorded in earnings. The methods used to measure fair values are discussed in note 4.

Expenses in the consolidated statement of income are presented as a combination of function and nature in conformity with industry practice. Depletion and depreciation expense are presented on separate lines by their nature, while field operations, transportation and marketing, general and administrative costs, and transaction costs are presented on a functional basis.

c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its wholly owned subsidiary.

d) Critical accounting judgments and key sources of estimation uncertainty

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and income and expenses. Accordingly, actual results may differ from these estimates. 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. Significant estimates and judgments made by management in the preparation of these financial statements are outlined below.

Critical judgments in applying accounting policies:

The following are the critical judgments that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in these consolidated financial statements:

i) Identification of cash-generating units ("CGUs")

The Company's assets are aggregated into CGUs, for the purpose of calculating impairment, based on their ability to generate largely independent cash inflows. By their nature, these estimates and assumptions are subject to measurement uncertainty and may impact the carrying value of the Company's assets in future periods.

ii) Impairment of property, plant and equipment ("PP&E")

Judgments are required to assess when impairment indicators, or reversal indicators, exist and impairment testing is required. In determining the recoverable amount of assets, in the absence of quoted market prices, impairment tests are based on estimates of reserves, production rates, future oil and natural gas prices, future costs, discount rates, market value of land and other relevant assumptions.

iii) Exploration and evaluation ("E&E") assets

The application of the Company's accounting policy for exploration and evaluation assets requires management to make certain judgments as to future events and circumstances as to whether economic quantities of reserves have been found in assessing commercial viability and technical feasibility.

iv) Deferred income taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

v) Leased assets

The Company is required to make judgements and assumptions on incremental borrowing rates and lease terms. The carrying amount of the leased assets, lease obligations, interest and depreciation expense may differ due to changes in market conditions and expected lease terms. Incremental borrowing rates are based on the Company's borrowing rate at the commencement date of the lease, the security of the asset and market conditions. Lease terms are based on management's assumptions of future market conditions and operational decisions.

Key sources of estimation uncertainty:

The following are the key assumptions concerning the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing adjustments to the carrying amounts of assets and liabilities.

i) Reserves

The assessment of reported recoverable quantities of proved and probable reserves include estimates regarding production profile, commodity prices, exchange rates, remediation costs, timing and amount of future development costs, and production, transportation and marketing costs for future cash flows. It also requires interpretation of geological and geophysical models in anticipated recoveries. The economical, geological and technical factors used to estimate reserves may change from period to period. Changes in reported reserves can impact the carrying values of the Company's PP&E, the calculation of depletion and depreciation, the provision for decommissioning obligations, and the recognition of deferred tax assets or liabilities due to changes in expected future cash flows. The recoverable quantities of reserves and estimated cash flows from the Company's petroleum and natural gas interests are independently evaluated by reserve engineers at least annually.

The Company's petroleum and natural gas reserves represent the estimated quantities of petroleum, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be economically recoverable in future years from known reservoirs and which are considered commercially producible. Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon (i) a reasonable assessment of the future economics of such production; (ii) a reasonable expectation that there is a market for all or substantially all the expected petroleum and natural gas production; and (iii) evidence that the necessary production, transmission and transportation facilities are available or can be made available. Reserves may only be considered proven and probable if producibility is supported by either production or conclusive formation tests. The Company's petroleum and gas reserves are determined pursuant to National Instrument 51-101, Standard of Disclosures for Oil and Gas Activities.

ii) Decommissioning obligations

The Company estimates future remediation costs of production facilities, wells and pipelines at different stages of development and construction of assets or facilities. In most instances, removal of assets occurs many years into the future. This requires assumptions regarding abandonment dates, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating costs, future removal technologies in determining the removal costs and liability-specific discount rates to determine the present value of these cash flows.

iii) Business combinations

In a business combination, management makes estimates of the fair value of assets acquired and liabilities assumed which includes assessing the value of oil and gas properties based upon the estimation of recoverable quantities of proven and probable reserves being acquired.

iv) Share-based payments

All equity-settled, share-based awards issued by the Company are recorded at fair value. The fair value of stock option awards are estimated using the Black-Scholes option-pricing model. In assessing the fair value of equity-based compensation, estimates have to be made regarding the expected volatility in share price, option life, dividend yield risk-free rate, and estimated forfeitures at the initial grant date.

v) Income taxes

The Company follows the asset/liability method for calculating deferred income taxes. Tax interpretations, regulations and legislation are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are recognized only to the extent that those assets are considered recoverable. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

vi) Commodity contracts

The Company's estimates of the fair value of commodity contracts are dependent on estimated forward prices and volatility in those prices.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial instruments

i) Non-derivative financial instruments

Non-derivative financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through the statements of income, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Cash and cash equivalents is comprised of cash on hand, term deposits, and other short-term highly liquid investments with original maturities of three months or less.

Other non-derivative financial instruments, such as accounts receivable, accounts payable and accrued liabilities, and bank debt are measured at amortized cost using the effective interest method, less any impairment losses.

ii) Derivative financial instruments

The Company, from time to time, may enter into certain financial derivative contracts in order to manage the exposure to market risks from fluctuations in commodity prices and interest rates. These instruments are not used for trading or speculative purposes. The Company does not designate any financial derivative contracts as effective accounting hedges, and thus does not apply hedge accounting, even though the Company considers all contracts to be economic hedges. As a result, any 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 earnings when incurred.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

iii) Share capital

Common shares are classified as equity. Incremental costs directly attributed to the issue of common shares and stock options are recognized as a deduction from equity, net of any tax effects.

b) PP&E and E&E assets:

i) *Recognition and measurement:*

Exploration and evaluation expenditures:

Pre-license costs incurred before the Company has obtained the legal rights to explore for petroleum and natural gas are expensed.

Exploration and evaluation costs, including the costs of acquiring leases and licenses initially are capitalized as E&E assets. The costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For purposes of impairment testing, E&E assets are allocated to the related CGU.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proven and/or probable reserves have been discovered. Upon determination of proven and/or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to a separate category within tangible assets referred to as PP&E.

Development and production costs:

Items of PP&E, which include oil and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development and production assets are grouped into CGUs for impairment testing. When significant parts of an item of PP&E, including oil and natural gas interests, have different useful lives, they are accounted for as separate items (major components).

Gains and losses on disposal of PP&E, property swaps and farm-outs, are determined by comparing the proceeds or fair value of the asset received or given up with the carrying amount of PP&E and are recognized in profit or loss.

ii) Subsequent costs:

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as oil and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss

as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of PP&E are recognized in profit or loss as operating costs as incurred.

iii) Depletion and depreciation:

The net carrying value of development or production assets is depleted using the unit of production method by reference to the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Relative volumes of reserves and production are converted at the energy equivalent conversion ratio of six thousand cubic feet of natural gas to one barrel of oil. Future development costs are estimated taking into account the level of development required to produce the reserves. These estimates are reviewed by independent reserve engineers at least annually.

c) Impairment:

i) Financial assets:

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Due to the nature of its financial assets, the Company measures loss allowances at an amount equal to expected lifetime ECLs. Lifetime ECLs are the anticipated ECLs that result from all possible default events over the expected life of a financial asset. ECLs are a probability-weighted estimate of credit loss and are discounted at the effective interest rate of the related financial asset.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than E&E assets and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, an impairment test is completed each year. E&E assets are assessed for impairment when they are reclassified to PP&E, and also if facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or CGUs. The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Value in use is generally computed by reference to the present value of the future cash flows expected to be derived from production of proven and probable reserves.

The goodwill acquired in an acquisition, for the purpose of impairment testing, is allocated to the CGUs that are expected to benefit from the synergies of the combination. E&E assets are allocated to the related CGU when they are assessed for impairment, both at the time of any triggering facts and circumstances as well as upon their eventual reclassification to PP&E.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of PP&E and E&E assets, recognized in prior years, is assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized. An impairment loss in respect of goodwill is not reversed.

d) Jointly owned assets

Substantially all of the Company's oil and gas exploration and development activities involve jointly owned assets and, accordingly, the financial statements reflect only the Company's share of these jointly owned assets and a proportionate share of the relevant revenue and related costs.

e) Income tax

Income tax expense is comprised of current and deferred taxes. Income tax expense is recognized in earnings except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any adjustments to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognized on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss and differences relating to investments in subsidiaries and jointly controlled entities to the extent it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized on temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax rates enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset and they relate to income levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Provisions

i) General

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax "risk free" rate that

reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance expense. Provisions are not recognized for future operating losses.

ii) Decommissioning obligations

The Company's activities give rise to abandonment and site restoration of petroleum and natural gas properties. A provision is made for the estimated cost of abandonment and site restoration and is capitalized in the relevant asset category. The capitalized amount is depleted on a unit of production basis over the life of the associated proved plus probable reserves.

Decommissioning obligations are measured at the present value using management's best estimate of the expenditure required to settle the present obligation as at the reporting date. Subsequent to the initial measurement, the obligation is adjusted at the end of each reporting period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized in earnings as accretion (within other finance expenses), whereas increases and decreases due to changes in the estimated future cash flows or changes in the discount rate are capitalized. Actual costs incurred upon settlement of the decommissioning obligation are charged against the provision to the extent that the obligation was previously established.

g) Petroleum and natural gas revenue

Revenue from the sale of petroleum and natural gas is measured based on the consideration specified in contracts with customers. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the custody transfer point agreed with the customer, often terminals, pipelines or other transportation methods.

The Company evaluates its arrangements with 3rd parties and partners to determine if the Company acts as principal or as agent. In making this evaluation, management considers if the Company maintains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net-basis, only reflecting the fee, if any, realized by the Company from the transaction.

h) Transportation expense

Transportation costs are normally paid for shipping petroleum and natural gas from the wellhead to the point of title transfer to buyers. These costs are recognized when services are received.

i) Leases

When the Company enters into a lease arrangement as lessee, it recognizes a right-of-use ("ROU") asset and a corresponding lease obligation on the consolidated statement of financial position at the lease commencement date.

ROU assets are initially measured at cost, which includes the initial measurement of the lease obligation less any incentives received, plus any lease payments made at or before the lease commencement date, along with any initial direct costs incurred and an estimate of future restoration costs, if any. ROU assets are subsequently depreciated on a straight-line basis over the shorter of the asset's useful life and the lease term. ROU assets are also reduced by impairment losses, if any, and adjusted for certain re-measurements of the underlying lease obligation.

Lease obligations are measured as the net present value of the lease payments. These may include fixed lease payments, variable lease payments based on an index or rate, amounts expected to be payable under residual value guarantees, and payments to exercise extension or termination options if the Company is reasonably certain to exercise either of those options. The net present value of the lease payments is discounted using the rate implicit in the lease unless this rate is not readily determinable, in which case the Company's incremental borrowing rate is used. The interest

associated with the lease obligation is recognized over the term of the lease with a corresponding increase to the underlying lease obligation.

Short-term leases and leases of low-value assets are not recognized on the consolidated statement of financial position and lease payments are instead recognized in the consolidated financial statements as incurred. The Company also applies a single discount rate to a portfolio of leases with similar characteristics.

j) Finance income and costs

Finance costs include interest expenses on borrowings, costs relating to the establishment and maintenance of the Company's credit facilities, the accretion of the discount on decommissioning obligations, and interest on lease obligations.

Interest income is recognized as it accrues in profit or loss, using the effective interest method.

k) Net income per share

Net income per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share is calculated by adjusting the weighted average number of common shares outstanding for the effects of dilutive instruments.

l) Changes in significant accounting policies

(i) IFRS 16 – *Leases ("IFRS 16")*

On January 1, 2019, the Company adopted IFRS 16 which uses a single lease accounting model for lessees and requires the Company to recognize a ROU asset and lease obligation on the consolidated statement of financial position for all contracts that contain a lease.

By following the modified retrospective approach to IFRS 16, the Company applied the following practical expedients as permitted under the standard:

- Account for leases with a remaining term of less than 12 months at January 1, 2019 as short-term leases;
- Account for lease payments as an expense and not recognize a ROU asset if the underlying asset is of lower dollar value;
- Apply a single discount rate to a portfolio of leases with similar characteristics; and
- Recognize lease obligations at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at January 1, 2019. The associated ROU assets were measured at an amount equal to the lease obligation on the date of transition, with no impact to opening retained earnings.

The cumulative effect of the initial application of IFRS 16 was the recognition of $1.0 million in ROU assets (included in PP&E) and $1.0 million in lease obligations, split between current and long-term. This initial recognition was determined based on the remaining lease payments as at January 1, 2019, using an average incremental borrowing rate of 5.0%. The ROU assets and lease obligations include the Company's head office lease, leased vehicles, certain production equipment and various surface leases.

4. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

a) Financial instruments

i) Non-derivative financial instruments

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and bank debt is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019 and December 31, 2018, the fair value of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximated their carrying value due to their short-term maturity. Bank debt bears a floating rate of interest and margins charged by the lender are indicative of current credit spreads and therefore carrying value approximates fair value.

ii) Derivative financial instruments

The fair value of commodity price contracts is determined by the difference between the contracted prices and published forward commodity price curves at each reporting date, using the remaining contracted commodity volumes and a credit adjusted interest rate. The fair value of options and costless collars is based on option models that use published information with respect to volatility, prices and interest rates.

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value measurement of the commodity price contracts has a hierarchy of Level 2.

b) Petroleum and natural gas properties

The fair value of PP&E and E&E assets recognized in a business combination is based on market values. The market value of PP&E and E&E assets is the estimated amount for which the assets could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing, wherein the parties had each acted knowledgably, prudently and without compulsion. The market value of petroleum and natural gas properties included in PP&E and E&E assets is estimated with reference to the discounted cash flows expected to be derived from oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions. The market value of other items of property and equipment is based on the quoted market prices for similar items.

c) Stock Options

Should a Fundamental Change (as described in note 9(b)) occur, the fair value of share-based payments is measured using a Black-Scholes option-pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility in share price (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividend yield, risk-free interest rate (based on government bonds) and estimated forfeiture rate at the initial grant date.

5. PROPERTY, PLANT AND EQUIPMENT

The following is a summary of the Company's PP&E assets:

	Petroleum and natural gas assets	Office equipment	Right-of-use assets	Total
Cost				
Balance, December 31, 2017	$ 122,253	$ 324	$ -	$ 122,577
Additions	21,450	6	-	21,456
Decommissioning liabilities	308	-	-	308
Dispositions	(16,528)	(50)	-	(16,578)
Balance, December 31, 2018	127,483	280	-	127,763
Additions	6,479	2	1,027	7,508
Dispositions	-	-	(9)	(9)
Decommissioning liabilities	(479)	-	-	(479)
Balance, December 31, 2019	$ 133,483	$ 282	$ 1,018	$ 134,783
Accumulated depletion and depreciation				
Balance, December 31, 2017	$ (13,698)	$ (157)	$ -	$ (13,855)
Depletion and depreciation	(11,737)	(99)	-	(11,836)
Dispositions	4,119	43	-	4,162
Balance, December 31, 2018	(21,316)	(213)	-	(21,529)
Depletion and depreciation	(10,084)	(63)	(197)	(10,344)
Dispositions	-	-	9	9
Balance, December 31, 2019	$ (31,400)	$ (276)	$ (188)	$ (31,864)
Net carrying value				
December 31, 2018	$ 106,167	$ 67	$ -	$ 106,234
December 31, 2019	$ 102,083	$ 6	$ 830	$ 102,919

Future development costs of $213.2 million (2018 – $197.7 million) were included in the depletable costs as these costs are necessary to bring the proved and probable reserves into production.

During the year ended December 31, 2018, the Company executed a swap agreement whereby the Company exchanged certain petroleum and natural gas assets for $9.7 million in cash, $8.3 million in certain petroleum and natural gas assets and assumed $2.0 million of decommissioning obligations. The assets given up had a net book value of $12.4 million and decommissioning obligations of $5.9 million. The gain recognized on the transaction was $9.5 million. Costs associated with this transaction were $65 thousand.

At December 31, 2019, the Company determined indicators of impairment were present due to a decline in forecasted commodity benchmark prices. As a result, the Company compared the carrying value of its only CGU to its recoverable amount. For the purpose of impairment testing, the recoverable amount of the Company's CGU is the greater of its value in use and its fair value less costs to sell. Value in use is generally the future cash flows expected to be derived from production of proven and probable reserves. In determining the future cash flows, the Company utilized the following benchmark prices:

	WTI Oil (US$/bbl)	CLS Oil (CAD$/bbl)	AECO Gas (CAD$/mmbtu)	Exchange Rate ($US/$CAD)
2020	$ 61.00	$ 73.84	$ 2.04	$ 0.76
2021	65.00	78.51	2.27	0.77
2022	67.00	78.73	2.81	0.80
2023	68.34	80.30	2.89	0.80
2024	69.71	81.91	2.98	0.80
2025	71.10	83.54	3.06	0.80
2026	72.52	85.21	3.15	0.80
2027	73.97	86.92	3.24	0.80
2028	75.45	88.66	3.33	0.80
2029	76.96	90.43	3.42	0.80
2030	78.50	92.24	3.51	0.80
Escalation rate of 2% thereafter				

At December 31, 2019, the recoverable amount of the Company's CGU, using value in use and discounted at a pre-tax rate of 20%, exceeded its carrying value and no impairment was required. For the year ended December 31, 2018, there were no indicators of impairment and accordingly, an impairment test was not required.

6. BANK DEBT

As at December 31, 2019, the Company had drawn $nil on its existing credit facility. The credit facility consists of a $15 million extendible revolving credit facility and will revolve until May 28, 2020. At the request of the Company and with the consent of the bank, the facility may be renewed for a period not to exceed 364 days. If not extended, the facility will cease to revolve, the margins will increase by 0.50%, undrawn amounts will be permanently cancelled, and all outstanding advances thereunder will become repayable in one year from the extension date.

Interest is payable monthly in arrears, at rates varying from 1% to 2.5% over the bank's prime lending rate depending on the Company's debt to EBITDA ratio. Standby fees on the undrawn portion of the facility are paid monthly in arrears, at rates varying from 0.5% to 0.9% depending on the Company's debt to EBITDA ratio. At December 31, 2019, the Company's applicable pricing included a 1.0% margin on prime lending and 0.5% standby fee on the undrawn portion of the facility. For the year ended December 31, 2019, the effective interest rate for the bank debt was approximately 5.0% (2018 – 4.6%).

The credit facility is secured by a $100 million Demand Debenture conveying a first floating charge (with a right to fix) over all the assets of the Company.

7. LEASE OBLIGATIONS

The Company incurs lease payments related to the Company's head office lease, leased vehicles, certain production equipment and various surface leases. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased assets.

	December 31, 2019	December 31, 2018
Lease obligations, beginning of year	$ -	$ -
Adoption of IFRS 16 (note 3)	1,000	-
Additions	27	-
Payments	(212)	-
Interest	45	-
Lease obligations, end of year	$ 860	$ -

	December 31, 2019	December 31, 2018
Current portion	$ 200	$ -
Long-term portion	660	-
Lease obligations	$ 860	$ -

The undiscounted cash flows relating to the lease obligations are as follows:

	December 31, 2019	December 31, 2018
Less than 1 year	$ 201	$ -
1 – 3 years	441	-
After 3 years	361	-
Total undiscounted future lease payments	1,003	-
Total undiscounted future interest payments	(143)	
Present value of lease obligations	$ 860	$ -

Expenses relating to short-term leases and leases of low value assets for the year ended December 31, 2019 were $9 thousand.

8. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities are based on the Company's net ownership in wells and facilities along with management's estimated costs to abandon and reclaim those wells and facilities, as well as the estimated timing of these costs.

	December 31, 2019	December 31, 2018
Decommissioning liabilities, beginning of year	$ 30,781	$ 33,662
Acquisitions (note 5)	-	2,017
Revisions	(576)	(278)
Additions	97	586
Liabilities settled	(271)	(76)
Liabilities disposed	-	(5,926)
Accretion	550	796
Decommissioning liabilities, end of year	$ 30,581	$ 30,781

The inflated, undiscounted amount of future cash flows required to settle the liabilities is estimated to be $37.5 million (2018 – $39.4 million). The liabilities were calculated using a risk-free interest rate of 1.76% (2018 – 2.18%) and an inflation rate of 1.35% (2018 – 2.00%). It is expected that the liabilities will be funded from general Company resources at the time the costs are incurred. The operating lives of the underlying assets are estimated to be between two and 50 years, with an average life of 11 years.

9. SHAREHOLDERS' EQUITY

a) Share capital

The Company is authorized to issue an unlimited number of preferred shares and common shares, of which only common shares have been issued.

Issued and outstanding	Number of shares		Amount
Balance, December 31, 2017 and 2018	76,332	$	76,242
Return of capital	-		(6,000)
Balance, December 31, 2019	76,332	$	70,242

On February 4, 2015, the Company entered into a share purchase agreement with Fountainview B.V., an affiliate of NGP Natural Gas resources XI, L.P. ("NGP"), and other investors (collectively with NGP the "Investors") for up to 406.65 million common shares at a price equal to $1.00 per common share for a total capital commitment of $406.65 million. On February 4, 2017, the Company entered into an amended and restated share purchase agreement and various ancillary agreements with all existing and new investors, with the effect being that the total capital commitment was amended to $91.8 million, of which $76.3 million has been drawn. The capital commitments are subject capital calls whereby the Company may, by written notice, require the Investors to purchase common shares which are equal to, or less than the remaining committed amount subject to approval by the Board of Directors of the Company and NGP in its capacity as shareholder.

On February 12, 2019, the Company returned $6.0 million to its shareholders as a return of capital.

b) Stock options

The Company maintains a Stock Option Plan (the "Plan") for the benefit of certain directors, officers and employees. Pursuant to the terms of the Plan, there are 218,965,384 Options available for granting (Tier I – 101,662,500, Tier II – 33,887,500, Tier III – 38,728,571, and Tier IV – 44,686,813), of which 205,827,454 have been granted as at December 31, 2017. All Options which have vested are pro-rated based on the amount of Investor contributions actually funded divided by $406.65 million. All Options have an expiry date of February 4, 2022.

The base exercise price for each Tier I option is $1.00 per common share, with the exercise price escalating at eight percent per year based on the weighted average number of years all equity contributions to the Company are outstanding. Tier I options time vest as to 1/4 of the option grant on each of the first, second, third and fourth anniversaries and performance vest upon meeting a certain rate of return, as defined in the Plan.

The base exercise price for each Tier II option is $1.00 per common share, with the exercise price escalating at 20 percent per year based on the weighted average number of years all equity contributions to the Company are outstanding. Tier II options time vest as to 1/4 of the option grant on each of the first, second, third and fourth anniversaries and performance vest upon meeting a certain rate of return, as defined in the Plan.

The exercise price for each Tier III option is $2.00 per common share. Tier III options performance vest upon meeting a certain rate of return, as defined in the Plan.

The exercise price for each Tier IV option is $2.50 per common share. Tier IV options performance vest upon meeting a certain rate of return, as defined in the Plan.

Options may only be exercised if (a) the Company merges, consolidates, amalgamates, or reconstitutes with or into an unrelated third party; all common shares are sold or exchanged to an unrelated third party; or if the Company sells, leases or exchanges or agrees to sell, lease or exchange all or substantially all of its assets to an unrelated third party; (b) an unrelated third party acquires beneficial ownership in 50 percent or more of the outstanding common shares of the Company; (c) the Company is dissolved and liquidated or otherwise wound-up; or (d) the Company completes and Initial Public Offering that results in the common shares being listed for trading on a recognized stock exchange (any of (a) through (d), a "Fundamental Change").

No share based compensation charge has been recognized in these financial statements as it is not probable, at this time, that a Fundamental Change is likely to occur.

The following is a breakdown of the Options available under the Plan:

	Year ended December 31, 2019		Year ended December 31, 2018	
	Number of options	Exercise price	Number of options	Exercise price
Tier I Options				
Balance, beginning of year	95,563		95,563	
Issued	-		-	
Balance, end of year	95,563	$ 1.21	95,563	$ 1.20
Tier II Options				
Balance, beginning of year	31,854		31,854	
Issued	-		-	
Balance, end of year	31,854	$ 1.77	31,854	$ 1.55
Tier III Options				
Balance, beginning of year	36,405		36,405	
Issued	-		-	
Balance, end of year	36,405	$ 1.92	36,405	$ 2.00
Tier IV Options				
Balance, beginning of year	42,005		42,005	
Issued	-		-	
Balance, end of year	42,005	$ 2.42	42,005	$ 2.50

At December 31, 2019, there were 205,827,454 Options outstanding (December 31, 2018 – 205,827,454) and 13,137,931 Options available for future grants (December 31, 2018 – 13,137,931). Based on the equity that has been invested to December 31, 2019, an aggregate total of 41,101,554 Options (38,635,460 options granted plus 2,466,094 Options available for grant) would be available to be exercised, if a Fundamental Change occurred and all the performance criteria in the four option tiers were met.

c) Earnings per share

The following table reconciles the denominators used for the basic and diluted net income per share calculations:

	Year ended December 31, 2019	Year ended December 31, 2018
Weighted average number of common shares	76,332	76,332
Diluted weighted average number of common shares	76,332	76,332

The calculation of the diluted net income per share for the years ended December 31, 2019 and 2018 excludes the effect of all stock options as their impact would have been anti-dilutive.

10. REVENUE

The Company sells its production pursuant to variable-price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Revenue is recognized when a unit of production is delivered to the customer.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table details the Company's petroleum and natural gas sales by product:

	Year ended December 31, 2019	Year ended December 31, 2018
Production revenue		
Crude oil	$ 20,170	$ 22,042
Natural gas liquids	3,328	7,121
Natural gas	4,313	4,883
	27,811	34,046
Processing income	757	900
Total revenue	$ 28,568	$ 34,946

11. INCOME TAXES

The actual income tax provisions differ from the expected amounts calculated by applying the Canadian combined federal and provincial corporate tax rates to losses before income tax. These differences result from the following:

	Year ended December 31, 2019	Year ended December 31, 2018
Income (loss) before income taxes	$ (2,668)	$ 13,612
Combined federal and provincial income tax rates	26.5%	27.0%
Expected income tax provision (recovery)	(707)	3,675
Increase (decrease) resulting from:		
Unrecognized deferred income tax asset	-	(1,319)
Change in enacted tax rates	(190)	-
Non-deductible items	9	8
Other	-	(11)
Deferred income tax expense (recovery)	$ (888)	$ 2,353

In 2019, the blended statutory tax rate was 26.5% (December 31, 2018 – 27.0%). On July 1, 2019, the Alberta corporate income tax rate decreased from 12% to 11%. Further reductions of 1% on January 1st in each of 2020, 2021 and 2022, will eventually bring the provincial rate to 8%.

The Company's non-capital tax losses expire between 2036 and 2039.

The components of the Company's income tax assets and liabilities are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Deferred income tax liabilities		
Property, plant and equipment	$ (12,137)	$ (12,942)
Commodity contracts	-	(554)
Deferred income tax assets		
Decommissioning liabilities	7,364	8,311
Lease obligations	207	-
Commodity contracts	173	-
Share issue costs (net of tax)	2	7
Non-capital losses	2,921	2,825
Other	5	-
Deferred income tax liability	$ (1,465)	$ (2,353)

The following table provides a continuity of the deferred tax liability:

	January 1, 2019	Recognized in Equity	Recognized in profit or loss	December 31, 2019
Property, plant & equipment	$ 12,942	$ -	$ (805)	$ 12,137
Decommissioning liabilities	(8,311)	-	947	(7,364)
Lease obligations	-	-	(207)	(207)
Commodity contracts	554	-	(727)	(173)
Non-capital losses	(2,825)	-	(96)	(2,921)
Other	(7)	-	-	(7)
	$ 2,353	$ -	$ (888)	$ 1,465

	January 1, 2018	Recognized in Equity	Recognized in profit or loss	December 31, 2018
Property, plant & equipment	$ 10,839	$ -	$ 2,103	$ 12,942
Decommissioning liabilities	(9,089)	-	778	(8,311)
Commodity contracts	438	-	116	554
Non-capital losses	(2,176)	-	(649)	(2,825)
Other	(12)	-	5	(7)
	$ -	$ -	$ 2,353	$ 2,353

12. FINANCE COSTS

The following is a breakdown of the Company's finance costs:

	Year ended December 31, 2019	Year ended December 31, 2018
Interest and borrowing costs	$ 96	$ 190
Interest income	(5)	-
Accretion on decommissioning liabilities	550	796
Interest on lease obligations	45	-
Total finance costs	$ 686	$ 986

13. SUPPLEMENTAL CASH FLOW INFORMATION

Changes in non-cash working capital is comprised of:

	Year ended December 31, 2019	Year ended December 31, 2018
Source (use) of cash		
Accounts receivable	$ (664)	$ 2,258
Prepaid expenses and deposits	82	67
Accounts payable and accrued liabilities	(1,099)	(6,450)
Change in non-cash working capital	$ (1,681)	$ (4,125)

	Year ended December 31, 2019	Year ended December 31, 2018
Change related to:		
Operating activities	$ (767)	$ 226
Financing activities	-	(5)
Investing activities	(914)	(4,346)
Change in non-cash working capital	$ (1,681)	$ (4,125)
Interest paid	$ -	$ 108

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, accounts receivable, fair value of commodity contracts, accounts payable and accrued liabilities, deferred premiums on commodity contracts and bank debt. The carrying value of these financial instruments approximate their fair value due to the short-term nature of the instruments. Bank debt bears a floating rate of interest and margins charged by the lender are indicative of current credit spreads and therefore carrying value approximates fair value.

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production and financing activities. The Company has exposure to credit, liquidity and market risk.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, set appropriate limits and controls and to monitor risks and adherence to market conditions and the Company's activities.

This note presents information about the Company's exposure to each of the above 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 in these financial statements.

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. This is principally the carrying amount of the cash and cash equivalents, accounts receivable and commodity contracts.

The cash and cash equivalents are held by a Schedule 1 financial institution.

Substantially all of the Company's accounts receivable are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company markets its petroleum and natural gas to several marketers so that the exposure to any one entity is minimized. Receivables from petroleum and natural gas marketers are normally collected on the 25th day of the month following production. At December 31, 2019, three (December 31, 2018 – three) of these marketers owed the Company $2.0 million (December 31, 2018 - $1.1 million), which amounts were subsequently received. Receivables from partners are typically collected within one to three months of the billing being issued, however collection is dependent on industry factors such as commodity price fluctuations, escalating costs, the risk of unsuccessful drilling, and disputes amongst partners. The Company attempts to mitigate credit risk from partners by obtaining partner approval of significant capital costs prior to expenditure. While the Company does not typically obtain collateral from partners, it may cash call a partner in advance of the work being done. In addition, the Company has the ability to withhold production from partners in the event of non-payment. Should any of the Company's customers or partners be unable to settle amounts due, the impact on the Company could be significant.

The risk management contracts are with a Schedule 1 financial institution.

The Company's maximum exposure to credit risk is as follows:

	December 31, 2019	December 31, 2018
Cash and cash equivalents	$ 4,340	$ 7,946
Accounts receivable	2,631	1,967
Fair value of commodity contracts	-	2,547
Total	$ 6,971	$ 12,460

When determining whether past due accounts are collectible, the Company factors in the past credit history of the counter parties. The Company has not accrued an allowance for doubtful accounts and all amounts greater than 90 days are considered to be collectible. During the year ended December 31, 2019, the Company wrote off $nil in accounts receivable (2018 - $nil). As at December 31, 2019, there was $88 thousand (December 31, 2018 - $55 thousand) of accounts receivable 90 days past due.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, under a reasonable range of outcomes, that it will have sufficient liquidity to meet its liabilities when due. The Company's financial liabilities consist of accounts payable and accrued liabilities, fair value of commodity contracts, the deferred premium on commodity contracts and bank debt.

The Company ensures that is has sufficient funds available to meet expected operational and capital expenses for a reasonable period. To achieve this objective, the Company prepares annual operational and capital expenditure budgets which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures to further manage capital expenditures. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its available cash and existing credit facility. At December 31, 2019, the Company had an adjusted working capital surplus of $5.5 million (December 31, 2018 – $7.0 million).

The following table details the Company's financial liabilities as at December 31, 2019:

	Carrying value	Contractual cash flow	Less than one year	One-three years	Greater than three years
Accounts payable and accrued liabilities	$ 1,938	$ 1,938	$ 1,938	$ -	$ -
Fair value of commodity contracts	718	718	718	-	-
Lease obligations	860	1,004	202	441	361
Total	$ 3,516	$ 3,660	$ 2,858	$ 441	$ 361

Market Risk

Market risk is the risk that changes in market prices such as commodity prices, interest rates, and foreign exchange rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing returns.

Commodity price risk

The Company's operational results and financial condition are largely dependent on the commodity price received for it's petroleum and natural gas production. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, weather, and economic and geopolitical factors.

The Company attempts to mitigate commodity price risk by hedging a portion of its petroleum and natural gas production through various financial commodity contracts. The Company does not apply hedge accounting to these contracts. The Company's physical production is sold using spot or near-term contracts, with prices fixed at the time of custody transfer or on the basis of a monthly average market price.

The fair value of commodity contracts is based on option models that use published information with respect to volatility, prices, and interest rates. The fair value of commodity contracts is determined by discounting the difference between the contracted prices and published forward price curves as at the date of the statement of financial position, using the remaining contracted volumes and a risk-free interest rate.

As at December 31, 2019, the following commodity contracts were outstanding:

Commodity	Contract type	Term	Notional volume	Price	Reference
Oil	Fixed price	Jan 1/20 – Dec 31/20	100 bbls/d	$66.15	WTI – CAD
Oil	Fixed price	Jan 1/20 – Dec 31/20	100 bbls/d	$70.00	WTI – CAD
Oil	Fixed price	Jan 1/20 – Dec 31/20	100 bbls/d	$75.00	WTI – CAD
Oil	Fixed price	Jan 1/20 – Jun 30/20	100 bbls/d	$75.55	WTI – CAD
Oil	Fixed price	Jan 1/20 – Jun 30/20	100 bbls/d	$75.00	WTI – CAD
Gas	Fixed price	Nov 1/19 – Mar 31/20	1,000 gj/d	$2.215	AECO
Gas	Fixed price	Apr 1/20 – Oct 31/20	500 gj/d	$1.47	AECO
Gas	Fixed price	Apr 1/20 – Oct 31/20	500 gj/d	$1.59	AECO
Gas	Fixed price	Apr 1/20 – Oct 31/20	1,000 gj/d	$1.60	AECO

Subsequent to December 31, 2019, the Company entered into the following commodity contracts:

Commodity	Contract type	Term	Notional volume	Price	Reference (1) (2)
Oil	Fixed price	Jul 1/20 – Dec 31/20	100 bbls/d	$47.10	WTI - CAD
Oil	Basis differential	Jul 1/20 – Dec 31/20	100 bbls/d	$17.25	WTI - MSW (CAD)
Gas	Fixed price	Apr 1/20 – Oct 31/20	1,000 gj/d	$1.70	AECO
Gas	Fixed price	Apr 1/20 – Oct 31/20	500 gj/d	$1.60	AECO
Gas	Fixed price	Nov 1/20 – Mar 31/21	1,000 gj/d	$2.205	AECO
Gas	Fixed price	Nov 1/20 – Mar 31/21	1,000 gj/d	$2.28	AECO
Gas	Fixed price	Apr 1/21 – Oct 31/21	2,000 gj/d	$2.00	AECO
Gas	Fixed price	Nov 1/21 – Mar 31/22	1,000 gj/d	$2.30	AECO

(1) West Texas Intermediate ("WTI")
(2) Mixed Sweet Blend ("MSWI")

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in interest rates. The Company is exposed to interest rate risk to the extent that changes in market interest rates will impact the Company's bank debt and cash and cash equivalents, which are subject to floating interest rates. Assuming all other variables remain constant,

an increase or decrease of 1 percent in the effective interest rate would have an immaterial impact on pre-tax earnings for the year ended December 31, 2019, based on average bank debt and cash and cash equivalents outstanding during the year.

Foreign exchange rate risk

Foreign exchange rate risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada are impacted by changes in the exchange rate between the Canadian and United States dollar and the impact of such exchange rate fluctuations cannot be accurately quantified. The Company had no forward exchange rate contracts in place, nor any working capital items denominated in foreign currencies, as at or during the year ended December 31, 2019. The Company is not subject to any externally imposed restrictions on capital.

Other market risks

Subsequent to December 31, 2019, the World Heath Organization declared the COVID-19 outbreak to be a pandemic. Responses to the spread of COVID-19 have resulted in significant disruptions to business operations, a substantial increase in economic uncertainty, and a material decline in the demand for oil. Commercial and geopolitical conflicts amongst major oil producers are also having an affect, as the supply of oil has not been reducing at the same rate as the demand side of the equation, resulting in the sizeable erosion of oil prices.

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. At December 31, 2019, the Company remains in compliance with all terms of our credit facility and based on current available information, the Company expects to comply with all terms during the subsequent 12-month period. However, in light of current volatility and uncertainty regarding the timing for a recovery in oil prices, and the effect of COVID-19, the preparation of financial forecasts is challenging.

15. CAPITAL MANAGEMENT

The Company's objective for managing capital is to maintain a strong statement of financial position and capital base to provide financial flexibility which will allow it to execute on its capital expenditure program. The Company evaluates its ability to carry on business as a going concern on a quarterly basis. The Company considers its capital structure to include share capital, long-term debt and adjusted working capital (defined as current assets less current liabilities, exclusive of lease obligations and fair value of commodity contracts, but including any deferred premiums on commodity contracts). The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust capital spending, issue new shares or issue new debt.

The Company manages and monitors its capital structure and short-term financing requirements using the ratio of net debt (long-term debt less adjusted working capital) to adjusted funds flow. Adjusted funds flow is calculated based on cash flows from operating activities before changes in non-cash working capital, transaction costs from acquisitions, and decommissioning expenditures incurred, and is annualized from the most recent quarter. This metric is used to monitor the Company's overall debt position and monitor the strength of the Company's statement of financial position. The Company monitors this ratio and uses this as a key measure in making decisions regarding financing and capital spending. The objective is to maintain this ratio below 2.0:1, although it may increase at certain times as a result of acquisitions or other significant capital expenditures for which the full annualized effect of adjusted funds flow has not yet been accounted for. As at December 31, 2019, the ratio of net debt to adjusted funds flow was n/a (December 31, 2018 – n/a), calculated as follows:

Net debt	**December 31, 2019**	**December 31, 2018**
Working capital	$ 4,628	$ 9,422
Fair value of commodity contracts	718	(2,448)
Lease obligations	200	-
Adjusted working capital (net debt)	$ 5,546	$ 6,974

Adjusted funds flow	**Three months ended December 31, 2019**	**Three months ended December 31, 2018**
Cash flow from operations	$ 3,316	$ 3,908
Decommissioning expenditures	(19)	1
Changes in non-cash working capital	(472)	(1,744)
Adjusted funds flow	$ 2,825	$ 2,165
Annualized adjusted funds flow	$ 11,300	$ 8,660
Net debt to annualized adjusted funds flow	n/a	n/a

The Company is not subject to any externally imposed restrictions on capital, however its credit facility is subject to periodic reviews (note 6) and contains certain covenants regarding the volume and length of hedging activities.

16. COMMITMENTS

As at December 31, 2019, the Company had commitments as follows:

Commitment	**2020**	**2021**	**2022**	**Thereafter**	**Total**
Office lease	$ 339	$ -	$ -	$ -	$ 339
Transportation	369	260	88	26	743
Total	$ 708	$ 260	88	$ 26	$ 1,082

Subsequent to December 31, 2019, the Company exercised its option to terminate the office lease effective October 31, 2020. Included in lease obligations is $482 thousand for the office lease, and such amount will be re-measured based on the exercise of the option and the new lease expiry term.

17. KEY MANAGEMENT PERSONNEL

The Company considers its directors and officers to be key management personnel. The aggregate expenses of key management personnel were as follows:

	Year ended December 31, 2019	**Year ended December 31, 2018**
Short-term employee benefits and director fees (1)	$ 1,462	$ 1,461
Total compensation	$ 1,462	$ 1,461

(1) Includes salaries and other short-term compensation.