HIGHWOOD OIL COMPANY LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Highwood Oil Company Ltd.

Opinion

We have audited the consolidated financial statements of Highwood Oil Company Ltd., (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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 *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated 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.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis (MD&A), but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these consolidated 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 consolidated 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kirk Roworth.

RSM Alberta LLP

Chartered Professional Accountants
April 29, 2021
Calgary, Alberta

Highwood Oil Company Ltd.
Consolidated Statement of Financial Position

(all tabular amounts expressed in thousands of Canadian dollars) (amounts in Canadian dollars)	Note	**As at December 31 2020**	As at December 31 2019
Assets			
Current assets			
Cash		**$ 5,675**	$ -
Accounts receivable	7, 22(a)	**5,256**	9,010
Insurance proceeds receivable	7	**-**	2,730
Deposits and prepaid expenses	8	**1,294**	3,610
Reclamation deposits	9	**123**	123
Assets held for sale	10	**38,520**	-
Total current assets		**50,868**	15,473
Reclamation deposits	9	**18**	18
Exploration and evaluation assets	11	**1,236**	7,569
Property, plant and equipment	12	**13,386**	90,893
Right-of-use assets	13	**142**	234
Total assets		**$ 65,650**	$ 114,187
Liabilities			
Current liabilities			
Bank overdraft		**$ -**	$ 183
Accounts payable and accrued liabilities		**8,360**	20,281
Bank debt	14	**7,000**	36,894
Commodity contracts	22(b)	**109**	3,015
Current portion of lease liabilities	13	**100**	105
Liabilities associated with assets held for sale	10	**36,540**	-
Total current liabilities		**52,109**	60,478
Accounts payable and accrued liabilities		**-**	1,145
Commodity contracts	22(b)	**-**	427
Lease liabilities	13	**49**	136
Decommissioning liabilities	15	**3,261**	31,099
Deferred tax liability	16(a)	**468**	2,905
Total liabilities		**55,887**	96,190
Shareholders' Equity			
Share capital	17	**16,310**	16,310
Contributed surplus	19	**2,141**	1,091
Retained earnings (deficit)		**(8,688)**	596
Total equity		**9,763**	17,997
Total liabilities and shareholders' equity		**$ 65,650**	$ 114,187

Commitments and contingencies (note 21)
Subsequent events (note 10, 21, 22, 26)

See the accompanying Notes to the Consolidated Financial Statements

Approved by the Board:

"Signed", Stephen J Holyoake, Director *"Signed"*, Trevor Wong-Chor, Director

Highwood Oil Company Ltd.
Consolidated Statement of Loss and Comprehensive loss

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)

(amounts in Canadian dollars)	Note	Year ended December 31, 2020	Year ended December 31, 2019
Revenue			
Oil sales	5	**$ 20,719**	$ 33,348
Royalties		**(1,870)**	(4,264)
Transportation pipeline revenues		**3,740**	5,276
Processing and other income	5	**1,023**	2,234
		23,612	36,594
Realized gain (loss) on commodity contracts	22(b)	**2,473**	(5,926)
Unrealized gain (loss) on commodity contracts	22(b)	**3,333**	(4,758)
Total revenue, net of royalties and commodity contracts		**29,418**	25,910
Expenses			
Operating and transportation		**16,670**	19,117
General and administrative		**6,551**	5,529
Exploration and evaluation	11	**15**	419
Depletion and depreciation	12, 13, 15	**5,898**	8,640
Impairment loss	12	**28,740**	-
Bad debt expense	7	**478**	175
Stock-based compensation expense	19	**1,050**	825
Total expenses		**59,402**	34,705
Operating loss		**(29,984)**	(8,795)
Other income (expenses)			
Gain on disposal of assets	6(a)(b)	**21,199**	2,600
Listing (expense) and transaction (costs) recovery	24	**145**	(1,634)
Allowance on deposit	8	**-**	(3,075)
Finance income and expenses, net	18	**(3,081)**	(2,727)
Total other income (expenses)		**18,263**	(4,836)
Loss before taxes		**(11,721)**	(13,631)
Current tax recovery	16 (b)	**-**	152
Deferred tax recovery (expense)	16 (b)	**2,437**	2,466
Total tax recovery (expense)		**2,437**	2,618
Loss and comprehensive loss for the year		**$ (9,284)**	$ (11,013)
Loss per share			
Basic and Diluted	17(c)	**$ (1.54)**	$ (1.84)

See the accompanying Notes to the Consolidated Financial Statements

Highwood Oil Company Ltd.

Consolidated Statement of Changes in Shareholders' Equity

(all tabular amounts expressed in thousands of Canadian dollars)
(amounts in Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Total equity
Balance, January 1, 2019		$ 12,820	$ 151	$ 11,609	$ 24,580
Stock-based compensation	19	-	825	-	825
Shares issued for cash	17(b)	68	-	-	68
Shares issued on corporate acquisition	6(d)	1,648	-	-	1,648
Reverse takeover transactions	6(c)	1,699	150	-	1,848
Exercise of agent options	19	75	(35)	-	40
Loss and comprehensive loss for the year		-	-	(11,013)	(11,013)
Balance, December 31, 2019		$ 16,310	$ 1,091	$ 596	$ 17,997
Balance, January 1, 2020		**$ 16,310**	**$ 1,091**	**$ 596**	**$ 17,997**
Stock-based compensation	**19**	**-**	**1,050**	**-**	**1,050**
Loss and comprehensive loss for the year		**-**	**-**	**(9,284)**	**(9,284)**
Balance, December 31, 2020		**$ 16,310**	**$ 2,141**	**$ (8,688)**	**$ 9,763**

See the accompanying notes to the Consolidated Financial Statements

Highwood Oil Company Ltd.
Consolidated Statement of Cash Flows

(all tabular amounts expressed in thousands of Canadian dollars)
(amounts in Canadian dollars)

	Note	**Year ended December 31, 2020**	Year ended December 31, 2019
Cash provided by (used in):			
Operating activities			
Loss for the year		**$ (9,284)**	$ (11,013)
Items not involving cash:			
Unrealized (gain) loss on commodity contracts	22(b)	**(3,333)**	4,758
Exploration and evaluation expenditures	11	**15**	419
Depletion and depreciation expense	12, 13, 15	**5,898**	8,640
Impairment loss	12	**28,740**	-
Finance expense	18	**545**	695
Deferred tax expense (recovery)	16(b)	**(2,437)**	(2,466)
Stock-based compensation	19	**1,050**	825
Gain on disposal of assets	6(a)(b)	**(21,199)**	(2,600)
Non-cash operating and transportation expense		**929**	-
Listing expense	6(c)	**-**	1,330
Allowance on deposit	8	**-**	3,075
Cash abandonment expenditures	15	**(18)**	(168)
Change in long-term accounts payable and accrued liabilities		**(1,145)**	(242)
Change in non-cash working capital	20	**9,353**	8,414
Net cash from (used in) operating activities		**9,114**	11,667
Financing activities			
Proceeds on exercise of agent options	17	**-**	40
Proceeds on issuance of shares for cash	17	**-**	68
Payments of lease obligations	13	**(127)**	(120)
Finance fees paid	14	**-**	(194)
Bank debt, net of repayments	14	**(30,000)**	4,000
Net cash from financing activities		**(30,127)**	3,794
Investing activities			
Acquisition deposits	8	**-**	(6,150)
Additions to property, plant and equipment	12	**(4,588)**	(3,767)
Additions to exploration and evaluation assets	11	**(123)**	(8,183)
Proceeds on dispositions of property, plant and equipment	6(a)	**29,065**	-
Proceeds on dispositions of exploration and evaluation assets	6(a)(b)	**10,698**	3,000
Corporate acquisitions, net of cash received	6(c)(d)	**-**	(2,315)
Change in non-cash working capital	20	**(8,181)**	3,643
Net cash used in investing activities		**26,871**	(13,772)
Change in cash and cash equivalents		**$ 5,858**	$ 1,690
Bank overdraft, beginning of year		**(183)**	(1,873)
Cash and cash equivalents (bank overdraft), end of year		**$ 5,675**	$ (183)
Cash and cash equivalents is comprised of:			
Cash		**$ 5,675**	$ -
Bank overdraft		**$ -**	$ (183)

See the accompanying Notes to the Consolidated Financial Statements

1. REPORTING ENTITY

Highwood Oil Company Ltd. (the "Company") is a public oil and natural gas exploration, development and production Company incorporated in Alberta, Canada on August 24, 2012. The Company conducts its operations in the Western Canadian Sedimentary basin, primarily in the province of Alberta. The Company's principal place of business is located at Suite 900, 222 – 3rd Avenue SW, Calgary, Alberta, T2P 0B4.

The Company completed a transaction on January 23, 2020 that resulted in the Company becoming a publicly traded entity (note 6(a)). The Company's common shares trade on the TSX Venture Exchange under the symbol "HOCL".

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary at December 31, 2020, Cataract Creek Environmental Ltd.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 29, 2021.

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"). A summary of the significant accounting policies and method of computation is presented in note 3. Management's significant accounting judgments, estimates and assumptions used in the preparation of the consolidated financial statements for the year ended December 31, 2020 are included in note 2 (d).

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except as otherwise stated and allowed for in accordance with IFRS.

(c) Functional and presentation currency

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

(d) Management's significant accounting judgments, estimates and assumptions

The timely preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions based on currently available information that affect the application of accounting policies and reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of income and expenses during the reporting period. Accordingly, actual results may differ from these estimates. Estimates and underlying assumptions and judgments 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.

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus ("COVID-19"). The pandemic and subsequent measures intended to limit its spread, contributed to significant volatility in global financial markets. The pandemic has adversely impacted global commercial activity and has reduced worldwide demand for commodities including crude oil. The result was significant economic uncertainty and a decline in commodity prices through most of 2020. In general, the oil and gas industry reacted with reductions to capital and other spending, as well as production shut-ins, to try to manage through this price environment. The full extent of the impact of COVID-19 on the Company's operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results. The Company's financial performance, operations and business are particularly sensitive to a reduction in the demand for prices of crude oil and natural gas. The potential direct and indirect impact of the economic downturn related to COVID-19 have been considered in management's estimates and assumptions at period end and have been reflected in the Company's results with any significant changes described in the relevant financial statements notes.

More specifically, assumptions may change that are involved in the estimates of valuation of exploration and evaluation assets and property and equipment cash generating units, the timing of decommissioning obligations, the fair value of commodity contracts, the expected credit loss provisions related to accounts receivable as well as liquidity and going concern assessments.

Significant estimates, judgments and assumptions made by management in the preparation of these consolidated financial statements are outlined below.

Significant judgments in applying accounting policies:

The following are the significant judgments, estimates and assumptions 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 (CGU's)

The Company's oil and natural gas interests are aggregated into cash-generating units for both property and equipment and exploration and evaluation assets, for the purpose of calculating impairment, based on their ability to generate largely independent cash flows. The classification of assets into CGU's requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructures and the way in which management monitors the Company's operations. The Company has identified Wabasca River Pipeline System as its core CGU at December 31, 2020.

(ii) Valuation of oil and natural gas assets

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 undeveloped lands and other relevant assumptions.

(iii) Componentization

For the purposes of calculating depletion expense, the Company allocates its oil and natural gas assets to components with similar lives and depletion methods. The grouping of assets is subject to management's judgment and is performed on the basis of geographical proximity and similar reserve life. The Company's oil and natural gas assets are depleted on a unit of production basis.

(iv) Exploration and evaluation 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 economic viability and technical feasibility.

(v) Deferred taxes

The Company follows the liability method for calculating deferred taxes. Judgment is required in the calculation of current and deferred taxes in applying tax laws and regulations, estimating the timing of the reversals of temporary differences and estimating the realizability of deferred tax assets.

(vi) Joint operations

The Company is party to various joint interest, operating and other agreements in conjunction with its oil and natural gas activities. The revenues and expenses allocated between partners are governed by the terms of these agreements that are subject to interpretation and judgement by the Company and audit by the appropriate parties.

(vii) Insurable event

Judgement is required to assess whether insurance proceeds receivable are virtually certain of receipt. In assessing this the Company considers acknowledgement by the insurance companies that there was an insurable event, the nature of the claim, insurance proceeds received to date and other relevant factors.

(viii) Leases

Judgments are required to determine if a contract is, or contains, a lease. These judgments require an assessment of whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Judgment is also required to determine the interest rate used to discount the lease payments.

Key sources of estimation uncertainty:

The following are the key estimates and related 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 volumes, 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 oil and natural gas properties and equipment, the calculation of depletion and depreciation, and the provision for decommissioning liabilities.

The reserve assessment was completed by an external third party engineering firm for the years ended December 31, 2020 and 2019.

(ii) Decommissioning liabilities

The calculation of decommissioning liabilities and related accretion expense requires estimates of 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. In addition, the calculation requires assumptions regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future removal technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

(iii) Asset acquisitions/Business combinations

Management estimates the fair value of the acquired identifiable net assets at the date of acquisition and specifically in identifying and valuing the exploration and evaluation assets, property, plant and equipment and decommissioning liabilities acquired in acquisitions. The fair values assigned to the allocation of the purchase price to net assets is based on numerous estimates that affect the valuation of certain assets and liabilities acquired including the discount rates, estimates of proved and probable reserves, estimates of fair values of exploration and evaluation assets including undeveloped lands, estimate of realization of deferred tax assets, future oil and natural gas prices and other factors.

(iv) Commodity contracts

The amounts recorded for the fair value of commodity contracts is dependent on estimates of future commodity prices, foreign exchange rates and volatility in those prices.

(v) Current taxes/Deferred taxes

The amounts recorded for current and deferred tax expense and deferred tax liability are based on estimates as to the timing of the reversal of temporary differences, substantially enacted tax rates and the likelihood of tax assets being realized. The availability of tax pools and other deductions are subject to audit and interpretation by tax authorities.

(vi) Valuation of accounts receivable

Certain amounts included in accounts receivable are based on management's best estimate of the lifetime expected credit loss related to these accounts.

(vii) Share-based payments

The amounts recorded for stock-based compensation expense relating to the fair value of stock options issued are estimated using the Black-Scholes option pricing model including management's estimates of the future volatility of the Company's share value (based on comparison to similar companies in the oil and natural gas exploration and production industry), estimated market value of the Company's shares at grant date, expected forfeiture rates, expected lives of the options (based on general holder behaviour) and the risk-free interest rate (based on government bonds).

(viii) Insurable event

The amounts recorded for accounts payable and related insurance proceeds receivable are based on the amount of work anticipated to remediate the site where an insurable event has occurred. When the event meets the requirements of an insurable event the receivable recorded depends upon the costs that will be covered by insurance proceeds, less the self-insured portion and any adjustments which are deemed by a third party adjustor to not be covered by insurance proceeds.

(ix) Depreciation

Transportation pipelines and related equipment are depreciated, net of estimated residual values, on a straight-line basis over their estimated useful lives. Where facilities and equipment, including major components, are significant in relation to the total cost of the assets and have differing useful lives, they are depreciated separately.

The amounts recorded for depletion of petroleum and natural gas assets are determined by the useful life and future cash flows which are based on estimates of future production profiles and reserves for surrounding wells, commodity prices, costs and discount rates.

(ix) Disputed deposit

The disputed deposit is based on management's best estimate as to the success of the Company legal proceedings and is based on management's best estimate of the recoverable amount.

(x) Leases

The likelihood of renewal, cancellation or termination of lease contracts is a significant estimate required to determine the lease term of the contract. Estimates are used by management to determine the stand-alone price of the lease and non-lease components of contracts in order to allocate the contracted consideration to the components, as well as the incremental borrowing rate.

(xi) Non-current assets held for sale

The classification of non-current assets held for sale is based on certain criteria, including that the sale of such assets is highly probable. The probability of a sale transaction being completed within one year from the date of classification at a reasonable price in relation to the fair value of the assets is subject to uncertainties, including the likelihood of identifying a willing purchaser and the uncertainties involved in the sale negotiation process.

The measurement of non-current assets held for sale at the lower of their carrying amount and fair value less costs to sell requires certain estimates. The fair value of the assets held for sale was determined based on the negotiated sales price of the assets. In addition, events occurring subsequently to the classification of non-current assets held for sale, or additional information received on past events unknown at the time of such classification, could change the estimate of fair value less costs to sell related to such assets. Non-current assets held for are classified as current on the statement of financial position.

(xi) Clearwater gain on disposal

The gain on disposal of the Clearwater assets (note 6(a)) is based on estimates of net revenues and capital expenditures between the effective and closing dates of the transaction and is subject to changes based on finalization of the adjustments and reviews by the purchaser.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

(i) Subsidiary

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary at December 31, 2020, Cataract Creek Environmental Ltd, which was incorporated in 2020 but is currently inactive.

The company has control of an investee entity when it is exposed, or has rights, to variable returns from its involvement in the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated on a line-by-line basis, recognizing all their assets, liabilities, income and expenses and recording any non-controlling interest for the portion not owned by the Company from the date on which control in obtained. Intercompany transactions and balances between the Company and its subsidiary are eliminated. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the acquired share of the carrying value of nets assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(ii) Joint arrangements

A portion of the Company’s oil and natural gas business activities involve jointly controlled assets and are conducted under joint operating agreements. The Company has assessed the nature of its joint arrangements and determined them to be joint operations. These consolidated financial statements reflect only the Company’s proportionate share of the joint operation’s controlled assets and liabilities it has incurred, its share of any liabilities jointly incurred with other joint interest partners, income from the sale or use of its share of the joint operation’s output, together with its share of expenses incurred by the joint operation and any expenses it incurs in relation to its interest in the joint operation and a share of production in such activities.

b) Business Combinations

Business combinations are accounted for using the acquisition method when the acquisitions of companies and/or assets meet the definition of a business under IFRS. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of acquisition. The acquired identifiable assets and liabilities and any contingent consideration are measured at their fair value at the date of acquisition. The fair value of property, plant and equipment is the estimated amount for which these 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. Any excess of the purchase price over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. If the cost of acquisition is less than fair value of the identifiable assets and liabilities, the difference is recorded as a gain in profit or loss. Associated transaction costs are expensed when incurred.

c) Fair value determination

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 the fair values is disclosed in the notes specific to that asset or liability.

The Company classifies fair values according to the following hierarchy based on the amount of observable inputs used to value the instruments:

- Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.
- Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

There were no transfers between levels of the hierarchy during the year.

Cash
The fair value of cash (bank overdraft) approximates its carrying value due to the short-term to maturity.

Accounts receivable, insurance proceeds receivable, deposits, accounts payable and accrued liabilities and bank debt

The fair value of accounts receivable, insurance proceeds receivable, deposits, accounts payable and accrued liabilities and bank debt are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. As at December 31, 2020 and 2019, the fair value of accounts receivable, insurance proceeds receivable, deposits and accounts payable and accrued liabilities approximated their carrying value due to their short term to maturity. The fair value of bank debt approximates its carrying value as it bears a floating market rate of interest.

Derivatives – commodity contracts
The fair value of financial forward contracts and swaps is determined by discounting the difference between the contracted prices and published forward curves at the statement of financial position date, using the remaining contracted oil and natural gas volumes and a risk-free interest rate adjusted for the credit risk of the counterparty. The Company has used Level 2 to determine the fair value of its commodity contracts.

Property, plant and equipment, exploration and evaluation assets, non-current assets held for sale
The fair value less costs of disposal values used to determine the recoverable amounts of property, plant and equipment, exploration and evaluation assets and non-current assets held for sale are classified as Level 3 fair value measurements as they are not based on observable market data.

d) Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss.

e) Cash and cash equivalents

Cash and cash equivalents includes amounts on deposit with banks, unrestricted amounts held in lawyers' trust accounts and other highly liquid short-term investments that are readily convertible to cash with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

f) Financial instruments

Classification and Measurement

On initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods depends on their context within the Company's business model and the characteristics of the contractual cash flows as described below:

Financial Assets	**Subsequent Measurement**
Cash (bank overdraft)	Amortized cost
Accounts receivable	Amortized cost
Derivative commodity contracts	Fair value through profit or loss
Deposits	Amortized cost
Financial Liabilities	**Subsequent Measurement**
Accounts payable and accrued liabilities	Amortized cost
Derivative commodity contracts	Fair value through profit or loss
Bank debt	Amortized cost

Derivative Financial Instruments

The Company has entered into certain financial risk management contracts in order to manage the exposure to market risks from fluctuations in commodity prices. The Company has not designated its financial risk management contracts as effective accounting hedges and, therefore, has not applied hedge accounting, even though the Company considers all risk management contracts to be economic hedges. As a result, all financial risk management 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 the statement of loss and comprehensive loss as incurred.

Impairment

Impairment of financial assets is based on expected credit losses. The majority of the Company's accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have significant financing component and a lifetime expected credit loss ("ECL") is measured as the date of initial recognition of accounts receivable.

Within the Company's accounts receivable, the Company assesses the lifetime ECL applicable to its commodity product sales receivables and joint venture receivables at initial recognition and re-assesses the provision at each reporting date. Lifetime ECLs are a probability-weighted estimate of all possible default events over the expected life of a financial asset and are measured as the difference between the present value of the cash flows due to the Company and the cash flows the Company expects to receive. In making an assessment as to whether the Company's financial assets are credit-impaired, the Company considers bad debts that the Company has incurred historically, evidence of a debtor's present financial condition and whether a debtor has breached certain contracts, the probability that a debtor enter bankruptcy or other financial reorganization, changes in economic conditions that correlate to increased levels of default, and the term to maturity of the specified receivable. The carrying amounts of receivables are reduced by the amount of the ECL through an allowance account and losses are recognized as bad debt expense in the statements of income (loss) and comprehensive income (loss).

Based on industry experience, the Company considered financial assets to be in default when the receivable is more than 90 days past due. Once the Company has pursued collection activities and it has been determined that the incremental cost of collection pursuits outweigh the benefits of collection, the Company derecognizes the gross carrying amount of the asset and the associated allowance from the statement of financial position.

g) Oil and natural gas interests

(i) Recognition and measurement

Exploration and evaluation assets:

Pre-license costs incurred before the Company has attained legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation costs, including the costs of acquiring leases and licenses, technical services and studies, geophysical and geological activities, seismic acquisition, exploration drilling and testing are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by exploration area pending determination of technical feasibility and commercial viability. Assets classified as exploration and evaluation are not depleted or depreciated until after these assets are reclassified to property, plant and equipment.

Exploration and evaluation assets are tested separately from property and equipment for impairment and 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. When an exploration and evaluation asset is determined not to be technically feasible or commercially viable, or the Company decides not to continue with its activity, the unrecoverable exploration and evaluation costs are charged to profit or loss as exploration and evaluation expense.

The technical feasibility and commercial viability of extracting resources is considered to be determinable when proved 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 proved and/or probable reserves have been discovered. Upon determination of proved and/or probable reserves, exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from exploration and evaluation assets to a separate category within property, plant and equipment referred to as oil and natural gas interests.

Exchanges, swaps and farm-outs that involve only exploration and evaluation assets are accounted for at cost. Any gains or losses from the disposal of exploration and evaluation assets are recognized in profit or loss.

Property, plant and equipment:

All costs directly associated with the development and production of oil and natural gas interests are capitalized on an area-by-area basis as oil and natural gas interests if they extend or enhance the recoverable reserves of the underlying assets. Items of property, plant and equipment, which include oil and natural gas development assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include property acquisitions with proved and/or probable reserves, development drilling, completion, gathering and infrastructure, decommissioning costs and transfers of exploration and evaluation assets. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Gains and losses on disposal of property, plant and equipment, 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 property, plant and equipment and are recognized in profit or loss. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in profit or loss.

(ii) Depletion and depreciation

The net carrying value of oil and natural gas interests included in property, plant and equipment is depleted using the unit of production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. Oil and natural gas interests including processing facilities and well equipment are componentized into groups of assets with similar useful lives for the purposes of performing depletion calculations. 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. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Transportation pipelines are depreciated over the estimated useful life using the straight-line depreciation method. The estimated useful life of the transportation pipelines is 25 years.

(iii) Impairment

The carrying amounts of the Company's property, plant and equipment and exploration and evaluation assets are reviewed at each reporting date to determine whether there is any indication of impairment. These indicators include, but are not limited to, extended decreases in prices or margins for oil and natural gas commodities or products, a significant downward revision in estimated reserves, an upward revision in future development costs, significant decrease in fair values of undeveloped lands in close proximity to lands held by the Company or management's decision to no longer pursue certain evaluation projects. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, exploration and evaluation assets and property, plant and equipment are tested separately and are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets or cash generating units ("CGU"). Geological formation, product type, geography and internal management operations and processes are key factors considered when grouping the Company's oil and natural gas interests into CGU's.

The recoverable amount of an asset or a CGU is the greater of its value in use and its fair value less costs of disposal. Fair value is determined to be the amount for which the asset could be sold in an arm's-length transaction between knowledgeable and willing parties. Unless indicated otherwise, the recoverable amount used in assessing impairment losses is value in use. The Company estimates fair value less cost of disposal using discounted future net cash flows of proved and probable reserves based on forecast prices and costs and including future development costs. The cash flows are discounted at an appropriate discount rate which would be applied by a market participant. Value in use is determined by estimating the present value of the future net cash flows to be derived from the continued use of the CGU in its present form. These cash flows are discounted at a rate based on the time value of money and risks specific to the CGU.

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. An impairment loss in respect of property, plant and equipment 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, if no impairment loss had been recognized.

h) Provisions and Contingencies

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. The obligation is not recorded and is disclosed as a contingent liability if it is not probable that an outflow will be required, if the amount cannot be estimated reliably or if the occurrence of the outflow can only be confirmed by the occurrence of a future event. Provisions are not recognized for future operating losses. Contingent assets are disclosed if a future economic benefit is probable but are only recorded when recovery of the contingent asset is virtually certain.

(i) Decommissioning liabilities:

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and capitalized to exploration and evaluation assets or property, plant and equipment and are depleted over the useful life of the assets.

Decommissioning liabilities are measured at the present value of management's best estimate of the risk adjusted cash flows required to settle the present obligation at the statement of financial position date. The future cash flow estimates are adjusted to reflect the risks specific to the liability. Subsequent to the initial measurement, the liability is adjusted at the end of each period to reflect the passage of time using a risk-free interest rate and changes in the estimated future cash flows underlying the liability. The increase in the provision due to the passage of time is recognized as a finance cost whereas increases/decreases due to changes in the estimated future cash flows or timing are recognized as changes in the decommissioning liability and related asset. Actual costs incurred upon settlement of the decommissioning liabilities are charged against the liability to the extent the liability was established. Any differences between the recorded liability and the actual costs incurred are recorded as a gain or loss in profit or loss.

i) Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is recorded when control of the product is transferred to the buyer based on the consideration specified in the contracts with customers. This usually occurs when the product is physically transferred at the delivery point agreed upon in the contract and legal title to the product passes to the customer (often at terminals, pipelines, or other transportation methods).

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, the Company considers if it obtains control of the product delivered or services provided, which is indicated by the Company having the primary responsibility for the delivery of the product or rendering of the service, 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.

Fees charged to other entities for use of pipelines, processing facilities and roads owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided. Generally, as the Company performs the distinct services stipulated under the contract, it does not have any remaining performance obligations to its customer for those services.

j) Expenses

The costs associated with delivery, including the operating and maintenance costs, royalties and transportation are recognized in the same period in which the related revenue is earned and recorded.

k) Finance income and expenses

Finance income, consisting of interest income, is recognized as it accrues in profit or loss using the effective interest method and/or when the Company's right to receive payments is established.

Finance expense is comprised of interest expense on borrowings, financing fees, accretion of the discount on decommissioning liabilities and accretion of lease liabilities, and impairment losses on financial instruments, and is recognized in the period in which they are incurred.

l) Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit (loss) nor taxable profit (loss). In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes 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.

m) Share-based payments

Stock options and restricted share units ("RSU's") granted to directors, officers, employees and consultants of the Company are accounted for using the fair value method under which compensation or other equity costs are recorded based on the estimated fair value of stock options, RSU's, or other equity instruments granted using the Black-Scholes option pricing model. The Company measures share based payments to non-employees at the fair value of the goods or services received at the date of receipt of the goods or services. If the fair value of the goods or services cannot be measured reliably, the value of the options granted will be used, measured using the Black-Scholes option pricing model.

Under the fair value method, costs attributable to stock options and RSU's granted are measured at fair value at the date of grant and expensed on a tranche-by-tranche basis over the vesting period, with a corresponding increase to contributed surplus. Upon exercise of the stock options and RSU's, consideration paid by the holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company incorporates an estimated forfeiture rate at the date of grant and recognizes the effect of differences in non-vested stock option and RSU forfeitures in the period forfeiture occurs.

n) Earning (loss) per share

Basic earnings per common share is computed by dividing the income by the weighted average number of common shares outstanding during the period. Diluted earnings per common share amounts are calculated by giving effect to the potential dilution that would occur if contracts to issue common shares were exercised, fully vested, or converted to common shares. The treasury stock method is used to determine the dilutive effect of dilutive instruments, where it is assumed that the proceeds received from the exercise price of in-the-money dilutive instruments are used to repurchase common shares.

o) Leases

At inception of a contract, the Company assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether: the contract involves the use of an identified asset; the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and, the Company has the right to direct the use of the asset.

The company has elected not to recognize right of use assets and lease liabilities for short term leases that have a term of 12 months or less and leases of low value assets. Leases to explore for or use crude oil, natural gas, minerals and similar non regenerative resources are also exempt from the standard. The Company treats lease payments for the these types of leases as an expense when incurred, over the lease term.

The Company recognizes a right of use asset and a lease liability at the commencement date of the lease contract, which is the date that the lease asset is available to the Company. The lease asset is initially measured at cost. The cost of a lease asset includes the amount of the initial measurement of the lease liability, lease payments made at or before to the commencement date less any incentives received, initial direct costs and estimates of the decommissioning liability, if any. Subsequent to initial recognition, the lease asset is depreciated using the straight-line method over the earlier of the end of the useful life of the lease asset or the lease term. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in the lease or the Company’s incremental borrowing rate if the implicit rate is not readily available. Lease payments that are present valued include fixed payments, less any lease incentives receivable, variable lease payments that are based on index or rate, amounts expected to be payable under residual value guarantees, the exercise price of a purchase option that is reasonably certain of exercise and payment of penalties for terminating a lease if the lease term reflects exercising that option. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease obligation. Optional renewal periods, or periods which are cancellable by the Company, are included in the lease payments if the Company is reasonably certain to exercise the renewal option or not cancel the lease. The lease liability is measured at amortized cost using the effective interest method. The lease liability is remeasured when there is a change in the Company’s assessment of the expected lease term or is there is a lease modification.

p) Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This condition is regarded as met only when management is committed to a plan to sell, an active program to locate a buyer is initiated, the sales prices is reasonable compared to the fair value, the assets are available for immediate sale in their present condition and their sale is highly probable in the next 12 months. Management must be committed to the sale, which should be expected to close within one year from the date of classification.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Assets held for sale are not depreciated.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)
(amounts in Canadian dollars)

4. ACCOUNTING POLICIES ADOPTED AND ACCOUNTING POLICIES ISSUED BUT NOT YET APPLIED

a) Accounting policies adopted

Business Combinations

On January 1, 2020, the Company adopted the amendment as issued on October 22, 2018 by the IASB related to IFRS 3, "*Business Combinations"* ("IRFS 3"), revising the definition of a business and providing for the addition of an optional 'concentration test' to determine if the acquisition is a business. To be considered a business under the amendments to IFRS 3, an acquisition would have to include an input and a substantive process that together significantly contribute to the ability to create outputs. The three elements of a business are defined as follows:

- Input – Any economic resource that creates outputs, or has the ability to contribute to the creation of outputs, when on or more processes are applied to it.
- Process – Any system, standard, protocol, convention or rule that, when applied to an input or inputs, creates outputs or has the ability to contribute to the creation of outputs.
- Output – The result of inputs and processes applied to those inputs that provide goods or services to customers, generate investment income or generate other income from ordinary activities.

The optional 'concentration test' permits a simplified assessment that results in as asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or group of similar identifiable assets. An entity may elect to apply, or not apply, the test. An entity may make such an election separately for each transaction or other event. If the concentration test is met, the sets of activities and assets is determined to not be a business and no further assessment is needed. The amendment to IFRS 3 had no effect to the Company for the year ended December 31, 2020.

b) New accounting standards and amendments not yet adopted

In January 2020, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" to clarify that liabilities are classified as either current or non-current, depending on the existence of the substantive right at the end of the reporting period for an entity to defer settlement of the liability for at least twelve months after the reporting period. The amendments are effective January 1, 2023 with early adoption permitted. The amendments are required to be adopted retrospectively. The Company is assessing the impact of these amendments on its consolidated financial statements.

5. REVENUE

Oil sales:

The Company sells its production pursuant to variable-price contracts. The transaction price for variable price 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 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 and control of the product transferred.

Revenues are typically collected on the 25th day of the month following production.

The following table summarizes the Company's product sales.

	Year Ended December 31,	
	2020	2019
Oil	**$ 20,719**	$ 33,348
Total	**$ 20,719**	$ 33,348

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)
(amounts in Canadian dollars)

Processing and road use revenues:

The following table summarizes the Company's processing and road use revenues.

	Year Ended December 31,	
	2020	2019
Processing	**$ 636**	$ 1,772
Road Use	**387**	462
Total	**$ 1,023**	$ 2,234

6. ACQUISITIONS AND DISPOSITIONS

a) Disposition of Clearwater Assets

On December 21, 2020, the Company closed the disposition of the Clearwater assets for cash proceeds of $39.75 million being the agreed upon purchase price of $40.75 million adjusted for net revenues and other customary items from the effective date of November 1, 2020 to the closing date of $1.0 million. The disposed properties had a net book value in property, plant and equipment of $15.02 million, exploration and evaluation assets of $5.12 million and decommissioning liabilities of $1.64 million. As a result of the disposition, the Company recognized a gain on disposal of asset of $21.25 million during the year ended December 31, 2020. Transaction costs totalling $663 thousand have reduced the gain recorded.

The final proceeds and gain on sale are subject to adjustment upon finalization of the final statement of adjustments, which is expected to occur in the second quarter of 2021 and no material adjustments are expected.

b) Clearwater royalty dispositions

2020 Craigend specific royalty disposition

In August 2019, the Company, along with its 50% joint venture partner in the Clearwater area, disposed of a 4% royalty over certain jointly held Clearwater mineral rights, in the Craigend area, for gross proceeds of $1.3 million ($648 thousand being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner were required drill a well in the Craigend formation prior to March 31, 2020.

Upon rig release of the applicable well in February 2020, $648 thousand, was paid to the Company.

During the year ended December 31, 2020, the Company recorded a gain on disposition of $590 thousand, being the difference between the proceeds of $648 thousand received in 2020 and the estimated cost of the divested royalty interests removed from exploration and evaluation assets of $62 thousand.

To determine the cost base of the Clearwater Craigend area mineral rights, the Company assessed the total fair value of the Clearwater mineral rights at the date of the acquisition and of the 4% non-deduct royalty based on anticipated future cash flows from the applicable wells to determine a pro-rata factor. The pro-rata factor was applied to the total cost base of the jointly held lands and drillings cost of the well to determine the disposed cost base.

2018 and 2019 Clearwater royalty dispositions

On September 28, 2018, the Company, along with its 50% joint venture partner in the Clearwater area, disposed of a 4% royalty over the jointly held Clearwater mineral rights for gross proceeds of $12.0 million ($6.0 million being the Company's share). As a condition of the royalty divestiture, the Company and its joint venture partner must drill a minimum of eight wells in the formation prior to March 31, 2020. The gross proceeds of $12.0 million will be held in escrow with the legal counsel of the purchaser.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)
(amounts in Canadian dollars)

Upon rig release of each applicable well, $1.5 million ($750 thousand Company's share), was released from the escrow account to the Company. Where total drilling, completion and equipping costs less than $1.5 million gross per well, the Company and its joint venture partner would have been required to drill additional wells prior to September 30, 2020 or reimburse funds to the purchaser.

At December 31, 2019, the Company had received $6.0 million representing the Company's 50% share of the gross proceeds from the eight rig releases.

During the year ended December 31, 2019, the Company recorded a gain on disposition of $2.6 million, being the difference between the proceeds of $3.0 million, earned through drilling activities and received in 2019 and the estimated cost of the divested royalty interests removed from exploration and evaluation assets of $400 thousand.

To determine the cost base of the Clearwater mineral rights, the Company assessed the total fair value of the Clearwater mineral rights at the date of the disposition and of the 4% non-deduct royalty based on anticipated future cash flows from the applicable wells to determine a pro-rata factor. The pro-rata factor was applied to the total cost base of the jointly held lands to determine the disposed cost base.

c) Predator Blockchain Capital Corp.

On January 23, 2019, the Company completed an amalgamation transaction with a public shell company, Predator Blockchain Capital Corp. ("Predator Blockchain"). Predator Blockchain was a capital pool company and the transaction was considered a qualifying transaction for Predator Blockchain. The transaction was treated as a reverse takeover ("RTO") for accounting purposes based on the terms within the Amalgamation Agreement. In accordance with the guidelines of IFRS 3, Predator Blockchain does not meet the definition of a business for accounting purposes. Therefore, the RTO does not constitute a business combination but a capital transaction of Highwood in substance with the Company being the continuing entity from an accounting perspective. The RTO transaction has been accounted for in the consolidated financial statements as a continuation of the financial statements of the Company together with a deemed issuance of shares to the former shareholders of Predator Blockchain. The comparative year's information is also that of the Company. Shareholders of Predator Blockchain received common shares of the Company at a ratio of 53:1, resulting in 188,679 common shares of the Company being issued to shareholders of Predator Blockchain at a value of $9.00 per common share based on Company private placements conducted prior to the RTO. The outstanding stock options and agent options in Predator Blockchain continued into the Company and were revalued based on their estimated value using the Black-Scholes option pricing model (note 19), resulting in contributed surplus of $150 thousand being recognized with respect to the outstanding stock options and agent options. As a result of the transaction, the Company began trading of the TSX Venture Exchange under the symbol "HOCL" on January 30, 2019.

The fair value of the net assets that were acquired by the Company are as follows:

Net assets of Predator Blockchain		
Working capital, including cash of $560 thousand	$	510
Deferred tax asset		8
Total net assets of Predator Blockchain	$	518
Consideration for the acquisition:		
Shares issued (188,679 common shares at $9.00)	$	1,699
Contributed surplus, being stock options and agent options		150
Purchase consideration transferred		1,849
Excess of purchase consideration over net assets acquired, being listing expense	$	1,331

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)
(amounts in Canadian dollars)

Acquisition related costs totalling $93 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019, when the costs were incurred.

d) Saskatchewan transaction

On April 29, 2019, the Company closed the acquisition of a private oil and gas company (the "Private Company") for total consideration of $5.06 million, comprised of $3.41 million cash and $1.65 million of common shares (being 65,935 common shares issued at a fair value of $25.00 per common share based on the trading price of the Company's shares on the date of closing). Consideration was derived from the agreed upon purchase price of $3.45 million cash and 65,935 common shares, with the cash component increased by $560 thousand being the working capital surplus at March 31, 2019 plus 50% of the amount by which the working capital on the date of closing was greater than the working capital at March 31, 2019. The acquisition was recognized as a business combination in accordance with IFRS 3 – Business Combinations, as the acquired Private Company constitutes a business. The values attributable to property, plant and equipment were determined by reference to a discounted cash flow model. The Company acquired the Private Company for the purpose of producing cash flows. Cash consideration was paid with advances from the Company's credit facility (note 14).

The purchase price was reduced by deferred compensation of $600 thousand as the conditions for the vendor to receive these funds was not met under the Workover Program Plan and Production Plan. Subsequently the Company entered into an Amended and Restated Workover Program Plan and Production Plan (the "Workover Plan") whereby the vendor was responsible for all costs and expenses incurred directly as a result of the Workover Plan. Following the completion of the workover, if the volume of petroleum produced by the well was greater than 5 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will receive compensation of $600 thousand. If the volume of petroleum produced by the well was equal to or greater than 2 cubic meters per day but less than 5 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will receive compensation of $300 thousand. If the volume of petroleum produced by the well was less than 2 cubic meters per day for a period of twenty-one days following the consummation of the Workover Plan based on the average value of three well tests with respect to the program well jointly conducted by the vendor and the Company, the vendor will not receive any additional compensation. The results of the testing determined the vendor did not receive any additional compensation.

The fair value of the net assets that were acquired by the Company are as follows:

Net assets of private company		
Working capital, including cash of $540 thousand	$	710
Property, plant and equipment		5,247
Decommissioning liability		(260)
Deferred tax liability		(638)
Total net assets acquired	$	5,059
Consideration for the acquisition:		
Cash consideration	$	3,411
Shares issued (65,935 common shares at $25.00)		1,648
Purchase consideration transferred	$	5,059

Acquisition related costs totalling $17 thousand have been excluded from consideration paid and were recognized as transaction costs on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2019, when the costs were incurred.

(all tabular amounts expressed in thousands of Canadian dollars, except for earnings per share information)
(amounts in Canadian dollars)

If the transaction to acquire the private company had taken place on January 1, 2019, it is estimated that the assets acquired would have contributed incremental revenues of $1.77 million and net operating income before taxes of $970 thousand, for the year ended December 31, 2019. The results of the Company from the date of acquisition for 2019 include incremental revenues of $2.40 million and net operating income before taxes of $1.39 million.

7. ACCOUNTS RECEIVABLE AND INSURANCE PROCEEDS RECEIVABLE

Accounts receivable is comprised of the following:

	2020	2019
Oil and natural gas marketers	**$ 2,709**	$ 4,568
Joint interest partners	**1,885**	3,409
Road use receivable	**557**	672
Government sales tax	**-**	221
Insurance proceeds[1]	**-**	2,730
Other	**105**	140
Balance, December 31	**$ 5,256**	$ 11,740

[1] Insurance proceeds relates to an insurable event that occurred during the year ended December 31, 2018. During the year ended December 31, 2020 the Company negotiated a settlement of $4.0 million on the claim which was cash settled prior to December 31, 2020. At the time of settlement, the Company anticipated costs associated with future clean up to occur over the next 10 years and originally recorded $3.7 million in decommissioning liabilities, representing the present value of the future inflated expenditures and $200 thousand in accounts payable and accrued liabilities, representing costs to be incurred in the next 12 months. At December 31, 2020, these costs are included in liabilities associated with assets held for sale as they will be assumed by the purchaser (note 10). At December 31, 2020, the Company has accrued an amount in accounts payable and accrued liabilities totalling $nil (December 31, 2019 - $33.25 million) (including a long-term portion of $nil, (December 31, 2019 - $1.15 million)), representing costs to be incurred in the next 12 months.

8. DEPOSITS AND PREPAID EXPENSES

Deposits and prepaid expenses are comprised of the following:

	2020	2019
Deposits[1]	**$ 135**	$ 3,207
Prepaid expenses	**1,159**	403
Balance, December 31	**$ 1,294**	$ 3,610

[1]Balance at December 31, 2019 of $3.08 million related to a deposit that was made on a purchase and sale agreement that was terminated by the Company during the year ended December 31, 2019. The Company terminated the purchase and sale agreement when the other partner did not consent to the transfer of the partnership units. The deposit was held in trust by a law firm. The Company had not received the funds and commenced legal action to attempt to recover the funds. The counter party to the terminated transaction has filed a statement of defence and counterclaim seeking payment of the full deposit amount of $6.15 million. During the year ended December 31, 2020 the Company and the counter party settled the claims and the Company received $3.08 million. During the year ended December 31, 2019, the Company recorded an allowance $3.08 million representing 50% of the full deposit amount of $6.15 million, which is included in allowance on deposit on the statement of loss and comprehensive loss for the year ended December 31, 2019.

Prepaid expenses include prepaid annual fees, which are based on the invoiced amount and amortized over the term of the related payment.

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9. RECLAMATION DEPOSITS

At December 31, 2020 and December 31, 2019, the reclamation deposits consist of the amount required to be paid to the province of Saskatchewan and British Columbia in connection with the future reclamation of minor oil and natural gas properties of $141 thousand. The deposits are based on formulas and are held in bank accounts which earn interest on a monthly basis. The Company has requested the return of the reclamation deposit in the province of Saskatchewan and anticipates receiving these funds in the next 12 months, therefore $123 thousand has been classified as current.

10. ASSETS HELD FOR SALE

On November 13, 2020, the Company announced that it had entered into a definitive agreement to dispose of the Company's Red Earth CGU's to an arm's-length company for gross proceeds of $2.0 million cash, prior to customary closing adjustments. The divestiture closed into escrow subject to regulatory approval and license transfers.

As at December 31, 2020, $38.52 million of property, plant and equipment (note 12) have been presented as assets held for sale and $35.95 million of associated decommissioning liabilities (note 15) and $600 thousand of accounts payable and accrued liabilities representing spill remediation accruals to occur in the next 12 months have been presented as liabilities associated with assets held for sale. The net assets are now recorded at fair value less costs of disposal as described in notes 11 and 12.

Subsequent to December 31, 2020, regulator approval was received and the licenses were transferred. The transaction closed on March 25, 2021.

11. EXPLORATION AND EVALUATION ASSETS

Evaluation and evaluation assets is comprised of the following:

	2020	2019
Balance, January 1	**$ 7,569**	$ 8,130
Additions[1]	**123**	8,443
Change in decommissioning liabilities (note 15)	**-**	301
Dispositions (note 6(a)(b))	**(5,187)**	(400)
Land lease expiries	**(15)**	(419)
Impairment	**(1,254)**	-
Transfers to property, plant and equipment	**-**	(8,486)
Balance, December 31	**$ 1,236**	$ 7,569

[1] Including $150 thousand acquisition deposit made in 2018 for the year ended December 31, 2019.

Exploration and evaluation assets include undeveloped lands, unproved properties and seismic costs where management has not fully evaluated for technical feasibility and commercial viability.

Additions during the year ended December 31, 2020 and 2019 mainly relate drilling activity in the Company's Clearwater CGU, which was disposed of in late 2020.

During the year ended December 31, 2020, the Company determined that $nil (2019 - $8.49 million) of exploration and evaluation assets were technically feasible and commercially viable, resulting in these costs being transferred to plant, property and equipment.

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During the year ended December 31, 2020, the Company expensed certain costs previously capitalized as exploration and evaluation assets as the lease term of undeveloped lands expired in the amount of $15 thousand (2019 - $419 thousand). These amounts have been included as exploration and evaluation expense in the statement of loss and comprehensive loss.

Impairment

During the third quarter of 2020, due to the Company reaching an agreement to dispose of the Red Earth CGUs, the Company recognized an impairment loss relating to the Red Earth CGUs of $1.06 million, representing the full carrying value of the Red Earth CGUs exploration and evaluation assets, due to the carrying value exceeding its recoverable amount of $nil. The recoverable amount was determined to be $nil as the consideration to be received for the Red Earth CGUs was determined on current production.

During the first quarter of 2020, due to depressed commodity pricing and the impact this had on the economic performance of the Company's CGUs required determination of the recoverable amounts of all CGUs. The recoverable amounts were estimated at fair value less costs to sell based on recent land sales in the areas surrounding the Company's lands. During the three month period ended March 31, 2020, the Company determined that, Viking, one of its non-core CGUs would no longer be pursued and the Company intended to allow the leases to expire. The Company recognized an impairment loss relating to the non-core CGU of $198 thousand, representing the full carrying value of this non-core CGU, due to the carrying value exceeding its recoverable amount of $nil.

12. PROPERTY, PLANT AND EQUIPMENT

Oil and natural gas properties	**2020**	2019
COSTS		
Balance, January 1	**$ 128,555**	$ 111,843
Change in decommissioning liabilities (note 15)	**4,741**	(788)
Additions	**4,588**	3,767
Acquisitions (note 6(d))	**-**	5,247
Transfers from exploration and evaluation assets (note 11)	**-**	8,486
Transfers to assets held for sale (note 10)	**(99,501)**	-
Dispositions (note 6(a))	**(18,708)**	-
Balance, December 31	**$ 19,675**	$ 128,555
ACCUMULATED DEPLETION, DEPRECIATION AND IMPAIRMENT		
Balance, January 1	**$ (37,662)**	$ (29,132)
Transfers to assets held for sale (note 10)	**60,981**	-
Depletion and depreciation	**(5,811)**	(8,530)
Impairment loss	**(27,486)**	-
Dispositions (note 6(a))	**3,689**	-
Balance, December 31	**$ (6,289)**	$ (37,662)
Net book value, December 31	**$ 13,386**	$ 90,893

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Depletion
Future development costs of $13.36 million (2019 - $83.04 million) associated with the development of the Company's proved plus probable reserves were included in the calculation of depletion for the year ended December 31, 2020.

Impairment
The Company assesses many factors when determining if an impairment test should be performed. For the years ended December 31, 2020, and December 31, 2019, the Company conducted an assessment of impairment indicators for the Company's CGUs. In performing the review, management determined that the continued depressed commodity pricing and the impact this has on the economic performance of the Company's CGUs justified calculation of the recoverable amounts of all CGUs. The recoverable amounts were estimated at the value in use on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers. The future net cash flows were discounted at a rate of 15% (2019 – 15%).

There was no impairment loss required for any of the Company's CGUs for the year ended December 31, 2020, other than those recorded in the first and third quarter of 2020. Key assumptions used in the determination of the recoverable amounts of each CGU includes commodity prices and discount rates applied to cash flows from proved and probable reserves. A 1% increase in the assumed discount rate over the life of the reserves independently would not have resulted in any further impairment loss for the year ended December 31, 2020.

The forecasted commodity prices used in the impairment test at December 31, 2020 were as follows:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
WTI Crude Oil (USD$/bbl)	48.00	51.50	54.50	57.79	58.95	60.13	61.33	62.56	63.81	65.09	+2%/yr
WCS Oil (CAD$/bbl)	45.16	49.67	53.95	57.92	59.09	60.26	61.47	62.70	63.96	65.24	+2%/yr

The forecasted commodity prices used in the impairment test at December 31, 2019 were as follows:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
WTI Crude Oil (USD$/bbl)	61.00	63.00	66.00	68.00	70.00	72.00	74.00	75.81	77.33	78.88	+2%/yr
WCS Oil (CAD$/bbl)	57.89	61.04	64.10	66.67	69.23	71.79	74.36	76.68	78.63	80.62	+2%/yr

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

As at September 30, 2020, the Company recorded an impairment of $16.6 million on the Red Earth CGUs representing the amount the carrying value exceeded the fair value less costs to dispose of $2.0 million. The recoverable value was determined based on the consideration that will be received on the anticipated disposition of the Red Earth area CGUs, after factoring in all assets and liabilities that will comprise the transaction (note 10).

As at March 31, 2020, management determined that the continued depressed commodity pricing and the impact this had on the economic performance of the Company's CGUs required determination of the recoverable amounts of all CGUs. The recoverable amounts were estimated at the value in use based on the net present value of the before tax future net cash flows from oil and natural gas proved and probable reserves using forecasted prices and costs estimated by external engineers at December 31, 2019 and internally updated by Company engineers at March 31, 2020. The future net cash flows were discounted at a before tax rate of 15%.

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During the first quarter of 2020, the Company determined that the following CGU's were impaired:

			Sensitivities			
CGU	**Recoverable amount**	**Impairment**	***Increase in rate[2]***	***Decrease in rate[2]***	***Increase in cash flows[3]***	***Decrease in cash flows[3]***
House Creek[1]	$ 6,934	$ 1,617	*$ 2,168*	*$ 904*	*$ 946*	*$ 1,866*
Panny[1]	15,174	3,642	*4,598*	*2,673*	*2,703*	*4,530*
North Senex[1]	2,076	438	*540*	*329*	*334*	*540*
South Senex[1]	2,235	3,125	*3,619*	*2,591*	*2,647*	*3,598*
Kidney[1]	-	1,772	*2,016*	*1,512*	*1,587*	*1,993*
Saskatchewan	3,862	332	*486*	*168*	*133*	*541*
		$ 10,926				

1 CGU's are part of the Red Earth area

2 What impairment would be based on a 1% change in the assumed discount rate over the life of the reserves independently

3 What impairment would be based on a 5% change in cash flows

The impairment expense for the three month period ended March 31, 2020 was primarily a result of lower forecasted benchmark commodity prices resulting in a downward revision to the Company's reserve base and lower future cash flows.

The forecasted commodity prices used in the impairment test at March 31, 2020 were as follows:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
WTI Crude Oil (USD$/bbl)	30.00	41.00	47.50	52.50	57.50	58.95	60.13	61.33	62.56	63.81	+2%/yr
WCS Oil (CAD$/bbl)	20.34	34.25	43.54	50.68	57.72	59.93	61.51	63.11	64.75	66.41	+2%/yr

For purposes of the impairment test, the benchmark commodity prices forecast above are adjusted to reflect varied delivery points and quality differentials in the products delivered.

13. LEASES

Upon adoption of IFRS 16 on January 1, 2019, the Company recognized a $313 thousand right-of-use asset and $313 thousand of lease liabilities.

Right-of-use assets

	Vehicles	**Office Premises(2)**	**Total**
At January 1, 2019(1)	$ 35	$ 278	$ 313
Additions	31	-	32
Depreciation	(33)	(77)	(111)
At December 31, 2019	33	201	234
Additions	38	-	38
Dispositions	(13)	-	(13)
Depreciation	(47)	(70)	(117)
At December 31, 2020	$ 11	$ 131	$ 142

(1) The Company adopted IFRS 16 "Leases" on January 1, 2019 using the modified retrospective approach. At December 31, 2018, the Company did not recognize any leased assets in accordance with its previous accounting policy for leases.
(2) The office premise lease is a sub-lease from a Company with common shareholders and directors.

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Lease liabilities

Lease liabilities are as follows:

	2020	2019
Balance, January 1[(1)]	**$ 241**	$ 313
Accretion of lease obligations (note 18)	**10**	17
Additions	**38**	31
Dispositions	**(13)**	-
Payment of Lease Obligations	**(127)**	(120)
Balance, December 31	**$ 149**	$ 241
Current portion	**$ 100**	$ 105
Long term portion	**$ 49**	$ 136

(1) The Company adopted IFRS 16 "Leases" on January 1, 2019 using the modified retrospective approach. At December 31, 2018, the Company did not recognize any lease liabilities in accordance with its previous accounting policy for leases.

Total expected payments, for the Company's facilities and equipment recorded as lease obligations are:

	Within 1 year	**After 1 year but not more than 5 years**	**Total**
Office space	$ 86	$ 51	$ 137
Vehicles and equipment	19	-	19
Total	105	51	156
Principal	$ 100	$ 49	$ 149

During the year ended December 31, 2020 the variable component of office rent expensed through general and administrative expense was $130 thousand (December 31, 2019 - $130 thousand).

14. BANK DEBT

In January 2019, the Company entered into a new credit facility agreement for a maximum available draw of $38.0 million. The credit facility replaced in its entirety the Company's previous credit facility agreement. This credit facility could be used for general corporate purposes including capital expenditures and advances may have been made by way of direct advances, bankers acceptances, or standby letters of credit/guarantees. This credit facility bore interest at the Bank's prime rate or bankers acceptance discount rates plus an applicable margin of 100bps to 350bps on prime rate loans and 200bps to 450bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility was due monthly. The credit facility was secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company.

During the year ended December 31, 2020 the Company executed an Amended and Restated Credit Agreement (the "ARCA"). This ARCA was comprised of a $20.0 million operating facility, a $9.0 million non-revolving term facility A and a $9.0 million non-revolving term facility B. This operating facility bore interest at the Bank's prime rate or bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Term facilities A and B bears interest at an additional 300bps to the operating facility. Interest on the credit facilities was due monthly. Term facility A originally matured September 30, 2020, term facility B matured December 31, 2020 and the operating facility maximum reduces $12.0 million effective January 31, 2021 with the remaining balance due May 31, 2021. On September 30, 2020, the maturity date of term facility A was extended to November 30, 2020, and was again extended to December 15, 2020 and finally to December 21, 2020. On December 21, 2020, term facility A and B were repaid in full.

On December 21, 2020, the Company executed a Second Amended and Restated Credit Agreement (the "2ARCA"). This 2ARCA is comprised of a $10.0 million operating facility, which replaced the ARCA in its entirety. This operating facility bears interest at the Bank's prime rate of bankers acceptance discount rates plus an applicable margin of 300bps to 550bps on prime rate loans and 400bps to 650bps on stamping fees related to bankers acceptances, determined by reference to the Company's net debt to cash flow ratio (as defined in the credit facility agreement). Interest on the credit facility is due monthly. This credit facility is secured by a $100.0 million debenture with a fixed and floating charge over all the assets of the Company. This operating facility matures May 31, 2021, at which time it is subject to customary reviews by the lenders.

The Company is required to maintain an adjusted working capital ratio of not less than 1.0:1.0, and such ratio is to be tested at the end of each fiscal quarter. Current ratio is defined as the ratio of (i) current assets, excluding financial derivatives to (ii) current liabilities, excluding financial derivatives, any amounts drawn under the credit facility and any current liabilities related to lease contracts. At December 31, 2020, the Company's current ratio was 1.13:1.0 (December 31, 2019 – 0.80:1:00). The Company is required to maintain a net debt to cash flow ratio no greater than 3.0:1.0 as at the last day of the fiscal quarter ended December 31, 2020 and no greater than 2.0:1.0 for each quarter thereafter. As December 31, 2020, the Company's net debt to cash flow ratio is 0.87:1.0 (December 31, 2019 – 4.54:1.0). For the purposes of the covenant, net debt is defined by the agreement as working capital deficit (excluding financial derivatives) plus bank debt and cash flow is defined as cash flow from operating activities before changes in non-cash working capital normalized for extraordinary and nonrecurring earnings, gains, and losses. Cashflows are determined as i) trailing four quarters for the quarter ended December 31, 2020, ii) the most recent quarter annualized for the quarter ended March 31, 2021, iii) the most recent six months annualized for the quarter ended June 30, 2021, iv) the most recent nine months annualized for the quarter ended September 30, 2021 and v) the trailing four quarters for the quarter ended December 31, 2021 and all quarters thereafter. The Company will also be required to meet certain reporting requirements on a quarterly and annual basis. The Company is also restricted from entering into notional commodity contracts exceeding thirty-six months in term and cannot exceed 60% of gross production volumes (by commodity) for the three month trailing period, at the time the contracts are entered into. The Company's next review and borrowing base determination is scheduled on or before May 31, 2021 but may be set at an earlier or later date at the discretion of the bank.

15. DECOMMISSIONING LIABILITIES

The Company's decommissioning liabilities result from its ownership interest in oil and natural gas properties including well sites and facilities. The total decommissioning liability 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. The Company has estimated the net present value of the decommissioning liabilities to be $3.26 million as at December 31, 2020 (December 31, 2019 - $31.1 million) based on an undiscounted total future liability of $3.53 million (December 31, 2019 - $41.41 million) and discounted using a long-term risk-free rate of 1.21% (December 31, 2019 – 1.76%) and an inflation rate of 1.49% (December 31, 2019 – 1.35%). The expected timing of decommissioning expenditures extends to 2071.

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The following table summarizes changes in the decommissioning liabilities:

	2020	2019
Balance, January 1	**$ 31,099**	$ 30,794
Change in discount rate	**3,073**	2,663
Change in cash flow estimates[1]	**5,861**	(4,169)
Abandonment expenditures	**(18)**	(168)
Liabilities assumed in corporate and asset acquisitions (note 6(d))	**-**	370
Additions	**404**	1,019
Liabilities disposed in asset dispositions (note 6(a))	**(1,642)**	-
Liabilities transferred to held for sale (note 10)	**(35,945)**	-
Accretion expense (note 18)	**429**	590
Balance, December 31	**$ 3,261**	$ 31,099

[1] During the year ended December 31, 2020, the Company decreased anticipated years to decommission resulting from a review of third party and internal information as well as increased expected future inflation rates. During the year ended December 31, 2019, the Company decreased anticipated years to decommission resulting from a review of third party and internal information as well as decreased expected future inflation rates.

The carrying value of certain oil and natural gas properties of the Company is $nil. Accordingly, the change in discount rate and cash flow estimates related to these properties was recorded as a reduction to depletion and depreciation expense for the year ending December 31, 2020 of $30 thousand (December 31, 2019 - $nil), and an increase to operating and transportation expense of $929 thousand (December 31, 2019 - $nil). The amounts recorded as operating and transportation expense relate to properties that have never had any asset value associated to them.

The risk-free rate used in the calculation of the net present value has a significant impact on the carrying value of decommissioning liabilities. A 1% increase in the risk-free rate would decrease the decommissioning liability by $370 thousand and liabilities associated with assets held for sale by $5.71 million at December 31, 2020.

16. TAXES

a) Deferred tax liability

At December 31, 2020, a deferred tax liability of $460 thousand (2019 - $2.91 million) has been recognized in the consolidated financial statements. The following table provides a continuity of the components of the deferred tax liability:

	Balance, January 1, 2020	Recognized in income	Acquired in business combination	Balance, December 31, 2020
Exploration and evaluation assets and property, plant and equipment and assets held for sale	$ 14,098	$ (11,862)	$ -	$ 2,236
Decommissioning liabilities	(7,153)	6,403	-	(750)
Commodity contracts	(861)	836	-	(25)
Non-capital loss carryforwards	(3,089)	2,096	-	(993)
Deferred tax not recognized on acquisition	(90)	90	-	-
Deferred tax liability	$ 2,905	$ (2,437)	$ -	$ 468

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	Balance, January 1, 2019	Recognized in income	Acquired in business combination (note 6)	Balance, December 31, 2019
Exploration and evaluation assets and property, plant and equipment	$ 15,062	$ (1,672)	$ 708	$ 14,098
Decommissioning liabilities	(8,314)	1,231	(70)	(7,153)
Commodity contracts	355	(1,216)	-	(861)
Non-capital loss carryforwards	(2,255)	(825)	(9)	(3,089)
Deferred tax not recognized on acquisition	(106)	16	-	(90)
Deferred tax liability	$ 4,742	$ (2,466)	$ 629	$ 2,905

b) Deferred tax expense

The amount for deferred tax expense in the consolidated financial statements results from applying the combined federal and provincial tax rates to the Company's income before taxes as follows:

	2020	2019
Income before taxes	**$ (11,721)**	$ (13,631)
Combined federal and provincial tax rates	**24.5%**	26.5%
Expected tax expense (recovery)	**(2,872)**	(3,312)
Differences from:		
Non deductible listing expense	**-**	352
Other	**60**	5
Stock based compensation	**257**	219
Change in rate	**22**	(374)
Taxed at different rates	**-**	407
Temporary difference not recognized	**-**	384
Impairment of non-tax asset	**96**	-
Total tax expense (recovery)	**$ (2,437)**	$ (2,618)
Total tax expense (recovery) is comprised of		
Current	**$ -**	$ (152)
Deferred	**$ (2,437)**	$ (2,466)
Total tax expense	**$ (2,437)**	$ (2,618)

Total non-capital losses available to the Company are approximately $4.4 million and expire between 2025 and 2039.

During May 2020, the Government of Alberta tabled legislation to decrease the general corporate tax rate from 12% to 8% which will be phased in between July 1, 2020 and January 1, 2022. Alberta Bill 35, which received Royal Assent on December 9, 2020, accelerated the reduction in the corporate tax rate to 8% effective July 1, 2020.

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17. SHARE CAPITAL

a) Authorized

Unlimited number of voting common shares and unlimited number of preferred shares issuable in series.

b) Issued and outstanding common shares

	Number of Shares (000's)	Stated Value
Balance, December 31, 2018	5,743	$ 12,820
Shares issued on private placement for cash	8	68
Shares deemed issued on acquisition of Predator Blockchain (note 6(c))	189	1,699
Shares issued on exercise of agent options (note 19)	8	75
Shares issued on Saskatchewan transaction (note 6(d))	66	1,648
Balance, December 31, 2020 and 2019	6,014	$ 16,310

During the year ended December 31, 2019, the Company completed a private placement, resulting in 7,600 common shares being issued for $9.00 per share for gross proceeds of $68 thousand.

c) Loss per share

	December 31, 2020			December 31, 2019		
	Net loss	**Common shares (000's)**	**Loss per share**	Net loss	Common shares (000's)	Loss per share
Loss - basic	**$(9,284)**	**6,014**	**$ (1.54)**	$(11,013)	5,980	$ (1.84)
Dilutive effect of options	**-**	**-**	**-**	-	-	-
Loss - diluted	**$(9,284)**	**6,014**	**$ (1.54)**	$(11,013)	5,980	$ (1.84)

For the year ended December 31, 2020 and 2019 all options and RSU's were excluded as they were anti dilutive.

18. FINANCE INCOME AND EXPENSES, NET

Finance income and expenses, net is comprised of:

	2020	2019
Interest on bank debt	**$ 1,274**	$ 831
Stamping fees on bank debt	**1,280**	1,179
Financing fees	**131**	-
Accretion of decommissioning liabilities (note 15)	**429**	590
Accretion of lease liabilities (note 13)	**10**	17
Other interest expense (income)	**(43)**	110
Total	**$ 3,081**	$ 2,727

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19. SHARE-BASED PAYMENTS

Options

The Company has adopted a stock option plan for officers, directors, employees and consultants "the Option Plan". Under the Option Plan, the Board of Directors sets the exercise price, expiry date and vesting terms for each option grant provided that no options will be granted at a discount to market prices and no option will have a term exceeding ten years. The Option Plan limits the total number of Common Shares that may be issued on exercise of options outstanding at any time under the Option Plan to 10% of the number of Common Shares issued and outstanding (less the number of Common Shares reserved for issuance under any other share based compensation arrangement of the Company, including the Restricted Share Unit Plan).

A summary of the stock options issued and outstanding as at December 31, 2020 and 2019 are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2018	-	-
Granted, January 23, 2019	88	$ 9.00
Granted, October 31, 2019	29	18.00
Options deemed issued as a result of RTO (note 6(c))	19	5.30
Agent options deemed issued as a result of RTO (note 6(c))	8	5.30
Agent options exercised	(8)	(5.30)
Outstanding, December 31, 2019	136	10.43
Forfeited	(8)	11.54
Granted	45	16.50
Outstanding, December 31, 2020	173	11.95
Exercisable, December 31, 2020	55	$ 6.26

The weighted average contractual term of all outstanding options at December 31, 2020 is 3.51 years.

During the year ended December 31, 2020, the Company granted 45,000 (2019 – 117,600) stock options, at weighted average exercise price of $16.50 (2019- $11.28) per option. The options granted vest 1/3 on each of the twelve, twenty-four and thirty-six month anniversaries from the grant date and have a five-year term.

During the year ended December 31, 2019, 7,547 agent options were exercised at a exercise price of $5.30 per option for gross proceeds of $40 thousand. The associated contributed surplus of $35 thousand was moved to share capital. As a result 7,547 common shares of the Company were issued.

During the year ended December 31, 2020, the Company recorded stock-based compensation expense relating to the options of $370 thousand (2019 - $298 thousand) with a corresponding increase to contributed surplus.

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

	Options issued as a result of RTO	Agent options issued as a result of RTO	January 23, 2019	October 31, 2019	August 27, 2020
Number of options (#000's)	19	8	88	29	45
Exercise price ($/share)	$ 5.30	$ 5.30	$ 9.00	$ 18.00	$ 16.50
Stock price on grant date	$ 9.00	$ 9.00	$ 9.00	$ 18.00	$ 16.50
Expected life (years)	4.5	1.5	5.0	5.0	5.0
Risk-free interest rate	1.90%	1.90%	1.90%	1.42%	0.43%
Expected volatility	70%	70%	70%	70%	70%
Option fair value (per option)	$ 6.08	$ 4.71	$ 5.28	$ 10.47	$ 9.42
Estimated forfeiture rate	0%	0%	0%	0%	0%
Expected dividend yield	0%	0%	0%	0%	0%

A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all options will be exercised. Stock price on date of grant was determined by the price of Common Shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company's peer group.

Restricted Share Units ("RSU's")

The Company has an RSU plan, for officers, directors, employees and consultants " the RSU Plan". The RSU Plan is administered by the Board of Directors (or a committee thereof) which has the power, subject to the limits imposed by the RSU Plan, to: (i) award RSUs; (ii) determine the terms under which RSUs are granted; (iii) interpret the RSU Plan and adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the RSU Plan; and (iv) make all other determinations and take all other actions in connection with the implementation and administration of the RSU Plan. The RSU Plan is a fixed plan which reserves for issuance a maximum of 240,000 Common Shares (being approximately 4% of the currently issued and outstanding Common Shares).

	Number of RSU's
Outstanding, January 1, 2019	-
Granted, January 23, 2019	88
Granted, October 31, 2019	30
Outstanding, December 31, 2019	118
Forfeited	(8)
Granted, August 27, 2020	45
Outstanding, December 31, 2020	155
Exercisable, December 31, 2020	36

The weighted average contractual term of all outstanding RSU's at December 31, 2020 is 2.29 years.

During the year ended December 31, 2020, the Company granted 45,000 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of June 30, 2021, June 30, 2022 and June 30, 2023 and expire on December 31, 2023.

During the year ended December 31, 2019, the Company granted 88,100 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of December 31, 2019, December 31, 2020 and December 31, 2021 and expire on December 31, 2022.

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During the year ended December 31, 2019, the Company granted 29,500 RSU's exercisable for nominal consideration. The RSU's granted vest 1/3 on each of June 30, 2020, June 30, 2021 and June 30, 2022 and expire on December 31, 2022.

During the year ended December 31, 2020, the Company recorded stock-based compensation expense relating to RSU's of $680 thousand (2019 - $527 thousand) with a corresponding increase to contributed surplus.

The fair value of the RSU's issued and granted were estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 23, 2019	October 31, 2019	August 27, 2020
Number of RSU's (#000's)	88	30	45
Exercise price ($/share)	$ -	$ -	$ -
Stock price on grant date	$ 9.00	$ 18.00	$ 16.50
Expected life (years)	3.9	3.17	5.0
Risk-free interest rate	1.90%	1.42%	0.43%
Expected volatility	70%	70%	70%
Option fair value (per option)	$ 9.00	$ 18.00	$ 16.50
Estimated forfeiture rate	0%	0%	0%
Expected dividend yield	0%	0%	0%

A forfeiture rate of 0% was used when recording stock-based compensation as it is expected that all officers, directors, employees and consultants will continue with the Company over the vesting period, and or, all options will be exercised. Stock price on date of grant was determined by the price of Common Shares issued on the date of grant and based on publicly available information. Expected volatility was determined based on an average of volatilities of similar publicly traded entities in Company's peer group.

20. SUPPLEMENTAL CASH FLOWS INFORMATION

Changes in non-cash working capital is comprised of:

Source/(use) of cash	**2020**	2019
Accounts receivable and insurance proceeds receivable	**$ 10,182**	$ 22,629
Deposits and prepaid expenses	**2,316**	(240)
Accounts payable and accrued liabilities	**(11,326)**	(10,332)
Changes in non-cash working capital	**$ 1,172**	$ 12,057
The above figure relates to:		
Operating activities	**$ 9,353**	$ 8,414
Investing activities	**(8,181)**	3,643
Changes in non-cash working capital	**$ 1,172**	$ 12,057
Interest paid	**$ 2,641**	$ 2,049
Taxes paid (recovered)	**$ -**	$ (152)

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21. COMMITMENTS AND CONTINGENCIES

By nature of its oil and gas operations in Northern Alberta, the Company is subject to numerous safety and environmental regulations, with which non-compliance may result in adverse financial impact. The Company mitigates these risks through the adherence to formal safety and environmental policies, as well as adequate insurance coverage. At December 31, 2020, the Company was remediating three environmental pipeline releases at Red Earth, Alberta, all relating to the same segment of pipeline. While the Company believes it has recorded its best estimate of the impact of this contingency at December 31, 2020, the ultimate outcome was uncertain. The event was insured and the Company has made payments on the majority of remediation work in 2018 and 2019. In relation to the pipeline release, the Company, as at December 31, 2020 has recorded $3.9 million of liabilities associated with assets held for sale in relation to the estimated costs of the remediation work. Subsequent to December 31, 2020, these liabilities were disposed of along with the related assets (note 10).

22. FINANCIAL RISK MANAGEMENT

The Board of Directors has the overall responsibility for the establishment and oversight and execution of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company employs risk management strategies and policies to ensure that any exposures to risk are in compliance with the Company's business objectives. While the Board of Directors has the overall responsibility for the Company's risk management framework, the Company's management has the responsibility to administer and monitor those risks.

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 such as:

- credit risk;
- market risk; and
- liquidity risk.

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. There were no changes to the Company's risk management policies or processes during the year ended December 31, 2020 or 2019.

(a) 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. The maximum exposure to credit risk at year end is as follows:

	2020	2019
Cash	**$ 5,675**	$ -
Accounts receivable and insurance proceeds receivable	**5,256**	11,740
Deposits	**136**	3,207
Reclamation deposits	**141**	$ 141
Total	**$ 11,208**	$ 15,088

Cash:

Cash consists of amounts on deposit with Canadian chartered banks and undeposited funds. The Company manages credit exposure of cash and cash equivalents, if any, by selecting financial institutions with high credit ratings.

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Accounts receivable:

Substantially all of the Company's oil and natural gas production is marketed under standard industry terms. Receivables from oil and natural gas marketers are normally collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with credit worthy purchasers. Joint interest receivables are typically collected within one to three months of the joint interest bill being issued to the partner. However, the receivables are from participants in the oil and natural gas sector and collection of the outstanding balances can be impacted by industry factors such as commodity price fluctuations, limited capital availability and unsuccessful drilling programs.

The Company manages credit exposure of insurance proceeds receivable by maintaining insurance coverage with reputable brokers with high credit ratings.

The Company's accounts receivable are aged as follows:

	2020	2019
Current (less than 90 days)	**$ 3,269**	$ 10,546
Past due (more than 90 days)	**1,987**	1,194
Total	**$ 5,256**	$ 11,740

As at December 31, 2020 and 2019, management believes all receivables net of provision for expected credit losses will be collected.

Deposits

At December 31, 2019, the Company had a deposit of $6.15 million, which was held a trust account by a law firm, related to a deposit that was made on a purchase and sale agreement that was terminated by the Company. The Company recorded an allowance of $3.07 million in 2019 due to the uncertainty of the outcome of the lawsuit, leaving a net balance recorded in deposits and prepaid expenses of $3.08 million. The Company received $3.08 million during the second quarter of 2020 (see further discussion in note 8).

Reclamation deposits and other deposits:

Reclamation deposits consist of amounts on deposit with the Provinces of Alberta, Saskatchewan and British Columbia. The Company believes the credit risk associated with these deposits and other deposits is minimal.

Commodity contracts:

The Company manages the credit risk exposure related to commodity contracts, if in an asset position, by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes. At December 31, 2020 and 2019, the counterparty was the Company's lending institution, which is a financial institution with a strong credit rating.

(b) Market risk

Market risk is the risk that changes in market conditions, such as commodity prices, foreign exchange rates and interest rates, will affect the Company's cash flow, income or the value of its financial instruments. The objective of the Company's market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing the Company's return. There have been no changes to the Company's policies for managing foreign currency risk, interest rate risk and commodity price risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company does not sell or transact in any foreign currency. The Company's financial instruments are only indirectly exposed to currency risk as the underlying commodity prices in Canada for oil and natural gas are impacted by changes in exchange rates between the Canadian and United States dollar.

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Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is subject to interest rate risk related to its exposure to interest rate fluctuations on its credit facility, which bears a floating rate of interest. At December 31, 2020 the total amount drawn on the credit facility under a bankers' acceptance ("BA") was $7.0M which is at a fixed rate basis, therefore not subject to interest rate risk until renewal of the BA's. A 1% interest rate increase or decrease on the full $7.0M outstanding would decrease or increase net income by approximately $53 thousand for the year ended December 31, 2020.

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar but also North American and global economic events that dictate the levels of supply and demand. The nature of the Company's operations results in exposure to fluctuations in commodity prices. The Company's production is sold using "spot" pricing with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. The Company currently has the following commodity contracts outstanding at December 31, 2020.

CAD Sell Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	50bbls/day	January 1, 2021 to June 30, 2021	$ 57.15	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.64	WTI - NYMEX
Crude Oil	100bbls/day	January 1, 2021 to June 30, 2021	$ 55.20	WTI - NYMEX
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 65.40	WTI - NYMEX
Crude Oil	250bbls/day	July 1, 2021 to December 31, 2021	$ 65.40	WTI - NYMEX

Participating Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	150bbls/day	January 1, 2021 to June 30, 2021	$ 50.50 with a 50 % participation above $50.50	WTI - NYMEX

The commodity contracts had a total fair value at December 31, 2020 of a liability of $109 thousand (December 31, 2019 – liability of $3.44 million). The corresponding unrealized gain for the year ended December 31, 2020 was $3.33 million (2019 – unrealized loss $4.76 million) and is included in the statement of loss and comprehensive loss. Total realized gain for the year ended December 31, 2020 were $2.47 million (2019 – loss of $5.93 million) and are also included in the statement of loss and comprehensive loss. The realized loss for the year ended December 31, 2019 includes a $3.51 million premium paid related to commodity contract entered into in anticipation of the acquisition that was terminated during 2019.

For the year ended December 31, 2020, a $0.10/bbl increase/decrease in oil prices would have a negative/positive impact on net income of approximately $13 thousand.

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Subsequent to December 31, 2020, the Company entered into the following commodity contracts:

CAD Buy Swaps:

Product	Notional Volume	Term	Fixed Price (CAD/bbl)	Index
Crude Oil	275bbls/day	April 1, 2021 to June 30, 2021	$ 81.30	WTI - NYMEX
Crude Oil	125bbls/day	July 1, 2021 to December 31, 2021	$ 77.85	WTI - NYMEX

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with the financial liabilities as they become due. The Company's financial liabilities consist of accounts payable and accrued liabilities and bank debt, all of which are due within a year, lease liabilities which are due as disclosed in note 13, and commodity contract liabilities which will all be settled within one year. The Company also maintains and monitors a certain level of cash flow which is used to partially finance all operating and capital expenditures. The Company also attempts to match its payment cycle with collection of oil and natural gas sales on the 25th of each month.

At December 31, 2020, the Company had positive working capital of $5.76 million, excluding bank debt (note 14). The Company expects to repay its financial liabilities in the normal course of operations and to fund future operational and capital requirements through operating cash flows and through deleveraging transactions. The Company also has a credit facility (note 14) to facilitate the management of liquidity risk. At December 31, 2020, approximately $3 million was available under the credit facility. The operating facility of $10 million matures May 31, 2021, therefore the credit facility has been classified as current.

The Company may need to conduct asset sales, equity issues or issue debt if liquidity risk increases in a given period. Liquidity risk may increase as a result of a change in the amounts settled monthly from the commodity contracts (note 22(b)), along with potential revisions to the Company's lending facility (note 14). With the sale of the Red Earth CGUs in March of 2021 (note 10), the Company has more notional volumes under forward contracts (note 22(b)) than current oil production, so is exposed to a greater degree of cash flow uncertainty should oil prices rise. The Company believes it has sufficient funds to meet foreseeable obligations by actively monitoring its credit facilities through use of the revolving debt, asset sales, coordinating payment and revenue cycles each month, and an active commodity hedge program to mitigate commodity price risk and secure cash flows.

23. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities; and
- To maximize shareholder return through enhancing share value.

The Company considers its capital employed to be bank debt and shareholders' equity:

	2020	2019
Bank debt	**$ 7,000**	$ 36,894
Shareholder's equity	**9,763**	17,997
Capital Employed	**$ 16,763**	$ 54,891

The Company monitors capital based adjusted working capital, defined as current assets less current liabilities (excluding bank debt and commodity contracts).

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Adjusted working capital

	2020	2019
Adjusted current assets	**$ 50,868**	$ 15,473
Adjusted current liabilities	**(45,000)**	(20,569)
Adjusted working capital surplus (deficiency)	**$ 5,868**	$ (5,096)

The Company makes adjustments to capital employed by monitoring economic conditions and investment opportunities. The Corporation generally relies on credit facilities and cash flows from operations to fund capital requirements. To maintain or modify its capital structure, the Company may issue new common or preferred shares, issue new subordinated debt, renegotiate existing debt terms, or repay existing debt. The Company is not currently subject to any externally imposed capital requirements, other than covenants on its bank debt (note 14).

The Company also monitors capital structure based on its net debt to cash flow ratio. The definition of net debt to cash flow for capital management purposes is the same measure used in the calculation of the Company's financial covenants on its credit facility (note 14). The Company's strategy is to monitor the ratio and the ratio can, and will, fluctuate based on the timing of commodity prices and the mix of exploratory and development drilling.

24. NET LISTING EXPENSE AND TRANSACTION RECOVERY (COSTS)

	Year ended December 31,	
	2020	2019
Listing expense	**$ -**	$ (1,300)
Transaction costs	**(155)**	(334)
Transaction cost recovery	**300**	-
Total (expense) recovery	**$ 145**	$ (1,634)

25. RELATED PARTY TRANSACTIONS

(a) Transactions

Except as discussed elsewhere, the Company had the following transactions with related parties:

- During the year ended December 31, 2020, the Company incurred charges of $264 thousand (2019 – $197 thousand) from a company with common directors for management fees, office space, subscriptions and supplies of which $143 thousand (2019 - $76 thousand), was recorded as an increase in general and administrative expense and $121 thousand (2019 - $121 thousand), was recorded as interest expense and a reduction to lease liabilities. In addition, the Company was charged $93 thousand (2019 - $499 thousand) for net non-operated gas sales, butane purchases and gas processing fees which is included in operating and transportation expense. During the year ended December 31, 2020, the Company was also charged $573 thousand (2019 - $1.41 million) for propane purchases and distribution from this related party which is included in operating and transportation expenses on the statement of loss and comprehensive loss. As at December 31, 2020, $4 thousand (2019 - $4 thousand) is included within accounts receivable and $249 thousand (2019 - $1.0 million) is included within accounts payable with respect to these charges.

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(b) Key management compensation

The remuneration of the key management personnel of the Company, which includes directors, officers and vice-presidents is set out below in aggregate:

	2020	2019
Salaries, bonuses and consulting fees	**$ 1,164**	$ 551
Stock based compensation	**789**	614
Total key management compensation	**$ 1,953**	$ 1,165

Total personnel expenses for employees, directors and management including stock based compensation was $3.0 million for the year ended December 31, 2020 (2019 - $2.16 million) of which $1.73 million (2019 - $1.04 million) has been included in general and administrative expenses, $210 thousand (2019 - $295 thousand) has been included in operating and transportation expenses and $1.05 million (2019 - $825 thousand) was recorded to stock-based compensation.

26. SUBSEQUENT EVENTS

(a) Subsequent to December 31, 2020, the Company incorporated a wholly owned subsidiary, Renewable EV Battery Cleantech Corp. (“REBC”). REBC will focus on clean renewable energy technology and has had minimal operations to date.

(b) Subsequent to December 31, 2020, the Company incorporate a wholly owned subsidiary, 2339364 Alberta Ltd (“2339364”). 2339364 will focus on Lithium extraction from Lithium bearing formation brines and has had minimal operations to date.

(c) Subsequent to December 31, 2020, the Company closed the sale of its Red Earth CGUs (note 10).