



Audited Consolidated Financial Statements of

Stampede Drilling Inc.

As at and for the Years Ended December 31, 2019 and 2018

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Stampede Drilling Inc. (the "Corporation") and all other financial and operating information contained in the report are the responsibility of management. The consolidated financial statements have been prepared in accordance with the accounting policies detailed in the notes to the consolidated financial statements and in accordance with International Financial Reporting Standards.

Management is also responsible for establishing and maintaining adequate internal controls over the Corporation's financial reporting. The Corporation's internal control system has been designed and maintained to provide reasonable assurance that assets are properly safeguarded and that the financial records are sufficiently and well maintained to provide relevant, timely and reliable information to management.

External auditors, appointed by the shareholders, have independently examined the consolidated financial statements. They have performed such tests they deem necessary to enable them to express an opinion on these consolidated financial statements.

The Audit Committee of the Board of Directors has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Signed "Lyle Whitmarsh"

President and Chief Executive Officer
March 25, 2020

Signed "Jeff Schab"

Chief Financial Officer
March 25, 2020



Independent auditor's report

To the Shareholders of Stampede Drilling Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Stampede Drilling Inc. and its subsidiary (together, the Corporation) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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

Independence

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

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 identified above 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.

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 IFRS, 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation'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 Corporation'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 Corporation'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 Corporation 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Courtney Kolla.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Calgary, Alberta
March 25, 2020

Stampede Drilling Inc.
Consolidated Statements of Financial Position

| <i>(Stated in thousands of Canadian dollars)</i> | | December 31, 2019 | December 31, 2018 |
|--|------|----------------------|----------------------|
| | Note | \$ | \$ |
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 4 | 321 | 115 |
| Restricted cash | 4 | - | 100 |
| Trade and other receivables | 16 | 7,514 | 5,234 |
| Prepaid expenses and deposits | | 123 | 187 |
| Total Current Assets | | 7,958 | 5,636 |
| Non-Current Assets | | | |
| Property and equipment | 10 | 44,111 | 40,338 |
| Right-of-use assets | 7 | 652 | - |
| Goodwill | 11 | 461 | 461 |
| Total Non-Current Assets | | 45,224 | 40,799 |
| Total Assets | | 53,182 | 46,435 |
| Liabilities | | | |
| Current Liabilities | | | |
| Accounts payable and accrued liabilities | 16 | 4,946 | 4,200 |
| Operating loan | 12 | 8,482 | 3,492 |
| Convertible debentures | 13 | 2,530 | - |
| Lease liabilities - current portion | 8 | 241 | - |
| Total Current Liabilities | | 16,199 | 7,692 |
| Non-Current Liabilities | | | |
| Lease liabilities - non-current portion | 8 | 429 | - |
| Convertible debentures | | - | 2,422 |
| Total Non-Current Liabilities | | 429 | 2,422 |
| Total Liabilities | | 16,628 | 10,114 |
| Shareholders' Equity | | | |
| Share capital | 14 | 62,184 | 62,054 |
| Contributed surplus | 14 | 3,710 | 3,357 |
| Equity component of convertible debentures | 13 | 265 | 265 |
| Accumulated other comprehensive income | 14 | 888 | 893 |
| Accumulated deficit | | (30,493) | (30,248) |
| Total Equity | | 36,554 | 36,321 |
| Total Liabilities and Equity | | 53,182 | 46,435 |

See accompanying notes to these consolidated financial statements.

See Note 21 for the Corporation's Commitments at December 31, 2019.

See Note 22 for Subsequent events.

Signed "Thane Russell"

Director

Signed "Rodger Hawkins"

Director

Stampede Drilling Inc.
Consolidated Statements of Comprehensive Income (Loss)

| (Stated in thousands of Canadian dollars, except per share amounts) | | Year ended December 31, | |
|---|------|-------------------------|---------------------|
| | | 2019 | 2018 ⁽¹⁾ |
| | Note | \$ | \$ |
| Revenue | | 23,697 | 16,028 |
| Cost of sales: | | | |
| Direct operating expenses | | 15,500 | 10,381 |
| Depreciation of property and equipment | 10 | 3,991 | 2,464 |
| | | 19,491 | 12,845 |
| Income from operations | | 4,206 | 3,183 |
| Expenses | | | |
| Administrative | | 1,757 | 1,051 |
| Salaries and benefits | | 2,314 | 1,536 |
| Share based payments | 15 | 428 | 76 |
| Depreciation of right-of-use assets | 7 | 283 | - |
| | | 4,782 | 2,663 |
| Net (loss) income before interest and other income (expense) | | (576) | 520 |
| Gain from disposition of property and equipment | | 8 | 172 |
| Gain from equipment lost in hole | | 19 | - |
| Finance costs | 17 | (684) | (406) |
| Other income | | 123 | 18 |
| Foreign exchange loss | | 19 | (5) |
| Transaction costs | | (156) | (683) |
| Net loss before taxes | | (1,247) | (384) |
| Deferred tax expense (recovery) | 20 | - | (296) |
| Net loss from continuing operations | | (1,247) | (88) |
| Net income (loss) from discontinued operations | 6 | 1,002 | (4,036) |
| Net loss | | (245) | (4,124) |
| Other comprehensive loss | | | |
| Items that may be subsequently reclassified to profit or (loss): | | | |
| Foreign currency translation adjustment | | (5) | 9 |
| Total comprehensive (loss) income from continuing operations | | (1,252) | (79) |
| Total comprehensive income (loss) from discontinued operations | | 1,002 | (4,036) |
| Total comprehensive loss | | (250) | (4,115) |
| Basic and diluted loss per share from continuing operations | | (\$0.01) | (\$0.00) |
| Basic and diluted loss per share | | (\$0.00) | (\$0.03) |

⁽¹⁾ The comparative period has been restated to reflect discontinued operations as discussed in Note 6.

See accompanying notes to these consolidated financial statements.

Stampede Drilling Inc.

Consolidated Statements of Changes in Equity
(Stated in thousands of Canadian dollars)

| Note | Shares ('000's) | Share Capital Amount \$ | Employee Benefit Reserve \$ | Equity Component of Convertible Debt \$ | Accumulated Other Comprehensive Income \$ | Deficit \$ | Total Equity \$ |
|--|--------------------|-------------------------------|--------------------------------------|---|---|-----------------|-----------------------|
| 14 | 123,079 | 58,448 | 3,150 | 265 | 884 | (26,030) | 36,717 |
| Balance as at December 31, 2017 | | | | | | | |
| January 1, 2018 increase in estimated credit loss resulting from the implementation of IFRS 9 | - | - | - | - | - | (94) | (94) |
| Share based payments expense | - | - | 246 | - | - | - | 246 |
| Stock options exercised | 296 | 48 | - | - | - | - | 48 |
| Stock option value of exercised options | - | 39 | (39) | - | - | - | - |
| Common Shares issued - D2 acquisition | 6,667 | 3,000 | - | - | - | - | 3,000 |
| Common Shares issued - Red Dog acquisition | 1,573 | 519 | - | - | - | - | 519 |
| Comprehensive income (loss) for the period | - | - | - | - | 9 | (4,124) | (4,115) |
| Balance as at December 31, 2018 | 131,615 | 62,054 | 3,357 | 265 | 893 | (30,248) | 36,321 |
| Share based payments expense | - | - | 413 | - | - | - | 413 |
| Stock options exercised | 431 | 70 | - | - | - | - | 70 |
| Stock option value of exercised options | - | 60 | (60) | - | - | - | - |
| Comprehensive loss for the period | - | - | - | - | (5) | (245) | (250) |
| Balance as at December 31, 2019 | 132,046 | 62,184 | 3,710 | 265 | 888 | (30,493) | 36,554 |

See accompanying notes to these consolidated financial statements.

Stampede Drilling Inc.
Consolidated Statements of Cash Flows

| | | For the years ended December 31, | |
|--|------|----------------------------------|---------------------|
| (Stated in thousands of Canadian dollars) | | 2019 | 2018 ⁽¹⁾ |
| | | \$ | \$ |
| Cash flows from (used in) the following activities: | | | |
| Operating activities | | | |
| Net loss from continuing operations | | (1,247) | (88) |
| Adjustments for: | | | |
| Share based payments | 15 | 428 | 76 |
| Depreciation | 7,10 | 4,274 | 2,464 |
| Gain on disposition of property and equipment | | (8) | (172) |
| Gain on equipment lost in hole | | (19) | - |
| Finance costs | 17 | 576 | 280 |
| Accretion of debentures | 17 | 108 | 126 |
| Deferred tax recovery | 20 | - | (296) |
| Unrealized foreign exchange (loss) gain | | (5) | 9 |
| Changes in non-cash working capital items | 18 | (1,947) | (1,566) |
| Net operating cash flow - continuing operations | | 2,160 | 833 |
| Net operating cash flow - discontinued operations | 6 | (481) | (46) |
| Net cash flows from operating activities | | 1,679 | 787 |
| Financing activities | | | |
| Proceeds from operating loan | | 4,990 | 3,492 |
| Interest on operating loan | 17 | (271) | (19) |
| Interest on debentures | 17 | (261) | (261) |
| Stock options exercised | | 70 | 48 |
| Finance lease principal payments | 8 | (309) | - |
| Net financing cash flows - continuing operations | | 4,219 | 3,260 |
| Net financing cash flows - discontinued operations | 6 | (77) | - |
| Net cash flows from financing activities | | 4,142 | 3,260 |
| Investing activities | | | |
| Additions to property and equipment | 10 | (9,580) | (16,260) |
| Acquisitions | 5 | - | (5,515) |
| Proceeds from the disposition of property and equipment | | - | 402 |
| Proceeds from short term investments - restricted cash | | 100 | (100) |
| Interest earned | | - | 45 |
| Proceeds from equipment lost in hole | | 197 | - |
| Changes in non-cash working capital balances | 18 | 1,132 | 1,134 |
| Net investing cash flows - continuing operations | | (8,151) | (20,294) |
| Net investing cash flows - discontinued operations | 6 | 2,541 | 1,223 |
| Net cash flows used in investing activities | | (5,610) | (19,071) |
| Change in cash and cash equivalents | | 211 | (15,024) |
| Effect of foreign exchange rate changes on cash | | (5) | 4 |
| Cash and cash equivalents, beginning of period | | 115 | 15,135 |
| Cash and cash equivalents, end of the period | | 321 | 115 |
| Supplementary cash flow disclosure information: | | | |
| Interest paid during the period | | 532 | 280 |
| Interest received during the period | | - | 45 |

⁽¹⁾ The comparative period has been restated to reflect discontinued operations as discussed in Note 6.

See accompanying notes to these consolidated financial statements.

STAMPEDE DRILLING INC.
(In thousands of Canadian dollars except for per share amounts)

Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

1. REPORTING ENTITY

Stampede Drilling Inc. (the "Corporation") was incorporated pursuant to the provisions of the Canada Business Corporations Act on January 7, 2011 and maintains its head office at Bow Valley Square IV, 250 – 6th Ave SW 22nd Floor, Calgary, AB, T2P 3H7. The Corporation is a publicly traded company listed on the TSX Venture Exchange ("the Exchange") under the symbol "SDI". The Corporation offers oilfield services to the oil and natural gas industry in the Western Canadian Sedimentary Basin ("WCSB").

Effective May 29, 2019, the Corporation obtained shareholder approval to change its name from MATRIX Energy Technologies Inc. to Stampede Drilling Inc.

The consolidated financial statements of the Corporation are comprised of the Corporation and its wholly owned subsidiary Stampede Drilling (US) Inc.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on the historical cost basis, except as disclosed in the significant accounting policies in Note 3, and are presented in Canadian dollars, which is the Corporation's functional and reporting currency. The Corporation's US subsidiary uses US dollars as its functional currency.

These consolidated financial statements were approved and authorized for issue by the Corporation's Board of Directors on March 25, 2020.

An assessment or comparison of the Corporation's results, at any given time, requires consideration of crude oil and natural gas commodity prices and the seasonal nature of the oil and gas industry in North America. Commodity prices ultimately drive the level of exploration and development activities carried out by the Corporation's customers and associated demand for the oilfield services provided by the Corporation. Results are impacted by the gain or loss of key customers. As contracts are short-term in nature, gains or losses of key customers can fluctuate. From a seasonality perspective, the Corporation operates all its drilling rigs in western Canada; therefore, operations are impacted by weather and seasonal factors. The winter season, which incorporates the first quarter, is generally a higher activity period as oil and gas companies take advantage of frozen ground conditions to move heavy equipment and operate in regions which might otherwise be inaccessible due to ground conditions during warmer periods. The second quarter normally encompasses a slow period in Canada referred to as spring break-up. During this period, melting conditions result in temporary municipal road bans that effectively prohibit the movement of drilling rigs and other heavy equipment. The third and fourth quarters in western Canada are usually representative of average activity levels.

(b) Critical accounting estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets, liabilities, income, and expenses. Judgments and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgments and estimates used by the Corporation are believed to be reasonable under current circumstances, actual results could differ.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Property and equipment

The Corporation allocates amounts initially recognized as property and equipment to significant component parts. Significant component parts are depreciated based on estimates of useful lives and residual value. Useful lives and residual values can change as a result of actual usage experience. A change in the useful life or residual value may have an impact on the related depreciation expense. The Corporation reviews the useful lives and estimated residual values of property and equipment at the end of each reporting period.

2. BASIS OF PREPARATION (continued)

Income taxes

Estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions against future taxable income before the deductions expire. The assessment is based upon existing tax laws and estimates of future taxable income. Further, there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Impairments

The Corporation performs impairment tests on property and equipment when impairment indicators exist. Application of judgment is required in determining whether an impairment test is warranted. The determination of recoverable amounts of any given asset is subject to significant estimates regarding such issues as timing and magnitude of cash flows and appropriate discount rates.

Determination of cash generating units ("CGUs")

Significant judgement is involved in determining the smallest group of assets that generate independent cash flows. Management has determined the Corporation currently operates one CGU which is land-based contract drilling. Prior to the sale of directional drilling operations, the Corporation had two identifiable CGU's and thus two segments. Subsequent to the sale, only one CGU and one segment remain, as such, no segmented information is presented. Directional drilling operations have been presented as discontinued operations for the 2019 and 2018 fiscal years in Note 6.

Share-based payments

Share-based payments are subject to fair value estimates using the Black-Scholes model. This model uses significant assumptions such as volatility, interest rates, and expected life.

Accounts receivable

The Corporation is subject to credit risk on accounts receivable balances and assesses the recoverability of accounts receivable on an ongoing basis. Assessing accounts receivable for impairment involves significant judgement and uncertainty, including estimates of future events. Changes in circumstances underlying these estimates may result in the Corporation recognizing an additional allowance against accounts receivable.

Business combinations & goodwill

Refer to the accounting policy for business combinations in Note 3(g) included in the Corporation's significant accounting policies for a detailed discussion of this.

Convertible debentures

The Corporation's debentures are non-derivative financial instruments that create a financial liability for the Corporation and grant an option to the holder of the instrument to convert it into common shares of the Corporation. The issuance of the convertible debentures required management to make estimates to determine the fair value of the liability and equity components. The liability component of the debentures is initially recorded at the fair value of a similar liability that does not have a conversion option. Estimates include the interest rate for debt with similar terms with no conversion feature and includes assumptions about sector risk, entity size, and entity credit quality. The equity component is recognized initially, net of deferred income taxes, as the difference between gross proceeds and the fair value of the liability component. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. Subsequent to initial recognition, the liability component of the debentures is measured at amortized cost using the effective interest method and is accreted each period, such that the carrying value will equal the principal amount outstanding at maturity. The equity component is not re-measured. The carrying amounts of the liability and equity components of the debentures are reclassified to shareholders' capital on conversion to common shares.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and cash equivalents

Cash and cash equivalents are comprised of deposits held in a bank and highly liquid investments having original terms to maturity of 90 days or less.

(b) Financial instruments

Guidance under IFRS 9 does not affect the Corporation's classification, measurement, and recognition of financial assets and financial liabilities. The Corporation does not have any hedging arrangements. The impairment model under IFRS 9 requires the recognition of impairment provisions based on expected and incurred credit losses rather than only incurred credit losses. The Corporation applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of the lifetime expected credit loss model to its trade accounts receivable. Lifetime expected credit losses are the result of all possible default events over the expected life of the financial instrument.

Classification

The Corporation classifies its financial assets in the following two measurement categories: (1) those to be measured subsequently at fair value (either through other comprehensive income (loss), or through profit or loss, and (2) those to be measured at amortized cost. The classification depends on the Corporation's business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. The Corporation reclassifies financial assets when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Corporation measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Subsequent measurement of financial assets depends on the Corporation's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Corporation classifies its financial assets:

- **Amortized cost:** Assets that are held for the collection of contractual cash flows where those cash flows solely represent payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in profit or loss.
- **Fair value through other comprehensive income:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows solely represent payments of principal and interest, are measured at fair value through other comprehensive income. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss and recognized in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains or losses and impairment expenses are presented as a separate line item in profit or loss.
- **Fair value through profit or loss:** Assets that do not meet the criteria for amortized cost or fair value through other comprehensive income are measured at fair value through profit or loss. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented net within other gains or losses in the period in which it arises.

Financial assets and financial liabilities are recognized when the Corporation becomes a party to the contractual provisions of the instrument. The Corporation derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Corporation has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

(d) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in income or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

Current tax is the expected tax payable or receivable on the taxable income or loss 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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, 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. A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(e) Share-based payment transactions

The Corporation has an employee stock option plan that provides all option holders the right to purchase common shares for the options exercised. The Corporation follows the fair value method for accounting, using the Black-Scholes option pricing model, whereby compensation expense is recognized for the stock options on the date of grant and amortized over the option's vesting period. Share-based payment arrangements in which the Corporation receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Corporation.

(f) Earnings per share

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the income or loss attributable to ordinary shareholders of the Corporation by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated using the treasury stock method by adjusting the income or loss attributable to ordinary shareholders and the weighted average number of common shares outstanding based on the assumption that any proceeds obtained on exercise of stock options and warrants would be used to purchase common shares at the average market price during the period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Basis of consolidation

Business combinations and goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Corporation, liabilities incurred by the Corporation to the former owners of the acquiree and the equity interests issued by the Corporation in exchange for control of the acquiree. Acquisition-related costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are recognized in profit or loss as incurred.

The Corporation measures goodwill as the fair value of the consideration transferred plus the recognized amount of any non-controlling interest in the acquiree, less the net recognized fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in income or loss.

The acquired assets and assumed liabilities are recognized at fair value on the date the Corporation effectively obtains control. The measurement of the assets and liabilities acquired in each business combination is based on the information available on the acquisition date. The estimate of fair value of the acquired intangible assets (including goodwill), property and equipment and other assets and the liabilities assumed at the date of acquisition as well as the useful lives of the acquired intangible assets and property and equipment is based on assumptions estimating the fair value of these items.

Foreign currency translation

The financial statements for the Corporation's subsidiaries are prepared using each functional currency. The functional currency is the currency of the primary economic environment in which an entity operates. The presentation and functional currency of the parent company is Canadian dollars. Assets and liabilities of foreign operations are translated into Canadian dollars at the market rates at the balance sheet date. Operating results are translated at the average rates for the period. Exchange differences arising on the consolidation of the net assets of foreign operations are recorded in other comprehensive income (loss). Foreign currency transactions are translated in the functional currency using exchange rates prevailing at the transaction date.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the statement of net loss and comprehensive loss.

Consolidation

Subsidiaries are all entities (including structured entities) over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation. They are de-consolidated from the date on which control ceases. Intercompany transactions, balances and unrealized gains on transactions between companies are eliminated.

(h) Property and equipment

Recognition and measurement

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition of assets. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use and borrowing costs on qualifying assets.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment.

Depreciation

Depreciation is calculated based on the cost of an asset less its residual value.

Depreciation is recognized in income or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Corporation will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

| | Expected life | Salvage value | Basis of depreciation |
|--------------------------------|----------------------|----------------------|------------------------------|
| Rigs and related equipment | 3 - 15 years | 10% - 20% | straight-line |
| Machinery and other equipment | 5 - 7 years | 10% - 20% | straight-line |
| Vehicles | 5 years | 20% | straight-line |
| Office furniture and equipment | 3 years | 10% | straight-line |

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

(i) Inventory

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is based on the average cost of the item and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventory and work in progress, cost includes direct production overheads.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Inventory spares and consumables are charged to operating expenditures as items are sold or consumed at the average cost of the item.

(j) Revenue recognition

The Corporation's revenue policy is that revenue is recognized when there is persuasive evidence that it is probable that the economic benefits associated with a service provided will flow to the entity, the amount of revenue can be measured reliably, collection is reasonably assured and the costs incurred and costs to complete the transaction can be measured reliably.

In compliance with IFRS 15, the Corporation recognizes revenue when a performance obligation is satisfied by transferring promised goods or services to a customer and the amount recorded is measured at the fair value of the consideration received. The Corporation's standard drilling rig contract includes performance obligations to provide drilling services and rig equipment, which are satisfied over time. Once determined, the transaction price will be allocated to each performance obligation based on stand-alone selling prices. The Corporation recognizes revenue daily, based on agreed-upon rates in each contract and on the daily activity of the rig. As such, there will be no unfulfilled performance obligations.

The Corporation's services are generally sold based upon contracts that include fixed or determinable prices based upon daily, hourly or job rates. The Corporation also generates revenue from the purchase and sale of oil and gas service-related equipment to third parties.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Corporation's contracts contain both a lease and a service element. IFRS 15 requires revenue from both the service and lease elements related to customer contracts to be presented separately. Revenue from subleases are presented as other income in the consolidated statements of comprehensive income (loss).

| | Year ended December 31, | |
|-------------------------------------|-------------------------|---------------------|
| | 2019 | 2018 ⁽¹⁾ |
| Contract drilling rig services | 11,615 | 8,152 |
| Contract drilling rig lease revenue | 12,082 | 7,876 |
| Total revenue | 23,697 | 16,028 |

⁽¹⁾ The comparative period has been restated to reflect discontinued operations as discussed in Note 6.

(k) Impairments

Financial assets

A financial asset not carried at fair value through income or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. In assessing collective impairment, the Corporation uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in income or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through income or loss.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together 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 group of assets.

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 income or loss. Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. In respect of other assets, impairment losses recognized in prior periods are 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 depreciation or amortization, if no impairment loss had been recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Finance income and finance costs

Finance income comprises interest from funds invested. Interest income is recognized as it accrues in income or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in income or loss using the effective interest method.

(m) Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segments' operating results are reviewed regularly by key management personnel to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to key management personnel include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of corporate assets (primarily the Corporation's head office), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Subsequent to the sale, only one CGU and one segment remain, as such no segmented information is presented. Directional drilling operations have been presented as discontinued operations for the 2019 and 2018 fiscal years in Note 6.

(n) Assets held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amounts will be recovered through a sale transaction rather than through continuing use. This condition is met when the sale is highly probable, and the asset is available for immediate sale in its present condition.

Non-current assets and disposal groups are classified and presented as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and:

- the assets or disposal groups are a major line of business or geographical area of operations;
- the assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- the assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

The assets or disposal groups that meet these criteria are measured at the lower of the carrying amount and fair value less cost of disposal, with impairments recognized in the consolidated statement of comprehensive income (loss). An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to dispose. Non-current assets held for sale are presented separately in current assets and liabilities within the consolidated statements of financial position. Assets held for sale are not depreciated, depleted or amortized. The comparative period consolidated statement of financial position is not restated.

The results of discontinued operations are shown separately in the consolidated statements of comprehensive income (loss) and consolidated statements of cash flows and comparative figures are restated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Lease assets and obligations

Lease assets

The Corporation has lease agreements for items including office space and office equipment which qualify as leased assets under IFRS 16.

At inception, the Corporation assesses whether a contract is a lease based on whether the contract conveys the right to control the use of an underlying asset for a period of time in exchange for consideration. The Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

Leases under which the Corporation is a lessee are recognized as a right-of-use asset and a corresponding lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, initial direct costs incurred, estimated costs to restore the underlying asset, and any lease incentives received.

The right-of-use asset is depreciated on a straight-line basis over the estimated useful life of the asset or the lease term, whichever is shorter.

Lease obligations

The lease liability includes the net present value of fixed payments, variable lease payments arising from a change in an index or rate, amounts expected to be payable under a residual value guarantee, the exercise price of a purchase option if the Corporation is reasonably certain to exercise that option, lease payments in an optional renewal period if the Corporation is reasonably certain to exercise an extension option, and penalties for terminating the lease, unless there is reasonable certainty that the Corporation will not terminate the lease early. These payments are discounted using the Corporation's incremental borrowing rate when the rate implicit in the lease is not available. The lease payments are allocated between the liability and finance costs which are charged to net earnings over the lease term.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the amount expected to be payable under a residual value guarantee, or if there is a change in the assessment of whether the Corporation will exercise a purchase, extension or termination option.

As described in Note 3(p), as at January 1, 2019, the date of transition, the Company's incremental borrowing rate was based on the terms of its operating loan. Payments made related to the lease obligations are allocated between finance costs and the reduction of the outstanding lease obligations. The lease obligations are included in Note 8.

Finance costs are allocated to each period during the lease term using the effective interest rate method. Lease modifications, where the scope changes in exchange for additional or reduced corresponding consideration, are accounted for as a separate lease. For a lease modification that is not a separate lease or where the change in consideration is not correlated with a change in the scope of the lease, at the effective date of the lease modification, the Company will remeasure the lease liability using the Company's incremental borrowing rate, with a corresponding adjustment to the right of use asset. The lease term includes the non-cancellable period of the lease agreement and periods covered by any option to renew, where it is reasonably certain that the option will be exercised.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Leases that have terms of less than one year or leases on which the underlying asset is of low value are recognized as an expense in profit or loss on a straight-line basis over the lease term.

As a lessor, the Corporation assesses at inception whether a lease is a finance or operating lease. Where the Corporation transfers substantially all of the risk and rewards incidental to ownership of the underlying asset, the lease is classified as a finance lease and the Corporation recognizes a receivable at an amount equal to the net investment in the lease, which is the present value of the aggregate of lease payments receivable. If substantially all the risks and

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

rewards of ownership of the asset are not transferred, the lease is classified as an operating lease and the Corporation recognizes the lease payments received on a straight-line basis over the lease term as other income.

(p) Recent pronouncements and application of new and revised IFRS

Standards adopted in the year:

Adoption of IFRS 16

Effective January 1, 2019, the Corporation adopted IFRS 16 - Leases using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information and applies the standard prospectively. Under IAS 17, the Corporation determined all of its leases to be operating leases and as such there were no asset or liability values assigned to these leases on the consolidated statements of financial position as at December 31, 2018.

The Corporation is using the following practical expedients permitted under the new standard:

- Applying a single discount rate to a portfolio of leases with similar characteristics; and
- Accounting for lease payments as an expense and not recognizing a right-of-use asset if the underlying asset is of a low dollar value (less than \$5) or is short term in nature

The impacts of the adoption of IFRS 16 as at January 1, 2019 are as follows:

| | As reported at December 31, 2018 | Effect of adopting IFRS 16 - Leases | Restated balance at January 1, 2019 |
|-------------------------------------|-------------------------------------|--|--|
| Assets | | | |
| Non-Current Assets | | | |
| Right-of-use assets | - | 1,626 | 1,626 |
| Total Assets | - | 1,626 | 1,626 |
| Liabilities | | | |
| Current Liabilities | | | |
| Lease liabilities - current portion | - | 476 | 476 |
| | - | 476 | 476 |
| Non-current liabilities | | | |
| Lease liabilities | - | 1,150 | 1,150 |
| | - | 1,150 | 1,150 |
| Total Liabilities | - | 1,626 | 1,626 |

Lease liabilities

On adoption of IFRS 16, the Corporation recognized lease liabilities in relation to leases which had previously been classified as operating leases under IAS 17. Under the new standard, these leases have been measured at the present value of the remaining lease payments, including extension options where applicable, discounted using the Corporation's incremental borrowing rate at January 1, 2019 of 4.8%. Low-value leases were excluded. Total lease liabilities of \$1,626 were recorded as at January 1, 2019, of which \$476 was the current portion.

Right-of-use assets

The associated right-of-use assets were measured at the amount equal to the lease liabilities on January 1, 2019.

Sublease contracts

On transition, the Corporation reassessed the classification of its sublease contracts previously classified as operating leases under IAS 17. The Corporation concluded that the leases did not transfer substantially all of the risks and rewards

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

incidental to ownership of the underlying assets and identified the leases as operating leases. The Corporation accounts for its interests in the head leases as right-of-use assets and the subleases as operating leases.

For the year ended December 31, 2019, the Corporation recorded other income from sublease contracts of \$123 (2018 - \$18).

Reconciliation of commitments to lease liability

The following reconciles the commitments at December 31, 2018 to the Corporation's lease liabilities at January 1, 2019:

| | January 1, 2019 |
|--|-----------------|
| Operating lease commitments at December 31, 2018 | 957 |
| Sublease contracts | 162 |
| Operating costs | (98) |
| Option to exercise lease extension | 789 |
| Gross lease liabilities at January 1, 2019 | 1,810 |
| Effect of discounting | (184) |
| Lease liabilities at January 1, 2019 | 1,626 |

New and revised IFRS that have been issued but are not yet effective:

The following new interpretations and amendments have been issued but applicable for annual periods beginning on or after January 1, 2020. The Corporation is in the process of completing its assessment but does not expect the standard to have a material impact on the consolidated financial statements.

IAS 12, Income Taxes

IAS 12 currently provides guidance on current and deferred tax assets and liabilities, however uncertainty may exist on how tax law applies to certain transactions.

IAS 1, Presentation of Financial Statements

IAS 1 has amended the definition of material to "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The previous definition of material from IAS 1 was "omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor."

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors

IAS 8 amended the definition of material to reflect the changes outlined above under IAS 1.

IFRS 3, Business Combinations

The definition of a business has been amended in IFRS 3 to be "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities." The previous definition under IFRS 3 was "an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants."

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Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

| | December 31, 2019 | December 31, 2018 |
|---|-------------------|-------------------|
| Cash and cash equivalents | 321 | 115 |
| Restricted cash | - | 100 |
| Total cash and cash equivalents and restricted cash | 321 | 215 |

Cash and cash equivalents are comprised of cash in the bank, as well as short term investments that mature in 90 days or less.

Restricted cash is held with a financial institution as security for the pre-existing corporate credit card facility in the maximum amount of \$100. As at December 31, 2019, the restricted cash balance was nil (December 31, 2018 – \$100).

5. BUSINESS COMBINATIONS

D2 Drilling Ltd.

On January 19, 2018, the Corporation acquired all the issued and outstanding shares of D2 Drilling Ltd. ("D2"), a private corporation which owned and operated one heavy telescopic double drilling rig in the Weyburn/Estevan area of southeast Saskatchewan and total working capital of \$530.

Total consideration for D2 was \$3,530, which comprised of \$530 cash and 6,667 common shares at \$0.45 per share, being the Corporation's share price on the closing date of the acquisition.

| | |
|-----------------------------|------------------|
| Balance at acquisition date | January 19, 2018 |
| Shares issued | \$3,000 |
| Cash paid | 530 |
| Total consideration | 3,530 |

| | |
|---------------------------------------|------------------|
| Assets and liabilities acquired | January 19, 2018 |
| Cash | 7 |
| Account receivable | 550 |
| Prepays | 9 |
| Property and equipment | 3,000 |
| Accounts payable | (36) |
| Total assets and liabilities acquired | 3,530 |

The Corporation incurred costs related to the acquisition of \$141 relating to due diligence, external legal fees, and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income (loss) in 2018.

The acquisition contributed revenue of \$82 and incurred \$278 in loss before tax (excluding interest and transaction costs) from the date of acquisition to December 31, 2018. The Corporation estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately \$217 and loss before tax would have been approximately \$263 for the year ended December 31, 2018.

Red Dog Drilling Assets

On May 24, 2018, the Corporation acquired the land-based drilling rigs owned by Red Dog Drilling Inc. ("Red Dog") which included two heavy telescopic double drilling rigs, one cantilever triple drilling rig, and one cantilever double drilling rig.

Total consideration for the assets of Red Dog was \$5,511, which comprised of \$4,992 cash and 1,573 common shares at \$0.33 per share, being the Corporation's share price on the closing date of the acquisition. As part of the acquisition, the Corporation did not acquire any of Red Dog's debt or working capital.

STAMPEDE DRILLING INC.**(In thousands of Canadian dollars except for per share amounts)****Notes to the Consolidated Financial Statements**
December 31, 2019 and 2018**5. BUSINESS COMBINATIONS (continued)**

| | |
|-----------------------------|--------------|
| Balance at acquisition date | May 24, 2018 |
| Shares issued | \$519 |
| Cash paid | 4,992 |
| Total consideration | 5,511 |
| | |
| May 24, 2018 | |
| Total assets acquired | 5,511 |

The Corporation incurred costs related to the acquisition of \$224 relating to due diligence, external legal fees, and other related transaction costs. These costs have been included as transaction costs in the consolidated statement of comprehensive income (loss).

The acquisition contributed revenue of \$1,416 and \$179 in net income before tax (excluding interest and transaction costs) from the date of acquisition to December 31, 2018. The Corporation estimates that had the acquisition occurred on January 1, 2018, the increase in revenue would be approximately \$2,510 and income before tax would have been approximately \$317 for the year ended December 31, 2018.

STAMPEDE DRILLING INC.**(In thousands of Canadian dollars except for per share amounts)****Notes to the Consolidated Financial Statements****December 31, 2019 and 2018****6. DISCONTINUED OPERATIONS AND DISPOSAL**

On April 3, 2019, the Corporation announced the discontinuation of its directional drilling division. As part of this process, the Corporation presented the results of the directional drilling operations using the guidance under "IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations", as discontinued operations on the consolidated statements of comprehensive income (loss) and the consolidated statements of cash flows for the current and comparative periods.

During the second quarter, the Corporation disposed of its directional drilling assets to an independent, third-party purchaser. In accordance with the disposal, property and equipment with a net book value of \$912 was sold on May 27, 2019 for gross proceeds of \$1,500 which resulted in recognition of a gain on disposition of \$588, which was classified within discontinued operations.

The following sets forth the operating results and cashflows from discontinued operations for the years ended December 31, 2019 and 2018:

| <i>(Stated in thousands of Canadian dollars, except per share amounts)</i> | Year ended December 31, | |
|---|-------------------------|----------|
| | 2019 | 2018 |
| | \$ | \$ |
| Revenue | 1,837 | 4,845 |
| Cost of sales: | | |
| Direct operating expenses | 1,020 | 4,062 |
| Depreciation of property and equipment | - | 1,003 |
| | 1,020 | 5,065 |
| Income (loss) from operations | 817 | (220) |
| Expenses | | |
| Administrative expenses | 187 | 981 |
| Salaries, benefits, and severance | 167 | 1,086 |
| Share (recovery) based payments | (15) | 170 |
| Depreciation of right-of-use assets | 72 | - |
| Impairment of assets | - | 1,955 |
| | 411 | 4,192 |
| Net income (loss) before interest and other income (expense) | 406 | (4,412) |
| Gain from disposition of property and equipment | 588 | 128 |
| Gain from equipment lost in hole | 307 | 634 |
| Finance costs | (12) | - |
| Other income | 64 | 27 |
| Foreign exchange loss | - | (83) |
| Non-recurring restructuring charges | (351) | (330) |
| Net Income (loss) - discontinued operations | 1,002 | (4,036) |
| Basic and diluted income (loss) per share from discontinued operations | \$0.01 | (\$0.03) |

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Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

6. DISCONTINUED OPERATIONS AND DISPOSAL (continued)

| | For the years ended December 31, | |
|---|----------------------------------|--------------|
| (Stated in thousands of Canadian dollars) | 2019 | 2018 |
| | \$ | \$ |
| Cash flows from the following activities: | | |
| Operating activities | | |
| Net income (loss) from continuing operations | 1,002 | (4,036) |
| Adjustments for: | | |
| Share based payments | (15) | 170 |
| Depreciation | 72 | 1,003 |
| Gain on disposition of property and equipment | (895) | (128) |
| Gain on equipment lost in hole | - | (634) |
| Finance costs | 12 | - |
| Impairment of assets | - | 1,955 |
| Changes in non-cash working capital items | (657) | 1,624 |
| Net operating cash flow - discontinued operations | (481) | (46) |
| Financing activities | | |
| Finance lease principal payments | (77) | - |
| | (77) | - |
| Investing activities | | |
| Additions to property and equipment | - | (339) |
| Proceeds from equipment lost in hole | 317 | 756 |
| Proceeds from disposition of property and equipment | 1,500 | 160 |
| Changes in non-cash working capital items | 724 | 646 |
| Net investing cash flows - discontinued operations | 2,541 | 1,223 |
| Change in cash and cash equivalents | 1,983 | 1,177 |

7. RIGHT-OF-USE ASSETS

| | Total |
|--|-------|
| Cost | |
| Balance at January 1, 2019 (Note 3(p)) | 1,626 |
| Effect from lease remeasurement | (161) |
| Disposal | (530) |
| Balance at December 31, 2019 | 935 |
| Accumulated depreciation | |
| Balance at January 1, 2019 (Note 3(p)) | - |
| Depreciation | 355 |
| Disposal | (72) |
| Balance at December 31, 2019 | 283 |
| Carrying amounts | |
| Balance at January 1, 2019 | 1,626 |
| Balance at December 31, 2019 | 652 |

Subsequent to January 1, 2019, the Corporation remeasured a lease due to changes in the terms of the lease agreement. This resulted in a decrease to the right-of-use asset as well as a corresponding decrease to lease liabilities. As part of the disposal transaction (Note 6), right-of-use assets previously used by the directional drilling division were assigned to the purchaser, with the purchaser assuming all rights and obligations under the lease.

STAMPEDE DRILLING INC.
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Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

8. LEASE LIABILITIES

The Corporation incurs lease payments related to corporate and field offices, entered into in coordination with specific business requirements which includes the assessment of the appropriate duration of the related leased assets. The Corporation has recognized lease liabilities measured at the present value of the remaining lease payments, except for leases of low-value assets which have been charged to direct operating and administrative expenses in the consolidated statements of comprehensive income (loss).

| | December 31, 2019 |
|---|-------------------|
| Balance at January 1, 2019 (Note 3 (p)) | 1,626 |
| Interest expense | 56 |
| Disposal | (465) |
| Effect from lease remeasurement | (161) |
| Lease payments | (386) |
| Balance at December 31, 2019 | 670 |
| Less: current portion | 241 |
| Ending balance - non-current portion | 429 |

Subsequent to January 1, 2019, the Corporation remeasured a lease due to changes in the terms of the lease agreement. This resulted in a decrease in the lease liability as a result of the decrease in the present value of the remaining lease payments.

As part of the disposal transaction (Note 6), lease liabilities related to right of use assets previously used by the directional drilling division were assigned to the purchaser, with the purchaser assuming all rights and obligations under the lease.

Amounts for leases short term in nature and low dollar value for December 31, 2019 are \$20 (December 31, 2018 - \$2).

9. EARNINGS PER SHARE

Basic and diluted earnings (loss) per share have been calculated based on the net loss divided by the weighted average number of common shares outstanding for the years ended December 31, 2019 and 2018 based on the following data:

| | Year ended December 31 | |
|--|------------------------|-----------|
| | 2019 | 2018 |
| Net loss from continuing operations | (1,247) | (88) |
| Net loss | (245) | (4,124) |
| Weighted average common shares | 131,851 | 130,541 |
| Diluted balance, end of period | 131,851 | 130,541 |
| Basic and diluted loss from continuing operations per common share | \$ (0.01) | \$ (0.00) |
| Basic and diluted loss per common share | \$ (0.00) | \$ (0.03) |

The weighted average diluted number of common shares outstanding excludes 6,447 stock options as at December 31, 2019 (December 31, 2018 - 2,660).

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Notes to the Consolidated Financial Statements
December 31, 2019 and 2018

10. PROPERTY AND EQUIPMENT

| | Rigs and related equipment | Directional drilling and related equipment | Machinery and other equipment | Office furniture and equipment | Total |
|--|----------------------------------|---|-------------------------------------|---|----------|
| Cost | | | | | |
| Balance at December 31, 2017 | 16,238 | 23,814 | 1,705 | 88 | 41,845 |
| Additions | 16,242 | 339 | 13 | 5 | 16,599 |
| Acquisitions | 8,807 | - | - | - | 8,807 |
| Disposals | (20) | (566) | (225) | - | (811) |
| Balance at December 31, 2018 | 41,267 | 23,587 | 1,493 | 93 | 66,440 |
| Additions | 9,578 | - | - | 2 | 9,580 |
| Reimbursement of capital | (651) | - | - | - | (651) |
| Disposals and transfers | (257) | (23,587) | (586) | (93) | (24,523) |
| Balance at December 31, 2019 | 49,937 | - | 907 | 2 | 50,846 |
| Accumulated depreciation and impairment | | | | | |
| Balance at December 31, 2017 | 293 | 20,441 | 387 | 88 | 21,209 |
| Depreciation for the period | 2,329 | 980 | 156 | 5 | 3,470 |
| Disposals | - | (413) | (16) | - | (429) |
| Impairment of assets | - | 1,852 | - | - | 1,852 |
| Balance at December 31, 2018 | 2,622 | 22,860 | 527 | 93 | 26,102 |
| Depreciation for the period | 3,865 | - | 125 | 1 | 3,991 |
| Disposals and transfers | (23) | (22,860) | (382) | (93) | (23,358) |
| Balance at December 31, 2019 | 6,464 | - | 270 | 1 | 6,735 |
| Carrying amounts | | | | | |
| Balance at December 31, 2018 | 38,645 | 727 | 966 | - | 40,338 |
| Balance at December 31, 2019 | 43,473 | - | 637 | 1 | 44,111 |

Included in property and equipment at December 31, 2019 are assets under construction of \$3,695 (December 31, 2018 - \$1,894) which will not depreciate until placed into service.

The reimbursement of capital relates to a provincial PST refund for purchases and rig equipment in Saskatchewan.

The Corporation reviews the carrying value of its assets at each reporting period for indicators of impairment in accordance with the accounting policy in Note 3(k). The Corporation currently has one CGU, contract drilling rigs. For the year ended December 31, 2019, the Corporation completed its assessment and the recoverable value of the property and equipment of the Corporation's CGU resulting in a determination of no impairment for the Corporation's property and equipment.

During the year ended December 31, 2018, the Corporation identified the horizontal and directional drilling CGU carrying amount exceeded the fair value amount using the market approach. The Corporation determined that continued low utilization rates and the corresponding negative cash flows related to directional drilling assets were an indicator of impairment. As a result, an impairment of \$1,852 was recorded as a reduction in directional drilling property and equipment for the year ended December 31, 2018. A \$103 reduction in inventory related to the corresponding directional drilling equipment was also identified for impairment for the year ended December 31, 2018.

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11. GOODWILL

| | December 31, 2019 | December 31, 2018 |
|---------------------------------------|-------------------|-------------------|
| Balance - beginning and end of period | 461 | 461 |

Goodwill by definition has no useful life and therefore is not amortized but is tested for impairment at the end of each year. The Corporation assesses impairment at the CGU level. As at December 31, 2019, the total amount of goodwill has been allocated to the contract drilling rig CGU.

The recoverable amount for the contract drilling rig CGU (including goodwill) was based on a value in use calculation by estimating the future cash flows that would be generated from the continuing operations and utilizing the following key assumptions:

- A pre-tax discount rate of approximately 16.8%, at December 31, 2019, which considered the industry average cost of capital, past experience, asset specific risk and anticipated debt to equity levels.
- Five year forecasted cash flows, taking into consideration industry conditions, actual 2019 operating results and past experience. Cash flow projections for 2020 to 2024, based on a 6% growth rate having assumed a gradual recovery in activity levels for oil field related services in the WCSB.
- A terminal value was used assuming no annual growth rate for cash flows through the remainder of the CGU's life.
- 10% decrease in the forecasted cash flows would decrease the recoverable amount of the CGU by \$5,529 and would not create an impairment.
- 1% increase change in the pre-tax discount rate would decrease the recoverable amount of the CGU by \$3,216 and would not create an impairment.

For the year ended December 31, 2019, the Corporation determined there was no impairment in the contract drilling CGU.

12. LOANS AND BORROWINGS

On December 20, 2018, the Corporation established a new demand operating revolving loan facility with a Canadian chartered bank which provides for a total credit capacity of up to, but not exceeding, a maximum of \$15,000 comprised of the following margin requirements:

- (i) 75% of Acceptable Receivables from Non-Investment Grade Customers; plus
- (ii) 85% of Acceptable Receivables from Investment Grade Customers and Major Customers; plus
- (iii) 50% of the net orderly liquidation value of capital assets and equipment; less
- (iv) Potential Prior Ranking Claims; less Accounts Receivables of the Corporation that have been sold or factored, whether to the Bank or another third party.

The operating loan facility bears interest at the lender's prime rate plus 85 basis points and is secured by a general first ranking security agreement on all assets, property, and undertakings of the Corporation.

The operating loan facility is subject to the following financial covenants (compared to actual calculation at period end):

| | Covenant | December 31, 2019 |
|--|-------------------|-------------------|
| Interest Coverage Ratio ⁽¹⁾ | 3.00:1.00 or more | 8.47:1.00 |
| Net Funded Debt to EBITDA Ratio ⁽²⁾ | 3.00:1.00 or less | 1.81:1.00 |

EBITDA is calculated as net income plus interest expense, income taxes, depreciation and amortization, other non-cash charges, transaction costs not to exceed \$1,500, cash dividends, and losses attributable to minority equity investments, less non-cash gains, and income attributable to minority equity investments. EBITDA shall be calculated on a trailing twelve-month basis:

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12. LOANS AND BORROWINGS (continued)

- (1) Interest Coverage is calculated as the ratio of EBITDA as at such date to interest expense for the 12 months ending as at such date.
- (2) Net Funded Debt to EBITDA is calculated as total interest-bearing indebtedness on a consolidated basis excluding cash and cash equivalents held by the bank and loans which have been subordinated and postponed in favour of the bank to EBITDA.

As at December 31, 2019, \$8,482 (December 31, 2018 - \$3,492) was drawn on the operating loan facility and the Corporation was in compliance with all covenants related to its operating loan facility.

13. CONVERTIBLE DEBENTURES

| | Number of convertible debentures | Liability component (\$,000) | Equity component (\$,000) |
|------------------------------|--|------------------------------------|---------------------------------|
| Balance at December 31, 2017 | 2,612 | 2,297 | 265 |
| Accretion of discount | - | 125 | - |
| Balance at December 31, 2018 | 2,612 | 2,422 | 265 |
| Accretion of discount | - | 108 | - |
| Balance at December 31, 2019 | 2,612 | 2,530 | 265 |

The debentures mature on October 31, 2020 and bear interest at a rate of 10% per annum to be paid semi-annually, in arrears on December 31 and June 30 of each year. They are convertible into common shares in the capital of the Corporation at a price of \$0.49 per common share based on a conversion premium of approximately 25% to the last trade on the TSX-V on October 6, 2017.

The principal amount of the debentures are convertible at the option of the holder at any time prior to the close of business on the earlier of (i) the business day immediately preceding the Maturity Date or, (ii) if called for redemption, on the business day immediately preceding the date fixed for redemption, or (iii) if called for repurchase pursuant to a transaction resulting in any person or persons acquiring voting control or direction over at least 50% of the aggregate voting rights attached to the common shares then outstanding, on the business day immediately preceding the payment date.

The liability component of the debentures was recognized initially at the fair value of a similar liability that does not have an equity conversion option, which was calculated based on a market interest rate of 14.5%. The difference between the principal amount of the debentures and the fair value of the liability component was recognized in shareholders' equity, net of deferred income taxes.

Prior to October 31, 2019, the debentures may be redeemed by the Corporation, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption, provided that the weighted average trading price of the common shares on the TSXV, for the 30 consecutive trading days ending five trading days prior to the date on which notice of redemption is provided is at least 125% of the conversion price. On or after October 31, 2019, and prior to the Maturity Date, the debentures may be redeemed by the Corporation, from time to time, on not more than 60 days and not less than 40 days prior notice of redemption at a redemption price equal to the principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption.

At December 31, 2019, the Corporation has not redeemed, in whole or in part, any of the convertible debentures.

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14. SHARE CAPITAL

Authorized

The authorized share capital of the Corporation consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares, issuable in series, none of which are issued or outstanding as of December 31, 2019.

Authorized and Issued Common Shares

| | Number | Amount (\$) |
|---|---------|-------------|
| Balance as at December 31, 2017 | 123,079 | 58,448 |
| Issued shares pursuant to D2 Drilling Inc. acquisition | 6,667 | 3,000 |
| Issued shares pursuant to Red Dog Drilling Inc. acquisition | 1,573 | 519 |
| Issued shares pursuant to the exercise of stock options | 296 | 48 |
| Stock option value of exercised options | - | 39 |
| Balance as at December 31, 2018 | 131,615 | 62,054 |
| Issued shares pursuant to the exercise of stock options | 431 | 70 |
| Stock option value of exercised options | - | 60 |
| Balance as at December 31, 2019 | 132,046 | 62,184 |

On January 19, 2018, the Corporation acquired all the issued and outstanding common shares of D2 and as partial consideration issued 6,667 common shares of the Corporation at a deemed price of \$0.45 per share, being the Corporation's share price on the closing date of the acquisition.

On May 24, 2018, the Corporation acquired the land-based drilling rigs owned by Red Dog and as partial consideration issued 1,573 common shares of the Corporation at a deemed price of \$0.33 per share, being the Corporation's share price on the closing date of the acquisition.

Contributed surplus

Contributed surplus is comprised solely of stock-based compensation expense and stock option exercises.

Accumulated other comprehensive income

Accumulated other comprehensive income is the cumulative translation account that comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

15. STOCK BASED COMPENSATION

Stock options

The Corporation has adopted an incentive stock option plan, which provides that the Board of Directors of the Corporation from time to time, at its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and consultants to the Corporation, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares.

The options are exercisable for a period of up to five years from the date of grant. Vesting terms are determined at the time of grant by the Board of Directors. The options granted up to June 30, 2017 for directors, officers, employees, and consultants have a vesting period of one third a year from the date of grant, another one third two years from the date of grant and the remaining third vesting three years from the date of grant. Once vested, the options can be exercised and have an expiration date a year from the vesting date. The options granted subsequent to December 3, 2017 carry a five-year term and are subject to vesting one quarter on each of the first, second, third and fourth anniversaries of the date of the grant or carry a five-year term and are subject to vesting as to one quarter on the day of the grant and one quarter on each of the first, second and third anniversaries of the date of the grant.

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15. STOCK BASED COMPENSATION (continued)

A summary of the Corporation's outstanding stock options as at December 31, 2019 and December 31, 2018 and the changes for the period ended, is as follows:

| Stock Options | Outstanding | Weighted Average Exercise Price |
|-----------------------------------|-------------|------------------------------------|
| Outstanding at December 31, 2017 | 6,599 | \$ 0.29 |
| Grants - Employees and directors | 435 | \$ 0.32 |
| Exercises | (296) | \$ 0.16 |
| Expiries - Agents | (3,111) | \$ 0.31 |
| Expired | (514) | \$ 0.44 |
| Forfeited | (453) | \$ 0.22 |
| Outstanding at December 31, 2018 | 2,660 | \$ 0.28 |
| Granted - Employees and directors | 4,835 | \$ 0.19 |
| Exercised | (431) | \$ 0.16 |
| Expired | (155) | \$ 0.33 |
| Forfeited | (462) | \$ 0.25 |
| Outstanding at December 31, 2019 | 6,447 | \$ 0.22 |

Total Outstanding

| Range of Exercise Prices | Number | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
|--------------------------------|--------|------------------------------------|---|
| <u>Employees and directors</u> | | | |
| \$0.12 to \$0.18 | 4,254 | \$ 0.18 | 4.09 |
| \$0.22 to \$0.27 | 883 | \$ 0.25 | 3.82 |
| \$0.30 to \$0.41 | 1,310 | \$ 0.36 | 3.03 |
| | 6,447 | \$ 0.22 | 3.84 |

Exercisable

| Range of Exercise Prices | Outstanding | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) |
|--------------------------------|-------------|------------------------------------|---|
| <u>Employees and directors</u> | | | |
| \$0.12 to \$0.18 | 1,203 | \$ 0.17 | 3.51 |
| \$0.22 to \$0.27 | 170 | \$ 0.26 | 3.08 |
| \$0.30 to \$0.41 | 780 | \$ 0.36 | 2.81 |
| | 2,153 | \$ 0.25 | 3.22 |

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15. STOCK BASED COMPENSATION (continued)

Share-based payments

For the year ended December 31, 2019, the Corporation recorded share-based payment expense of \$480 (2018 - \$76). The following assumptions were used for the Black-Scholes valuation of stock options:

| | 2019 | 2018 |
|---------------------------------------|---------------|---------------|
| Risk-free interest rate range | 1.33% - 1.59% | 2.02% - 2.18% |
| Expected term | 5.0 years | 5.0 years |
| Annualized volatility | 139% | 139% - 143% |
| Dividend rate | 0.00% | 0.00% |
| Forfeiture rate | 17.00% | 10.00% |
| Average fair value per option granted | \$0.20 | \$0.30 |

The expected volatility is determined based on weighted average historic prices for the Corporation's common shares.

16. FINANCIAL INSTRUMENTS

Capital management

The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern so that it can provide adequate returns for shareholders. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Corporation's management to sustain future development of the business. The Corporation defines capital as share capital, convertible debentures and working capital, which was \$56,738 at December 31, 2019 (December 31, 2018 – \$62,685).

The Corporation's risk exposures and the impact on the Corporation's financial instruments are summarized below:

Credit risk

The adoption of IFRS 9 requires an entity to estimate its expected credit loss for all trade accounts receivable even when they are not past due based on the expectation that certain receivables will be uncollectible. Based on the Corporation's assessment, an increase in the allowance for doubtful accounts was recorded, using the lifetime expected credit loss model. The expected credit loss rates are based on actual credit loss experience since inception.

The loss allowance provision for trade accounts receivable as at December 31, 2019 reconciles to the opening loss allowance provision as follows:

| | December 31, 2019 |
|-----------------------------------|-------------------|
| As at December 31, 2018 | 81 |
| Increase in credit loss allowance | 61 |
| As at December 31, 2019 | 142 |

Credit risk arises from the potential that one or more counterparties fail to meet their obligations. The Corporation is normally exposed to credit risk through its accounts receivable balances. The Corporation manages credit risk by assessing the creditworthiness of its customers before providing services and on an ongoing basis, as well as monitoring the amount and age of balances outstanding. The Corporation views credit risks on its accounts receivable as normal for the industry.

Substantially all of the Corporation's cash and cash equivalents are held by high credit quality financial institutions.

For the year ended December 31, 2019, the Corporation had four customers that comprised 35%, 14%, 11% and 11% of total revenue, compared to three customers that comprised 27%, 17%, and 13% of total revenue for the year ended December 31, 2018. For the accounts receivable balances outstanding at December 31, 2019, the Corporation had three customers that comprised 35%, 27% and 12% of the total balance as compared to three customers that comprised 40%, 14% and 9% of the total balance at December 31, 2018.

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16. FINANCIAL INSTRUMENTS (continued)

The Corporation's trade and other receivables aging is as follows:

| | December 31, 2019 | December 31, 2018 |
|---------------------------------|-------------------|-------------------|
| Within 30 days | 3,529 | 2,333 |
| 31 to 60 days | 1,319 | 1,977 |
| 61 to 90 days | 1,744 | 1,005 |
| Over 90 days | 471 | - |
| Accrued accounts receivable | 539 | - |
| Other receivables | 54 | - |
| Allowance for doubtful accounts | (142) | (81) |
| Accounts receivable | 7,514 | 5,234 |

As at December 31, 2019, approximately 6% of the Corporation's total accounts receivable balance was over 90 days. Based on historic payment behaviour and through understanding of underlying customers' ability to pay, the amounts are deemed collectible.

Liquidity risk

The Corporation's objective in managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due by maintaining sufficient cash to settle current liabilities and meet its anticipated working capital requirements. As at December 31, 2019, the Corporation had negative working capital of \$8,241 (December 31, 2018 – negative \$2,056). The Corporation's principal sources of liquidity are operating cash flows and its operating loan. The Corporation monitors its liquidity position on an ongoing basis and manages liquidity risk by regularly evaluating capital and operating budgets, forecasting cash flows and maintaining a sufficient credit facility to meet financing requirements.

The Corporation's trade and accrued payables were as follows:

| | December 31, 2019 | December 31, 2018 |
|---------------------|-------------------|-------------------|
| Accounts payable | 4,452 | 2,678 |
| Accrued liabilities | 494 | 1,522 |
| | 4,946 | 4,200 |

Depending on the credit terms of the trade payable, interest will be charged after a predetermined number of days from the date of the invoice. The Corporation has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

a) Interest Rate Risk

The Corporation is exposed to interest rate fluctuations on its operating loan facility which bears interest at floating market rates. For the year ended December 31 2019, if the prime interest rate increased/decreased by 1%, with all other variables held constant, the Corporation's net income (loss) would have increased/decreased by \$85. The Corporation has not entered into any interest rate swaps or other financial arrangements that mitigate the Corporation's exposure to interest rate fluctuations.

b) Foreign Currency Risk

The Corporation is exposed to foreign currency fluctuations on its financial instruments in relation to its U.S. dollar-denominated cash, accounts receivable and accounts payable. The Corporation monitors its foreign currency exposure and attempts to minimize the effect of fluctuations in the U.S. dollar by maintaining appropriate levels of cash and accounts receivable to offset corresponding U.S. dollar denominated accounts payable.

16. FINANCIAL INSTRUMENTS (continued)

c) Fair Value

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments depending on the observable nature of inputs employed in the measurement:

Level 1: fair value measurements are based on unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is considered to be a market where transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices. Level 2 valuations are based on inputs including quoted forward prices, time value, volatility factors and broker quotes that can be observed or corroborated in the market for the entire duration of the derivative instrument.

Level 3: fair value measurements are based on unobservable information or where the observable data does not support a significant portion of the instrument's fair value.

The carrying amount of cash and cash equivalents, trade and other receivables, operating line, and accounts payable and accrued liabilities approximates their fair value due to their short-term nature. At December 31, 2019, the Corporation valued its cash and cash equivalents using Level 1 inputs. The Corporation does not have any Level 2 instruments. The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument.

As the debentures have not traded, the fair value of the debentures is \$2,612 as at December 31, 2019 (December 31, 2018 - \$2,612), based on the purchase price of \$1 per debenture.

17. FINANCE COSTS

Finance costs recognized in the consolidated statements of comprehensive income (loss) are comprised of the following:

| | Year ended December 31, 2019 | Year ended December 31, 2018 |
|------------------------------------|---------------------------------|---------------------------------|
| Interest on lease liabilities | 44 | - |
| Interest on operating loan | 271 | 19 |
| Interest on convertible debentures | 261 | 261 |
| Accretion on debentures | 108 | 126 |
| Finance costs | 684 | 406 |

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18. SUPPLEMENTAL CASH FLOW INFORMATION

The following is a summary of net change in non-cash working capital items for the years ended December 31, 2019 and 2018:

| | Years ended December 31, | |
|--|--------------------------|---------|
| | 2019 | 2018 |
| | \$ | \$ |
| Changes in non-cash working capital items: | | |
| Trade and other receivables | (2,564) | (2,782) |
| Inventory | - | 57 |
| Prepaid expenses and deposits | 35 | (102) |
| Accounts payable and accrued liabilities | 1,721 | 2,395 |
| Right-of-use assets and lease liabilities | (7) | - |
| Total | (815) | (432) |
| Relating to: | | |
| Operating activities | (1,947) | (1,566) |
| Investing activities | 1,132 | 1,134 |
| Total | (815) | (432) |

19. KEY MANAGEMENT COMPENSATION AND RELATED PARTY TRANSACTIONS

The key management personnel of the Corporation are those persons having authority and responsibility for planning, directing and controlling the activities of the Corporation, directly or indirectly. The key management compensation is as follows:

| | For the year ended December 31, | |
|---|---------------------------------|-------|
| | 2019 | 2018 |
| Short-term employee benefits | 1,452 | 1,162 |
| Share based payments | 253 | 118 |
| Total key management personnel compensation | 1,705 | 1,280 |

As at December 31, 2019, the Corporation has \$700 (December 31, 2018 - \$700) owing to related parties for the convertible debentures. During the year, the Corporation paid \$70 for interest on the convertible debentures to related parties (December 31, 2018 - \$70).

20. INCOME TAXES

The income tax expense for the year can be reconciled to the accounting profit as follows:

| | For the year ended December 31, | |
|---|---------------------------------|-------|
| | 2019 | 2018 |
| Net loss from continuing operations before income tax | (1,247) | (384) |
| Statutory rate | 27% | 27% |
| Expected income tax | (337) | (104) |
| <i>Effect on taxes resulting from:</i> | | |
| Non taxable / deductible items | 100 | 6 |
| Statutory and other rate differences | 769 | - |
| Transaction Costs | - | 45 |
| Prior period adjustments | 37 | 83 |
| Unrecognized deferred tax asset and other | (569) | (332) |
| Total income tax (recovery) | - | (302) |

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20. INCOME TAXES (continued)

The components of the net deferred income tax liability are as follows:

| | Recognized in statement of comprehensive income (loss) | Recognized through statement of financial position |
|---------------------------------|---|--|
| <i>Deferred tax assets</i> | | |
| Non-capital losses | | |
| Balance at December 31, 2018 | 1,332 | - |
| Additions | 972 | - |
| Balance at December 31, 2019 | 2,304 | - |
| Other | | |
| Balance at December 31, 2018 | - | - |
| Additions | 371 | - |
| Balance at December 31, 2019 | 371 | - |
| <i>Deferred tax liabilities</i> | | |
| Property and equipment | | |
| Balance at December 31, 2018 | (1,281) | - |
| Additions | (1,394) | - |
| Balance at December 31, 2019 | (2,675) | - |
| Other | | |
| Balance at December 31, 2018 | (51) | - |
| Additions | 51 | - |
| Balance at December 31, 2019 | - | - |

The components of unrecognized deferred tax assets are as follows:

| | For the year ended December 31, | |
|---------------------------------|---------------------------------|-------|
| | 2019 | 2018 |
| Non-capital losses | 7,877 | 7,492 |
| Other | 33 | 327 |
| Unrecognized deferred tax asset | 7,910 | 7,819 |

The Canadian non-capital losses of approximately \$38,500 (2018 - \$32,700) expire between 2031 and 2039. The US non-capital losses of approximately \$3,900 (2018 - \$4,300) expire between 2031 and 2039.

STAMPEDE DRILLING INC.**(In thousands of Canadian dollars except for per share amounts)****Notes to the Consolidated Financial Statements**
December 31, 2019 and 2018**21. COMMITMENTS**

The following table reflects the Corporation's commitments as of December 31, 2019:

| (000's CAD \$) | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|---------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| Operating loan | 8,482 | - | - | - | - | - |
| Convertible debenture repayment | 2,612 | - | - | - | - | - |
| Convertible debenture interest | 261 | - | - | - | - | - |
| Lease obligations | 274 | 114 | 114 | 114 | 114 | 19 |
| Trade and other payables | 4,946 | - | - | - | - | - |
| Total | 16,575 | 114 | 114 | 114 | 114 | 19 |

As of December 31, 2019, the Corporation has committed \$0 (December 31, 2018 - \$1,029) related to maintenance capital.

22. SUBSEQUENT EVENTS

First quarter 2020 global events have significantly impacted the global economy and downgraded the Corporation's near-term expectations of the energy industry. The spread of the COVID-19 virus in combination with OPEC's inability to maintain global oil supply during early March 2020 has significantly undermined commodity prices, customer cash flows and investor confidence. Further, the influence of these recent developments impact customers' capital spending budgets and their potential ability to pay for work completed on a timely basis.