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SPUR PETROLEUM LTD.
December 31, 2019 Annual Report

PRESIDENT'S MESSAGE

We are pleased to present our fourth quarter and annual report for the period ended December 31, 2019.

As I write this, we have just wrapped up a busy and successful drilling program. Production grew from about 10,000 barrels per day in September 2019 to over 18,000 barrels per day as of early March, with another 2,000 barrels per day of capacity that we have yet to bring on production. Existing wells have continued to hold up very well and I am ever-more confident of the remarkable scale and industry-leading economics of Spur's asset base.

Unfortunately, this operational performance is set against the worst macro-economic backdrop that I have seen in my career. The combination of the global economic impact of the COVID-19 virus and the oil price war between Saudi Arabia and Russia has driven oil prices down to below breakeven economics of new drilling for practically all North American oil plays, and even below breakeven for current production for much of the industry, including Spur. We have shut in nearly all of our production but we have the ability to bring it back on stream quickly, as oil prices rise. Nobody knows how this will all play out, but I can reassure you that Spur is well positioned to withstand the incredible conditions in which we now operate.

Spur has a strong hedging position with 5,200 barrels of oil per day hedged for the balance of the year at an average price of C$49 WCS. As in past years, we have flexibility to significantly slow or increase capital spending, as oil prices fall or rise. We have finished our winter drilling program and even in a normal year, we would not begin drilling again until the summer. We now have a few months to watch how the current crisis unfolds before we will need to make any decisions on capital spending for the balance of the year.

Our full-cycle cost structure is among the lowest in the basin. Even so, we continue to focus on driving down costs wherever possible in both the field and head office. We have instituted a 20% average pay cut across head-office staff until oil prices improve and activity ramps back up.

It is difficult to find an apt analogy for the current state of affairs. The economic, health and social stress that the world is facing is extraordinary. Spur is in an enviable position of having an exceptional asset base, low environmental liabilities, and a strong balance sheet and hedge position. We have also developed a tremendous group of talented and dedicated people that will continue to steward your investment with the appropriate level of caution as we have in the past.

Thank you for your continued confidence and support. Please do not hesitate to contact me with questions or comments.

Sincerely,

Ian Currie, President & CEO
April 9, 2020

HIGHLIGHTS

	Quarter ended December 31			Year ended December 31		
	2019	2018	Change	2019	2018	Change
FINANCIAL						
($ thousands*, except per share*)						
Petroleum and natural gas revenue	53,799	12,644	325%	181,219	90,225	101%
Adjusted funds from operations (1)	33,033	5,320	521%	100,106	42,673	135%
Per share (basic) (1)	0.93	0.15	522%	2.83	1.21	134%
Per share (diluted) (1)	0.84	0.13	546%	2.55	1.08	136%
Net income	9,234	21,225	(56%)	28,361	26,976	5%
Per share (basic)	0.26	0.60	(57%)	0.80	0.76	5%
Per share (diluted)	0.23	0.54	(57%)	0.72	0.68	6%
Capital expenditures, net of dispositions	52,685	29,662	78%	123,327	83,081	48%
Net Debt (2)				55,450	31,203	(78%)
Common shares outstanding at period end				35,422	35,389	0%
OPERATING						
(boe conversion = 6:1)						
Production volumes						
Oil (bbl/d)	11,930	6,250	91%	9,403	5,698	65%
Total (boe/d)	12,510	6,938	80%	10,017	6,306	59%
% Oil	95	90	6%	94	90	4%
Average selling prices (3)						
Oil ($/bbl)	49.65	21.66	129%	53.43	43.51	23%
BOE ($/boe)	48.03	20.44	135%	50.78	40.17	26%
Adjusted funds from operations ($/boe) (1)	28.70	8.33	245%	27.38	18.55	48%
Net wells drilled	30.0	23.8	26%	69.0	57.8	19%

(1) Adjusted funds from operations and adjusted funds from operations per share are not defined by IFRS and are referred to as non-IFRS measures. Adjusted funds from operations is based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. Adjusted funds from operations per share is calculated based on the weighted average number of common shares outstanding consistent with the calculation of net income per share. Adjusted funds from operations equals the total of revenues and realized commodity contract gains (losses), less royalties, operating, transportation, general and administrative, interest expenses and cash taxes. Adjusted funds from operations per boe is calculated by dividing funds from operations by the total boe. Total boe is calculated by multiplying the daily production by the number of days in the period.

(2) Net debt is not defined by IFRS and is referred to as a non IFRS- measure. Net debt was comprised of our working capital deficiency including amounts drawn on our credit facility, excluding the fair value of commodity contracts which had a net liability value of $7.2 million and the current portion of the decommissioning obligation of $935,000 at December 31, 2019.

(3) Average selling prices included petroleum and natural gas revenue before tariffs and excluded hedging gains (losses) on a per unit basis.

HIGHLIGHTS (continued)

	As at December 31 2019 (1)	As at December 31 2018	Change
RESERVES			
Proved			
Oil (mbbl)	31,983	17,295	85%
Natural gas (mmcf)	3,535	5,446	(35%)
Total (mboe)	32,572	18,203	79%
Proved plus probable			
Oil (mbbl)	59,167	32,989	79%
Natural gas (mmcf)	8,011	12,364	(35%)
Total (mboe)	60,502	35,049	73%
Net present value of future cash flow (proved plus probable) (thousands)			
10% discount	$1,398,387	$720,583	94%
Finding, development and acquisition costs ($/boe) (one year)			
Total proved (2)	$13.61	$10.92	25%
Total proved plus probable (2)	$9.81	$7.52	30%
LAND			
Undeveloped land (net acres)	840,297	719,332	17%

(1) Reserve volumes and net present value calculations are based on the January 1, 2020 forecast prices and costs as disclosed on page 9 of this report. The April 1, 2020 forecast prices and costs published by our external reserve engineer has shown significant degradation of WCS oil prices by approximately 25% over the next ten years compared to the January 1, 2020 price forecast. Management is currently assessing the impact the price decline will have on the reserve valuation at March 31, 2020.

(2) Included changes in future development capital (FDC) expenditures. FDC expenditures as at December 31, 2019 were $234.6 million on a proved basis and $334.5 million on a proved plus probable basis, compared to $112.6 million and $172.3 million respectively as at December 31, 2018.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Presentation *– The Corporation's consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The reporting and the measurement currency is the Canadian dollar. For the purpose of calculating unit costs, natural gas is converted to a barrel of oil equivalent ("boe") using six thousand cubic feet of natural gas equal to one barrel of oil unless otherwise stated. This Management's Discussion & Analysis ("MD&A") should be read in conjunction with the audited annual consolidated financial statements and notes of Spur Petroleum Ltd. ("Spur" or the "Corporation") for the years ended December 31, 2019 and 2018.*

Forward-Looking Statements *– Certain information set forth in this document, including management's assessment of Spur's future plans and operations, contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, some of which are beyond Spur's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, changes in environmental, tax and royalty legislation, competition from other industry participants, the lack of availability of qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may prove to be imprecise and, as such, undue reliance should not be placed on forward-looking statements. Spur's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements or if any of them do so, what benefits that Spur will derive therefrom. Spur disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.*

Non-IFRS Measurements *Within Management's Discussion and Analysis, references are made to terms commonly used in the oil and gas industry that are not defined by IFRS. Management uses adjusted funds from operations to analyze operating performance. Adjusted funds from operations is based on cash flow from operating activities before changes in non-cash working capital and decommissioning expenditures. This term does not have any standardized meaning prescribed by IFRS and therefore it may not be comparable with the calculation of similar measures of other entities. Adjusted funds from operations as presented is not intended to represent cash flow or operating profits for the period nor should it be viewed as an alternative to cash flow from operating activities, net income or other measures of financial performance calculated in accordance with IFRS. Adjusted funds from operations per share is calculated based on the weighted average number of shares outstanding consistent with the calculation of net income per share. Field netbacks do not have any standardized meaning prescribed by IFRS and therefore may not be comparable with the calculation of similar measures for other entities. Field netbacks equal the total of revenue including realized commodity derivative gains (losses) less royalties, transportation and operating expenses. Total boe is calculated by multiplying the daily production by the number of days in the period. Spur uses adjusted funds from operations as a key measure to demonstrate the Corporation's ability to generate funds to repay debt and fund future capital investment. The Corporation considers field netbacks to be an important measure to evaluate its operational performance, as it demonstrates field level profitability to current commodity prices.*

A reconciliation of adjusted funds from operations is presented in the following table:

	Quarter ended December 31		Year ended December 31	
	2019	**2018**	**2019**	**2018**
($ thousands)				
Cash provided by operating activities	31,035	8,351	93,166	46,405
Add back (deduct):				
Decommissioning expenditures	262	221	1,193	438
Change in non-cash working capital	1,736	(3,252)	5,747	(4,170)
Adjusted funds from operations	33,033	5,320	100,106	42,673

A reconciliation of net debt is presented in the following table:

	Year ended December 31	
	2019	2018
($ thousands)		
Trade and other receivables	(20,052)	(5,313)
Prepaid expenses	(714)	(555)
Accounts payable and accrued liabilities	41,288	20,596
Income tax payable	5,183	966
Demand credit facility	29,745	15,509
Net debt	55,450	31,203

RESERVES INFORMATION

Spur's reserves were evaluated by GLJ Petroleum Consultants Ltd. (GLJ), independent reserve evaluators as at December 31, 2019, in accordance with reserve definitions, standards and procedures contained in the Canadian Oil and Gas Evaluation Handbook (COGE).

At the time Spur commenced operations on January 11, 2017, the assets acquired on the transfer from Spur Resources Ltd. (SRL) had an estimated reserve volume of 5,742 mboe on a proved plus probable basis. Of this, approximately 28% of the reserves were comprised of oil and liquids. By December 31, 2018 reserve volumes had grown to 35,049 mboe on a proved plus probable basis, with oil and liquids making up 94% of total reserves.

The growth continued in 2019 as we unlocked further inventory of Clearwater drilling and expansion opportunities. At December 31, 2019 Spur's proven plus probable reserves had grown to 60,502 mboe, with oil and liquids making up 98% of total reserves, a 10.5 times increase since commencing operations and 1.7 times increase since last year.

Highlights of the reserve additions for the year ended December 31, 2019 compared to December 31, 2018 included:

- Increased oil proved plus probable reserves by 1.8 times to 59,167 mbbl from 32,989 mbbl;
- Increased overall proved plus probable reserves by 1.7 times to 60,502 mboe, replacing production by eight times since December 31, 2018;
- Achieved proved plus probable finding, development and acquisition (2P FD&A) costs of $9.81 per boe and inception to date 2P FD&A of $10.13 per boe, including revisions and changes in future development capital expenditures;
- For the year ended December 31, 2019, based on a field netback of $31.27 per boe, our 2P recycle ratio was 3.2 times compared to 2.9 times compared to the previous year. Our adjusted funds from operations netback for the year ended December 31, 2019 was $27.38 boe resulting in a 2P recycle ratio of 2.8 times, compared to 2.5 times for the year ended December 31, 2018.

The following table summarizes Spur's reserves as at December 31, 2019:

	Oil (mbbl) (1)		Natural Gas (mmcf)		Oil Equivalent (mboe) (1)	
	Gross	Net	Gross	Net	Gross	Net
Proved developed producing	10,198	9,192	3,497	3,146	10,781	9,717
Proved developed non-producing	441	397	-	-	441	397
Proved undeveloped	21,344	19,207	38	32	21,350	19,212
Total proved	31,983	28,796	3,535	3,178	32,572	29,326
Probable	27,184	23,438	4,476	3,882	27,930	24,084
Total proved plus probable	59,167	52,234	8,011	7,060	60,502	53,410

(1) Includes royalty interest barrels of 5.0 mbbl.

The following table provides a reconciliation of our reserve volumes between December 31, 2019 and December 31, 2017. The changes in these reserves include production during the period, changes in estimates, revisions and additions during the period.

	Proved Developed Producing	**Total Proved**	**Total Proved Plus Probable**
(mboe)			
December 31, 2017	3,160	7,327	14,080
Drilling extensions	4,527	11,118	21,182
Technical revisions - oil	895	2,289	2,424
Technical revisions - natural gas	(105)	(392)	(513)
Acquisition	244	244	347
Disposition	(41)	(81)	(169)
Production	(2,302)	(2,302)	(2,302)
December 31, 2018	6,378	18,203	35,049
Drilling extensions	6,463	15,539	28,059
Technical revisions	1,596	2,486	1,050
Production	(3,656)	(3,656)	(3,656)
December 31, 2019	10,781	32,572	60,502

NET PRESENT VALUES OF FUTURE NET REVENUE
The net reserve value tables at December 31, 2019 and 2018 are based on the average price forecast of GLJ, Sproule Associates Limited, and McDaniel & Associates Consultants Ltd. effective January 1, 2020 and January 1, 2019 respectively.

The following tables summarize Spur's reserve values as at December 31, 2019 and December 31, 2018:

Net Present Values of Future Net Revenue
Before Income Taxes Discounted at December 31, 2019

Net Reserve Values ($ thousands)	0%	5%	8%	10%	15%
Proved developed producing	343,743	321,829	309,690	302,051	284,501
Proved developed non-producing	16,080	14,631	13,881	13,423	12,408
Proved undeveloped	628,041	522,956	470,731	439,720	373,393
Total proved	987,864	859,416	794,302	755,194	670,302
Probable	1,066,296	815,061	704,585	643,193	521,819
Total proved plus probable	2,054,160	1,674,477	1,498,887	1,398,387	1,192,121

Net Present Values of Future Net Revenue
Before Income Taxes Discounted at December 31, 2018

Net Reserve Values ($ thousands)	0%	5%	8%	10%	15%
Proved developed producing	164,191	153,162	146,948	143,026	134,017
Proved developed non-producing	3,371	3,177	3,064	2,991	2,819
Proved undeveloped	329,671	276,133	249,556	233,765	199,927
Total proved	497,233	432,472	399,568	379,782	336,763
Probable	538,769	423,111	370,541	340,801	280,699
Total proved plus probable	1,036,002	855,583	770,109	720,583	617,462

NOTES:
The following reserve definitions are as set out in NI51-101.

"Gross" means Spur's interest in operated and non-operated production and reserves before deduction of royalties.

"Net" means Spur's interest in operated and non-operated production and reserves after deduction of royalty obligations.

"Reserves" are the estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, from a given date forward, based on: analysis of drilling, geological, geophysical and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates.

"Proved Reserves" are those Reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated Proved Reserves. At least a 90 percent probability that the quantities actually recovered will equal or exceed the estimated Proved Reserves is the targeted level of certainty.

"Probable Reserves" are those additional Reserves that are less certain to be recovered than Proved Reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated Proved plus Probable Reserves. At least a 50 percent probability that the quantities actually recovered will equal or exceed the sum of the estimated Proved plus Probable Reserves is the targeted level of certainty.

"Proved Developed Reserves" are those Reserves that are expected to be recovered from existing wells and installed facilities or, if facilities have not been installed, that would involve a low expenditure (e.g., when compared to the cost of drilling a well) to put the Reserves on production. The developed category may be subdivided into producing and non-producing.

"Developed Producing Reserves" are those Reserves that are expected to be recovered from completion intervals open at the time of the estimate. These Reserves may be currently producing or, if shut-in, they must have previously been on production, and the date of resumption of production must be known with reasonable certainty.

"Developed Non-Producing Reserves" are those Reserves that either have not been on production, or have previously been on production, but are shut-in, and the date of resumption of production is unknown.

"Undeveloped Reserves" are those Reserves expected to be recovered from known accumulations where a significant expenditure (e.g., when compared to the cost of drilling a well) is required to render them capable of production. They must fully meet the requirements of the Reserves classification (Proved, probable, possible) to which they are assigned.

The forecast price and cost case assume no legislative or regulatory amendments and includes the effects of inflation. The estimated future net revenue to be derived from the production of the reserves includes an inflation rate of 2% per year and the following price forecast:

SUMMARY OF PRICING ASSUMPTIONS
EFFECTIVE JANUARY 1, 2020
FORECAST PRICES AND COSTS

	OIL			**NATURAL GAS**			
Year	WTI Cushing Oklahoma ($US/Bbl)	Edmonton Par Price 40° API ($Cdn/Bbl)	WCS Heavy Oil at Hardisty ($Cdn/Bbl)	NYMEX Futures Contract ($US/mmbtu)	AECO Gas Price ($Cdn/mmbtu)	Saskatchewan Plant Gate Spot ($/mmbtu)	USD/CAD Exchange Rates
Forecast:							
2020	61.00	72.64	57.57	2.62	2.04	2.49	0.7600
2021	63.75	76.06	62.35	2.87	2.32	2.72	0.7700
2022	66.18	78.35	64.33	3.06	2.62	2.89	0.7850
2023	67.91	80.71	66.23	3.17	2.71	2.88	0.7850
2024	69.48	82.64	67.96	3.24	2.81	2.98	0.7850
2025	71.07	84.60	69.72	3.32	2.89	3.06	0.7850
2026	72.68	86.57	71.49	3.39	2.96	3.13	0.7850
2027	74.24	88.49	73.19	3.46	3.03	3.20	0.7850
2028	75.73	90.31	74.80	3.52	3.10	3.27	0.7850
2029	77.24	92.17	76.43	3.60	3.17	3.34	0.7850
2030	78.79	94.01	77.96	3.67	3.24	3.41	0.7850
2031	80.36	95.89	79.52	3.74	3.30	3.48	0.7850
2032	81.97	97.81	81.11	3.81	3.37	3.55	0.7850
2033	83.61	99.76	82.73	3.89	3.43	3.62	0.7850
2034	85.28	101.76	84.39	3.97	3.50	3.70	0.7850
2035	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.7850

SUMMARY OF PRICING ASSUMPTIONS
EFFECTIVE JANUARY 1, 2019
FORECAST PRICES AND COSTS

	OIL			NATURAL GAS			
Year	WTI Cushing Oklahoma ($US/Bbl)	Edmonton Par Price 40° API ($Cdn/Bbl)	WCS Heavy Oil at Hardisty ($Cdn/Bbl)	NYMEX Futures Contract ($US/mmbtu)	AECO Gas Price ($Cdn/mmbtu)	Saskatchewan Plant Gate Spot ($/mmbtu)	USD/CAD Exchange Rates
Forecast:							
2019	58.58	67.30	51.55	3.00	1.88	2.28	0.7567
2020	64.60	75.84	59.58	3.13	2.31	2.48	0.7817
2021	68.20	80.17	65.89	3.33	2.74	2.82	0.7967
2022	71.00	83.22	68.61	3.51	3.05	3.04	0.8033
2023	72.81	85.34	70.53	3.62	3.21	3.20	0.8067
2024	74.59	87.33	72.34	3.70	3.31	3.29	0.8083
2025	76.42	89.50	74.31	3.77	3.39	3.38	0.8083
2026	78.40	91.89	76.44	3.85	3.46	3.45	0.8083
2027	79.98	93.76	78.10	3.92	3.54	3.54	0.8083
2028	81.59	95.68	79.81	4.01	3.62	3.62	0.8083
2029	83.22	97.57	81.40	4.08	3.70	3.69	0.8083
2030	84.87	99.52	83.00	4.16	3.78	3.77	0.8083
2031	86.57	101.52	84.69	4.25	3.85	3.84	0.8083
2032	88.30	103.55	86.37	4.33	3.92	3.90	0.8083
2033	90.08	105.65	88.11	4.42	4.00	3.99	0.8083
2034	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	

UNDEVELOPED LAND

At the time we commenced operations on January 11, 2017, Spur acquired 226,000 acres of undeveloped land on the transfer of assets from Spur Resources Ltd. (SRL). Since then, as our understanding of the Clearwater play grew, we added significant acreage to our undeveloped land position in the Clearwater oil fairway in north-central Alberta, including several prospective new plays. Spur has been able to prove the technical feasibility of many of its Clearwater plays through information gained from the thousands of wells drilled over the decades by other operators in the Clearwater. This information has allowed Spur to build detailed maps of the Clearwater pools. Before we drill a play, sand quality, permeability, pressure and the presence of hydrocarbons is well understood. The final variable with respect to our undeveloped lands is to determine oil viscosity, which together with permeability and pressure will determine well productivity.

At December 31, 2019 we have approximately 840,000 acres. Throughout 2019 we acquired 137,000 acres of Clearwater lands via Crown land sales and purchases from third parties. We expended $2.8 million on the Clearwater lands acquired in 2019, of which $2.6 million was funded by a third-party royalty company in exchange for a gross overriding royalty on portions of the lands. Most of Spur's initial bonus payments related to its accumulated undeveloped land position have been substantially funded by the third-party royalty company, other than annual land retention costs related primarily to lease rental payments. Our average all-in royalty rate on our Clearwater lands is 7-8% and substantially all the undeveloped lands acquired have tenure of 10-15 years.

Undeveloped land	Net Acres
December 31, 2017	735,481
Acquired	26,680
Disposed	(33,634)
Developed and expired	(9,195)
December 31, 2018	719,332
Acquired	137,340
Developed and expired	(16,375)
December 31, 2019	840,297

CAPITAL EXPENDITURES

The following table summarizes Spur's capital expenditures by category:

	Quarter ended December 31		Year ended December 31	
	2019	**2018**	**2019**	**2018**
($ thousands)				
Land and retention costs	1,050	647	1,918	1,887
Seismic and geological	144	130	643	783
Drilling and completion	35,219	22,661	83,512	60,888
Equipment and tie-ins	3,727	3,746	14,419	12,100
Battery and pipeline infrastructure	11,620	1,260	18,009	2,600
Roads	925	1,158	4,851	5,492
Acquisition/(disposition), net	-	60	(50)	(752)
Corporate and other	-	-	25	83
Total net capital expenditures	52,685	29,662	123,327	83,081

Quarter ended December 31, 2019

Spur had a busy fourth quarter with five rigs drilling for most of the quarter. We drilled 30 gross (30.0 net) oil wells, with 97% success. We drilled 17 wells at Marten Hills and twelve wells at Nipisi where we continued full scale development of these areas. Following up on earlier wells that resulted in opening up new areas northwest of Marten Hills, we drilled one well testing the boundaries of one of these plays that was unsuccessful.

Our drilling and completion costs of $35.2 million included $29.5 million related to the 30 wells drilled in the quarter and the completion of 26 wells (25 wells drilled in the fourth quarter of 2019 along with one well from the third quarter). We have four wells to be completed in the first quarter of 2020. In addition, we spent $2.8 million on pre-drilling costs for wells to be drilled in the first quarter of 2020, as well as $2.9 million on five wells spud in the last quarter and rig released in the first quarter of 2020. During the quarter we continued to refine and optimize our drilling technology, including the drilling of multilaterals testing eight, ten and twelve legs allowing us to access multiple reservoirs and layers within a single thicker zone. These drilling technologies will allow for reduced surface impact and lower capital costs with fewer well bores drilled to develop an area, as well as improved flows for heavier oil. The pace of development continued to the end of break-up in 2020; we had five rigs running and drilled another 32 wells, as we accelerated the pace of development at Marten Hills.

Of the $3.7 million of equipping and tie-in costs incurred in the fourth quarter of 2019, $3.2 million related to 25 wells drilled in the December 2019 quarter, as well as one well from the third quarter. Spur has four remaining wells to be completed and tied-in during the March 31, 2020 quarter. The balance of $525,000 was spent on acquiring equipment for Spur's winter 2019/2020 drilling program.

The $11.6 million for the centralized battery and pipeline infrastructure was spent primarily at Marten Hills. This new facility will have 12,000-barrel storage capacity and will be up and running to coincide with mid-summer 2020 in service date of the sales line currently being constructed by Rangeland Midstream Canada (Rangeland). The Rangeland pipeline will carry crude oil from our centralized battery at Marten Hills to Slave Lake, where it will join a major trunk line to Edmonton. The new battery and pipeline will represent a milestone in the execution of our business plan, which will reduce transportation expenses and congestion on our busy roads, allow Spur to ship oil without weather and spring breakup-related interruptions, and provide a safer and more environmentally sound method of transporting oil.

Expenditures of $925,000 were incurred on the expansion and improvement of our roads at Marten Hills and Nipisi to accommodate the growing oil production and increasing volume of trucks transporting oil and moving heavy equipment into these areas.

Spur incurred $1.1 million related to land retention expenditures on our existing land base. Our seismic and geological expenditures of $144,000 related primarily to capitalized geological and geophysical salaries.

Year ended December 31, 2019

For the year ended December 31, 2019, we drilled 69 gross (69.0 net) oil wells with 97% success: 31 at Marten Hills, 24 at Nipisi, five at Ukalta, three at Jarvie, and six on Spur's prospective northern Clearwater lands. Of the six wells on new plays, four resulted in opening up new areas to the northwest of Marten Hills, with two unsuccessful wells in the area, testing the boundaries of the plays.

Our drilling and completion costs of $83.5 million included $74.9 million related to the 69 wells drilled for the year ended December 31, 2019, and the completion of 68 wells. The 68 wells completed included 63 wells drilled for the year ended December 31, 2019 along with five wells from the quarter ended December 31, 2018. Spur has four wells drilled in the fourth quarter of 2019 to be tied-in during the first quarter of 2020. In addition, we spent $8.6 million on pre-drilling costs to set up wells to be drilled through to breakup 2020, which included $3.2 million on five wells spud in December 2019 and rig released early in 2020, as well as initial lease construction costs from the third quarter of 2019 related to these wells. Our drilling and completion cost per well for the year ended December 31, 2019 was approximately $100,000 higher compared to the year ended December 31, 2018. This was primarily due to: (1) higher lease costs associated with accessing new areas, where drill pads for the initial wells drilled were built to ultimately accommodate the drilling of six to eight wells, (2) using base oil for drilling Spur's select Ukalta and Nipisi wells, and (3) use of more legs on multilaterals as we refined and optimized our drilling technology.

Spur's $14.4 million of equipping and tie-in costs included $13.3 million related to 63 wells drilled for the year ended December 31, 2019 and five wells drilled in the last quarter of 2018. The equipping and tie in costs included the expenditures related to the consolidation of several single wells into multi well batteries. The balance of $1.1 million was incurred to purchase equipment related to wells to be drilled through to breakup 2020. The equipping and tie-in costs at Ukalta and Jarvie were more expensive than the wells drilled at Marten Hills, as we installed pipelines to accommodate future growth. With respect to some of the wells drilled at Marten Hills, additional tankage was installed to accommodate future oil volumes as we continue development drilling in the area.

Spur spent $18.0 million on battery and pipeline infrastructure, primarily towards the construction of the centralized sales battery and related pipelines at Marten Hills.

Road infrastructure expenditures of $4.9 million were incurred for road construction at Marten Hills and Nipisi, providing improved accessibility to our expanding production base.

Spur's land and retention costs of $1.9 million included $1.7 million related to land retention expenditures on our existing land base, along with the acquisition of 137,000 acres of prospective lands in the Clearwater oil fairway at a cost of $2.8 million, net of reimbursements of $2.6 million received from an arm's length third party in exchange for a certain gross overriding royalty on the lands acquired. Our seismic and geological expenditures of $643,000 related primarily to capitalized geological and geophysical salaries.

2020 CAPITAL BUDGET AND PRODUCTION OUTLOOK

The global oil industry is facing a time of incredible price volatility and risk due to the combination of the COVID-19 pandemic and the Russian-Saudi oil price war. In this current challenging economic climate, it is not possible to reliably estimate the length or severity of these developments and their financial impact. The continuation of these conditions for an extended period of time, could have a significant adverse impact on our financial results for future periods. Spur is well positioned to withstand this challenging environment, but it introduces significant uncertainty to our budget and capital spending plans going forward.

We are well hedged for calendar 2020 with an average of 5,378 barrels per day hedged at C$48.71 WCS. At this point, there are no specific plans for capital spending for the balance of the year and we plan to pay down debt with our cash flow. We have shut in nearly all of our production, but we have the ability to bring it back on stream quickly. Spur will continue to focus on driving down costs wherever possible in both the field and head office. We have moved to four-day work weeks and instituted on average 20% pay cut across head-office staff until oil prices improve and activity ramps back up.

As in past years, we have flexibility to significantly slow or increase capital spending, as oil prices fall or rise. The Rangeland Marten Hills pipeline and associated infrastructure, including a Spur battery, is largely complete. At current oil prices we will not drill development wells, but we may allocate a small amount of capital to continue moving our exploration plays forward. These plays are on a multi-year testing and development timeline due to challenging, winter-only surface access, so delays now will have an impact in 2021 and beyond.

PRODUCTION AND REVENUE

Spur reports production on a boe basis and breaks out oil production, revenue and netbacks separately. Oil accounts for over 90% of Spur's production, most of its revenue and practically all its adjusted funds flow and we do not report separately on natural gas production, revenue and netbacks. The small amount of natural gas we produce is a combination of legacy shallow gas properties and associated gas from the Clearwater play.

Spur's average production for the quarter ended December 31, 2019 increased by 80% to 12,510 boe per day compared to 6,938 boe per day for the quarter ended December 31, 2018. The production increase was a result of bringing on new Clearwater oil wells from our successful drilling program, primarily at Marten Hills and Nipisi where we moved to full scale development of these areas. Oil production averaged 11,930 barrels per day for the quarter ended December 31, 2019 compared to 6,250 barrels per day of oil for the quarter ended December 31, 2018, an increase of 91%. Oil production represented 95% of our overall production for the December 2019 quarter compared to 90% for the same quarter a year ago.

Spur's petroleum and natural gas revenue was $53.8 million for the December 31, 2019 quarter, with oil revenue making up 99% of the total, compared to $12.6 million for the same quarter a year ago, where oil revenue made up 95% of the total. The 4.3 times increase in revenue was attributable to the increase in production volumes from new Clearwater oil wells and higher WCS oil price. After tariffs and including realized hedging gains (losses), the price we received for oil and natural gas for the December 31, 2019 quarter was $43.90 per boe, compared to $22.70 for the December 2018 quarter. The higher price received per boe was primarily due to the higher WCS oil price and narrower quality and apportionment discount, net of higher hedging losses and tariffs per boe. Oil prices in the December 2018 quarter were particularly hard hit due to a combination of US refinery maintenance outages, new oil sands production coming on stream, the lack of pipeline access to get Alberta crude to market.

Spur's average oil selling price was $49.65 per barrel ($45.32 after tariffs and hedging losses) for the quarter ended December 31, 2019 compared to $21.66 per barrel ($24.17 after tariffs and hedging gains) for the quarter ended December 31, 2018. Oil production coming from our Clearwater plays is similar in quality to Western Canadian Select (WCS) oil. The weighted average price for WCS for the quarter ended December 31, 2019 was $54.08 per barrel and Spur's realized price before hedging and tariffs of $49.65 represented 92% of the WCS price. This compared to the weighted average price for WCS for the December 2018 quarter of $27.78 per barrel, and Spur's average selling price of $21.66 per barrel represented 78% of the WCS price. Spur's higher realized price before hedging and tariffs for the quarter ended December 31, 2019 compared to the quarter December 2018 quarter was due to the stronger WCS price and the narrower quality and apportionment discount. This was primarily due to fewer pipeline apportionment issues as a result of the Alberta government's mandated production curtailments.

For the quarter ended December 31, 2019 oil pipeline tariffs were $1.35 per barrel compared to $0.70 per barrel for the quarter ended December 31, 2018. The increase in the oil tariff per barrel in the December 31, 2019 quarter compared to the same quarter a year ago was due to the higher pipeline charges associated with the new oil production coming from Marten Hills and Nipisi.

Spur's average production for the year ended December 31, 2019 increased by 59% to 10,017 boe per day compared to 6,306 boe per day for the year ended December 31, 2018. The production increase was a result of bringing on new Clearwater oil wells from our successful drilling program. Oil production averaged 9,403 barrels per day for the year ended December 31, 2019 compared to 5,698 barrels per day of oil for the year ended December 31, 2018 an increase of 65%. Oil production represented 94% of our overall production for the year ended December 31, 2019 compared to 90% for the year ended December 31, 2018.

Spur's petroleum and natural gas revenue was $181.2 million for the year ended December 31, 2019, with oil revenue making up 99% of the total. For the year ended December 31, 2018 petroleum and natural gas revenue was $90.2 million. The 101% increase in revenue was attributable to the increase in production volumes from new Clearwater oil wells and higher WCS oil price. After hedging, the price we received for oil and natural gas for the year ended December 31, 2019 was $46.52 per boe, compared to $35.84 per boe for the year ended December 31, 2018. The higher price received on a boe basis for the year ended December 31, 2019 was primarily due to the higher price for WCS crude oil driven by narrower differentials, and narrower quality and apportionment discount.

Spur's average oil selling price was $53.43 per barrel ($48.89 after tariffs and hedging losses) for the year ended December 31, 2019 compared to $43.51 per barrel ($38.71 after tariffs and hedging losses) for the year ended December 31, 2018. The weighted average price for WCS for the 2019 year was $58.22 per barrel and Spur's realized price before hedging and tariffs of $53.43 represented 92% of the WCS price. Compared to the weighted average price for WCS for the 2018 year of $50.06 per barrel, Spur's realized price before hedging and tariffs of $43.51 represented 87% of the WCS price. Spur's higher realized price before hedging and tariffs for the year ended December 31, 2019 compared to the year ended December 31, 2018 resulted due to stronger WCS prices and the narrower quality and apportionment discount.

For the year ended December 31, 2019, oil pipeline tariffs were $1.30 per barrel compared to $1.08 per barrel for the year ended December 31, 2018.

OIL AND LIQUIDS REALIZED PRICING SUMMARY

	Quarter ended December 31		Year ended December 31	
	2019	**2018**	**2019**	**2018**
	$ per bbl	$ per bbl	$ per bbl	$ per bbl
Benchmark price [1]	54.08	27.78	58.22	50.06
Quality and apportionment adjustment	(4.43)	(6.12)	(4.79)	(6.55)
Average selling price	49.65	21.66	53.43	43.51
Tariffs	(1.35)	(0.70)	(1.30)	(1.08)
Hedging gain (loss)	(2.98)	3.21	(3.24)	(3.72)
Realized price [2]	45.32	24.17	48.89	38.71
Change in average selling price	129%		23%	

(1) Spur's benchmark price for oil and liquids is based on Western Canadian Select (WCS).
(2) Spur's weighted average realized oil and liquids prices for the quarters and year ended December 31, 2019 and December 31, 2018 was 100% heavy oil.

FINANCIAL RISK MANAGEMENT
As part of our financial management strategy, Spur's Board of Directors has approved a price risk management limit of up to 60% of the combined forecast oil and natural gas production, net of royalties, using fixed price swaps, costless collars, physical contracts and option contracts. The main purpose of the program is to protect capital investment economics.

SUMMARY OF OIL CONTRACTS

Term		Contract	Volume (bbl/d)	Contract Price ($/bbl)	Index
Jan-20	Mar-20	Swap [1]	6,000	$48.66	C$WCS
Apr-20	Jun-20	Swap [1]	3,500	$48.14	C$WCS
Jul-20	Sep-20	Swap [1]	6,000	$48.89	C$WCS
Oct-20	Dec-20	Swap [1]	5,000	$48.87	C$WCS

(1) Contract gives the counter party a call option on a monthly basis for 750 barrels per day of oil at C$49.84 for calendar December 31, 2020.

The fair value of the commodity contracts at December 31, 2019 was a net liability of $7.2 million. Included in net income for the quarter and year ended December 31, 2019 was an unrealized loss on commodity contracts of $5.2 million and $26.7 million respectively. This compared to a $31.5 million and $23.7 million unrealized gain on commodity contracts for the quarter and year ended December 31, 2018 respectively.

Subsequent to December 31, 2019, Spur entered into the following commodity and interest rate contracts:

Term		Contract	Volume (bbl/d)	Contract Price ($/bbl)	Index
Jul-20	Sep-20	Swap	1,000	$49.00	C$WCS
Jan-21	Dec-21	Swap	2,000	$25.88	C$WCS

Term		Contract	CAD/month	Rate	Index
03-Apr-20	03-Apr-21	Fixed/Float Rate	$ 20,000,000	0.77%	CAD-BA-CDOR

The following table summarizes Spur's realized hedging losses:

	Quarter ended December 31		Year ended December 31	
	2019	2018	2019	2018
($ thousands)				
Realized gain (loss) on commodity contracts	(3,275)	1,847	(11,121)	(7,740)

For the calendar year 2020, we have hedged 5,378 barrels per day at C$48.71 per barrel WCS.

FIELD NETBACKS BY PRODUCT

The following tables summarize Spur's production and field netbacks by product. The sales price included realized gains or losses on commodity contracts.

	Quarter ended December 31		Year ended December 31	
	2019	2018	2019	2018
Oil ($/bbl)				
Realized price	45.32	24.17	48.89	38.70
Royalty expense	3.77	2.18	3.96	2.93
Production expense	4.35	4.33	4.38	4.67
Transportation expense	6.55	6.92	6.92	6.73
Netback	30.65	10.74	33.63	24.37
Daily sales volume (bbl/d)	11,930	6,250	9,403	5,698
Total prod ($/boe)				
Realized price	43.90	22.70	46.52	35.84
Royalty expense	3.65	2.05	3.76	2.72
Production expense	4.78	5.16	4.88	5.32
Transportation expense	6.33	6.40	6.61	6.24
Netback	29.14	9.09	31.27	21.56
Daily sales volume (boe/d)	12,510	6,938	10,017	6,306

ROYALTY EXPENSE

Royalty expense as a percentage of petroleum and natural gas revenue for the quarter ended December 31, 2019 was 7.8% ($3.65 per boe), compared to 10.3% ($2.05 per boe) for the quarter ended December 31, 2018. The lower royalty rate for the quarter ended December 31, 2019 compared to the same quarter a year ago was due to higher Alberta Crown par prices relative to the extremely low realized prices for the quarter ended December 31, 2018. The Alberta Crown royalty on oilsands production is based on prices set in prior months. The par price set in those prior months in determining the Crown royalty was significantly higher than the prices received by Spur, due to the significant drop in the WCS benchmark price during November and December of 2018.

For the year ended December 31, 2019, royalty expense as a percentage of petroleum and natural gas revenue was 7.6% ($3.76 per boe) compared to 6.9% ($2.72 per boe) for the year ended December 31, 2018. The higher royalty rate for the year ended December 31, 2019 was due to bringing on new production at Nipisi where the lands have a higher gross overriding royalty burden.

PRODUCTION AND TRANSPORTATION EXPENSE

Production expense for the quarter ended December 31, 2019 was $4.78 per boe compared to $5.16 per boe for the quarter ended December 31, 2018. For the year ended December 31, 2019, production expense was $4.88 per boe compared to $5.32 per boe for the year ended December 31, 2018.

Transportation expense included trucking expenses related to the delivery of oil production and pipeline expenses to deliver natural gas production to the purchasers at the point of sale. Oil pipeline tariffs have been netted directly from petroleum revenues. For the quarter ended December 31, 2019 transportation expense was $6.33 compared to $6.40 per boe for the quarter ended December 31, 2018. Transportation expense for the year ended December 31, 2019 was $6.61 per boe compared to $6.24 per boe for the year ended December 31, 2018.

GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses were $1.62 and $1.96 per boe respectively for the quarter and year ended December 31, 2019, compared to $3.09 and $2.58 per boe respectively for the quarter and year ended December 31, 2018. The lower charge per boe for the quarter and year ended December 31, 2019 was due to the higher production volumes associated with the increased volumes of Clearwater oil that resulted from our successful drilling program. Net G&A expenses for the year ended December 31, 2019 were $7.2 million compared to $5.9 million for the same period a year ago, an increase of 21% while our overall production volumes increased by 59% to 10,017 boe per day compared to 6,306 boe per day.

FINANCE EXPENSE

The following table summarizes Spur's finance expense by category:

	Quarter ended December 31		Year ended December 31	
	2019	2018	2019	2018
($ thousands)				
Interest expense, net and bank charges	263	46	1,131	33
Accretion of decommissioning liabilities	166	157	669	503
Total	429	203	1,800	536

Finance expense included interest, bank charges and accretion expense on decommissioning obligations, net of interest income. For the quarter ended December 31, 2019 the total finance expense was $429,000 compared to $203,000 for the same quarter a year ago. For the year ended December 31, 2019 finance expense was $1.8 million compared to $536,000 for the year ended December 31, 2018. The increase in finance expense in both periods related primarily to the increased interest expense that resulted from higher drawings on our credit facility to fund our capital program, as well as higher standby fees. The year ended December 31, 2019 included a $71,000 fee compared to $33,000 incurred for the same period in 2018 related to increases in the credit facility to $95 million in April of 2019. The increase in accretion expense in both periods pertained to the decommissioning liability for new wells drilled and acquired.

At December 31, 2019 Spur had net debt of $55.5 million, which included $29.7 million drawn on our credit facility compared to net debt of $31.2 million and $15.5 million drawn at December 31, 2018. In October of 2019 the bank completed its credit facility review and renewed the $95 million credit facility, with no changes to the terms of the agreement. The next credit facility review is scheduled for May of 2020.

ADJUSTED FUNDS FROM OPERATIONS AND NET INCOME

The tables below summarize the adjusted funds from operations and net income for the quarter and year ended December 31, 2019:

Quarter ended December 31	2019		2018	
(thousands, except per unit amounts)	$	$/boe	$	$/boe
Petroleum revenue before tariffs	54,500	47.35	12,455	19.51
Natural gas revenue before tariffs	777	0.68	593	0.93
Tariffs	(1,478)	(1.28)	(404)	(0.63)
Petroleum and natural gas revenue	53,799	46.75	12,644	19.81
Realized hedging gains (losses)	(3,275)	(2.85)	1,847	2.89
Petroleum and natural gas revenue after hedging	50,524	43.90	14,491	22.70
Royalty expense	(4,200)	(3.65)	(1,306)	(2.05)
Transportation expense	(7,282)	(6.33)	(4,088)	(6.40)
Production expense	(5,504)	(4.78)	(3,291)	(5.16)
Field netback	33,538	29.14	5,806	9.09
General and administrative expense	(1,863)	(1.62)	(1,975)	(3.09)
Current income tax recovery	1,621	1.41	1,535	2.40
Interest expense net and bank charges	(263)	(0.23)	(46)	(0.07)
Adjusted funds from operations	33,033	28.70	5,320	8.33
Non-cash items:				
Depletion and depreciation	(12,042)	(10.46)	(5,535)	(8.67)
Accretion of decommissioning obligations	(166)	(0.14)	(157)	(0.25)
Unrealized gain (loss) on commodity contracts	(5,229)	(4.54)	31,453	49.27
Share based compensation	(651)	(0.57)	(514)	(0.81)
Exploration and evaluation	(150)	(0.13)	-	-
Impairment of assets	(2,160)	(1.88)	-	-
Gain on disposition of assets	-	-	-	-
Deferred income tax expense	(3,401)	(2.95)	(9,342)	(14.63)
Net income	9,234	8.03	21,225	33.24

Year ended December 31	2019		2018	
(thousands, except per unit amounts)	$	$/boe	$	$/boe
Petroleum revenue before tariffs	183,370	50.15	90,475	39.30
Natural gas revenue before tariffs	2,307	0.63	1,994	0.87
Tariffs	(4,458)	(1.22)	(2,244)	(0.97)
Petroleum and natural gas revenue	181,219	49.56	90,225	39.20
Realized hedging losses	(11,121)	(3.04)	(7,740)	(3.36)
Production revenue	170,098	46.52	82,485	35.84
Royalty expense	(13,764)	(3.76)	(6,253)	(2.72)
Transportation expense	(24,153)	(6.61)	(14,372)	(6.24)
Production expense	(17,854)	(4.88)	(12,242)	(5.32)
Field netback	114,327	31.27	49,618	21.56
General and administrative expense	(7,183)	(1.96)	(5,946)	(2.58)
Current income tax expense	(5,907)	(1.62)	(966)	(0.42)
Interest expense net and bank charges	(1,131)	(0.31)	(33)	(0.01)
Adjusted funds from operations	100,106	27.38	42,673	18.55
Non-cash items:				
Depletion and depreciation	(37,450)	(10.24)	(25,376)	(11.02)
Accretion of decommissioning obligations	(669)	(0.18)	(503)	(0.22)
Unrealized gain (loss) on commodity contracts	(26,720)	(7.31)	23,728	10.31
Share based compensation	(1,981)	(0.54)	(1,966)	(0.85)
Exploration and evaluation	(300)	(0.08)	-	-
Impairment of assets	(2,160)	(0.59)	(3,897)	(1.69)
Gain on disposition of assets	17	-	1,175	0.51
Deferred income tax expense	(2,482)	(0.68)	(8,858)	(3.85)
Net income	28,361	7.76	26,976	11.74

Spur generated $33.0 million of adjusted funds from operations for the quarter ended December 31, 2019, or $0.93 per share, basic and $0.84 per share, diluted on a weighted average basis, compared to $5.3 million, or $0.15 per share, basic and $0.13 per share, diluted on a weighted average basis for the quarter ended December 31, 2018. Spur generated $100.1 million of adjusted funds from operations for the year ended December 31, 2019, or $2.83 per share, basic and $2.55 per share, diluted on a weighted average basis. For the year ended December 31, 2018, Spur generated adjusted funds from operations of $42.7 million, or $1.21 per share, basic and $1.08 per share diluted on a weighted average basis.

The 6.2 and 2.3 times increase in adjusted funds from operations for the quarter and year ended December 31, 2019 compared to the respective periods a year ago, was largely a result of our increased Clearwater oil production from new wells arising from our successful drilling program. In addition, the increase in adjusted funds from operations was the result of stronger oil prices. The impact of pricing was most significant for the fourth quarter of 2019 compared to the fourth quarter of 2018, where the average selling price of for Spur's oil was up 129%.

DEPLETION AND DEPRECIATION EXPENSE

Spur incurred depletion and depreciation expense of $12.0 million or $10.46 per boe for the quarter ended December 31, 2019, compared to $5.5 million or $8.67 per boe for the quarter ended December 31, 2018. Spur incurred higher costs to drill wells in the fourth quarter of 2019 compared to 2018 as we drilled more wells at Nipisi that required the use of more expensive load oil rather than water, as was the case at Marten Hills. In addition, following up on earlier wells that resulted in opening up new areas northwest of Marten Hills, we drilled one well testing the boundaries of the play that was unsuccessful. For the year ended December 31, 2019, Spur's depletion and depreciation expense was $37.5 million or $10.24 per boe, compared to $25.4 million or $11.02 per boe for the year ended December 31, 2018. The lower cost per boe for the year ended December 31, 2019 compared to year ended December 31, 2018 was due to Spur's successful Clearwater drilling program and increased reserves as a result.

SHARE BASED COMPENSATION

The share-based compensation expense for the quarter ended December 31, 2019 was $651,000 related to the issuance of Class B and C shares, compared to $514,000 for the same quarter a year ago. For the year ended December 31, 2019, Spur's share-based compensation expense was $2.0 million compared to $2.0 million or the year ended December 31, 2018. The expense was higher in the quarter ended December 31, 2019 compared to the same period in 2018 as a result of new Class B shares issued in June 2019. For the year ended December 31, 2019 costs were flat compared to the year ended December 31, 2018 as the original Class B shares issued in 2017 were fully amortized in the first quarter of 2019, offsetting by the additional expense on the new grant in June of 2019.

At the end of December 2019, Spur had 2.5 million outstanding Class B shares issued to officers, employees and service providers of Spur at $0.01 per share. The outstanding balance included the issuance of 255,000 Class B shares during the June 2019 quarter to officers, employees and consultants as part of Spur's annual performance and compensation review. The Class B shares may be converted into common shares of Spur at a weighted average price of $5.98 per share once they have met the terms of conversion. They become convertible as to one third on each of the second, third and fourth anniversaries of the date of issue and at December 31, 2019, 669,000 of the outstanding Class B shares met the conversion terms. During the 2019 calendar year 33,334 Class B shares were converted into Spur common shares.

In addition, Spur has issued 3.5 million Class C shares at $0.01 per share to directors, officers and employees of Spur. The terms of these shares allow for the conversion of the Class C shares into Spur common shares on the occurrence of a liquidity event. The number of Class C shares that may be converted and the conversion prices are determined based on the liquidity event value. In determining the compensation expense related to the Class B and C shares issued, Spur used the Black Scholes option pricing model to calculate the fair value of the shares.

IMPAIRMENT OF PROPERTY AND EQUIPMENT

For the year ended December 31, 2019 Spur determined indicators of impairment existed and as a result of impairment tests performed, we recognized a $2.2 million impairment charge on the Drumheller CGU. For the year ended December 31, 2018 a $3.9 million impairment charge was recognized on the Colorado Dry Natural Gas CGU.

INCOME TAX EXPENSE

Spur reported an income tax expense for the quarter ended December 31, 2019 of $1.8 million on pretax income of $11.0 million. This compared to an income tax provision for the same quarter a year ago of $7.8 million on pretax income of $29.0 million. The tax provision for the December 2019 quarter was proportionally lower primarily due to the impact of reduction in tax rates tabled by the Alberta government in May of 2019.

The provision for income tax expense for the quarter ended December 31, 2019, included a recovery of current income tax of $1.6 million compared to recovery of $1.5 million for the quarter ended December 31, 2018. The recovery of current income tax in both the fourth quarter of 2019 and 2018 was attributable to higher capital spending in the final quarter of each of the years. This generated increased tax pool claims relative to taxable income in the respective quarters.

For the year ended December 31, 2019 Spur reported an income tax expense $8.4 million on pre-tax income of $36.8 million compared to $9.8 million on pre-tax income of $36.8 million. The lower income tax expense for the year ended December 31, 2019 was primarily due to the reduction in tax rates introduced by the government of Alberta in May of 2019.

The provision for income tax expense for the year ended December 31, 2019 included a current income tax expense $5.9 million compared to $966,000 for the year ended December 31, 2018. The increase in current income tax expense for the year ended December 31, 2019 compared to the year ended December 31, 2018 was due to oil production growth that generated increased taxable income.

NET INCOME AND COMPREHENSIVE INCOME

Spur's net income for the quarter ended December 31, 2019 was $9.2 million or $0.26 per share basic and $0.23 per share diluted on a weighted average basis, compared to a net income for the same quarter a year ago of $21.2 million or $0.60 per share basic and $0.54 per share diluted on a weighted average basis. Net income for the year ended December 31, 2019 was $28.4 million or $0.80 per share basic and $0.72 per share diluted on a weighted average basis, compared to a net income for the year ended December 31, 2018 of $27.0 million or $0.76 per share basic and $0.68 per share diluted on a weighted average basis. Despite a significant increase in production volumes, field netback and adjusted funds from operations on a boe basis, net income for the quarter ended December 31, 2019 was lower than the same period a year ago and up only marginally for the year ended December 31, 2019 compared to the year ended December 31, 2018. This was due to the inclusion of a $31.5 and $23.7 million unrealized gain on commodity contracts for the respective periods in 2018. The large unrealized gain on our commodity contracts was a result of the steep fall in oil prices at the end of the 2018 calendar year.

DECOMMISSIONING OBLIGATION

Spur's decommissioning obligation was $37.7 million at December 31, 2019, reflecting Spur's responsibility to abandon and reclaim its net share of all working interest properties, compared to $30.1 million at December 31, 2018. The increase in the obligation is primarily related to new wells drilled as we continue to develop our Clearwater resource. For the quarter and year ended December 31, 2019 Spur incurred reclamation expenditures of $262,000 and $1.2 million respectively. This compared to $221,000 and $438,000 for the quarter and year ended December 31, 2018 respectively. The expenditures incurred related primarily to the abandonment of natural gas wells. Spur's estimated costs to abandon and reclaim its working interest properties was based on guidelines outlined by the Alberta Energy Regulator and its own experience.

Spur's current Liability Management Rating as reported by the Alberta Energy Regulator is 11.4.

REPORTING PERIOD FINANCIAL INFORMATION
The following table summarizes Spur's production, adjusted funds flow from operations and net income (loss) for the last eight reporting periods.

	2019				2018			
Quarter ended	**Dec 31**	**Sep30**	**Jun 30**	**Mar 31**	**Dec 31**	**Sep 30**	**Jun 30**	**Mar 31**
Production (boe/d)	12,510	9,864	8,714	8,942	6,938	7,215	5,378	5,670
($ thousands, *except per share amounts*)								
Adjusted funds from operations	33,033	22,444	23,554	21,075	5,320	14,735	13,690	8,928
Per share (basic)	0.93	0.63	0.67	0.60	0.15	0.42	0.39	0.25
Per share (diluted)	0.84	0.57	0.60	0.54	0.13	0.37	0.35	0.24
Net income (loss)	9,234	10,570	22,501	(13,943)	21,225	6,582	(36)	(795)
Per share (basic)	0.26	0.30	0.64	(0.39)	0.60	0.19	(0.00)	(0.02)
Per share (diluted)	0.23	0.27	0.57	(0.39)	0.54	0.17	(0.00)	(0.02)

LIQUIDITY AND CAPITAL RESOURCES
For the quarter ended December 31, 2019, Spur's net capital expenditures of $52.7 million were financed by cash flow from operations of $31.0 million, bank debt of $10.6 million and an $11.1 increase in the non-cash working capital deficiency related to financing activities.

For the year ended December 31, 2019 Spur's capital expenditures of $123.3 million were funded by our cash flow from operations of $93.2 million, $14.4 million of bank debt, an equity issuance related to conversions of Class B shares, with the remainder funded by the $15.7 million increase in the non-cash working capital deficiency related to investing activities.

At December 31, 2019 Spur's senior secured credit facility of $95 million was drawn in the amount of $29.7 million. Advances under the facility bear interest at the banker's prime rate plus 75 basis points and/or at money market rates plus a stamping fee. At December 31, 2019 Spur had net debt of $55.5 million.

We anticipate funding our calendar year 2020 capital program primarily from cash flow from operations, with the difference funded by bank debt. In utilizing debt in its capital structure, Spur will target a net debt to annualized current quarter adjusted funds flow from operations ratio of less than one times. Spur defines net debt to include working capital including amounts drawn on its credit facility, excluding the fair value of commodity contracts and the current portion of the decommissioning obligation.

BUSINESS RISKS

Spur's exploration and production activities are concentrated in the Western Canadian Sedimentary Basin, where activity is highly competitive and includes a variety of different sized corporations. Spur is subject to several risks that are also common to organizations involved in the oil and gas industry. These risks can be categorized as operational, financial, environmental, safety and regulatory.

OPERATIONAL RISKS

Operational risks include generating, finding and developing, and acquiring oil and natural gas reserves on an economical basis (including acquiring and gaining access to land rights), reservoir production performance, marketing, production, hiring and retaining employees, and accessing contract services on a cost-effective basis. Spur attempts to mitigate these risks by employing highly qualified and motivated staff and operating in areas where employees have expertise. Spur ensures technical competence of its employees and consultants through adherence to good oilfield practice and senior management oversight. The Corporation outsources certain activities to be able to lever industry expertise. The Corporation has outsourced the marketing and legal functions associated with operating in the oil and gas industry in Canada, and utilizes reputable advisors with respect to reserve evaluation, financial statement audit, tax and legal matters. We carry industry standard insurance to cover losses related to significant operational risks, including business interruption, fire, pollution and third-party liability.

Spur's business includes acquiring existing oil and natural gas operations as well as contracting services for drilling and operating oil and gas wells. Spur will be competing against many other corporations for such operations, many of which will have greater access to resources. Spur mitigates this risk by maintaining a strong balance sheet to ensure prompt payment of its accounts. In addition, Spur builds strong long-term relationships with contract service providers to ensure prompt, efficient and reliable services.

FINANCIAL RISKS

Financial risks include commodity prices, heavy and light oil differentials, the US/Canadian dollar exchange rate and interest rates, all of which are largely beyond the Corporation's control. Spur maintains a price risk management program to hedge commodity prices and foreign exchange currency rates with credit worthy counterparties.

Exploration for and production of oil and gas is capital intensive. In addition to funds from operations, the corporation accesses the equity markets as a source of new capital and utilizes bank financing to support ongoing capital investments. Funds from operations as a source of capital fluctuate with changing commodity prices. Equity and debt capital are subject to market conditions and availability may increase or decrease from time to time. Bank borrowings available to the Corporation may, in part, be determined by the Corporation's borrowing base.

A sustained material decline in prices from historical average prices could reduce the Corporation's borrowing base, therefore reducing the bank credit available to the Corporation which could require that a portion of the Corporation's bank debt be repaid. In the current economic climate, including the recent deterioration in commodity prices, the Corporation's ability to access both credit and equity markets may be compromised or prohibited as many credit lenders and equity investors are restricting funds available to companies like Spur and as a result, Spur may have to alter its future spending plans.

To mitigate risks in these areas, Spur utilizes modest levels of financial leverage and closely monitors its capital spending program considering industry developments. We rigorously review all capital projects and property acquisitions. In addition, we strive to operate the majority of our prospects thereby maintaining operational and cost control. Spur is focused on developing a low-cost operating structure, to maximize its netbacks to reduce the impact of commodity price cycles.

ENVIRONMENTAL RISKS

The oil and gas industry is subject to various environmental risks, including those associated with environmental contamination and greenhouse gas emissions. Spur mitigates the impact of these risks and we believe that we are among the top performers in Western Canada by several key environmental measures. These measures include:

- Spur does not frack its wells, which eliminates the water use and diesel or natural gas consumption associated with these activities, and also reduces the need to process and dispose of produced frack water;
- Spur does not require steam to heats its reservoirs, as it common among most oil sands operators, which also dramatically reduces energy and water use treatment and disposal;
- Spur captures nearly all of the associated methane gas (a potent greenhouse gas) from its oil wells, rather than flaring or venting it as a waste product;
- The new pipeline at Marten Hills will significantly reduce the energy use and emissions associated with trucking oil; and
- The strong capital efficiency of the Clearwater play also translates into strong environmental efficiency, as the energy requirements and associated emissions on a per-barrel basis to drill for and produce Clearwater oil are far lower than they would be for most other plays in western Canada.

INDIGENOUS CLAIMS

Indigenous peoples have claimed Indigenous and treaty rights to portions of Western Canada. Spur is not aware that any claims have been made in respect of Spur's assets; however, if a claim arose and was successful this could have an adverse effect on Spur and its operations. In addition, the process of addressing such claims, regardless of the outcome, is expensive and time consuming and could result in delays which could have a material adverse effect on the Corporation's business and financial condition. To mitigate the risk posed by Indigenous claims and issues, Spur proactively engages and consults with First Nations, Metis Settlements and Indigenous communities on all projects undertaken on Traditional Territories. The corporation has a dedicated position, Director of Government Affairs, responsible for stewarding the corporation's Indigenous Relations Policy, including:

- Consistent, meaningful and good-faith consultation with First Nations and Metis groups;
- Providing opportunities for local, indigenous employment and business development;
- Facilitating community investments in the areas where we work;
  and
- Developing long-term, mutually beneficial relationships.

MARKET ACCESS CONSTRAINTS AND TRANSPORTATION RESTRICTIONS

Our production is transported through various pipelines which can be subject to disruptions in or restricted availability of, pipeline service and/or rail transport, could adversely affect crude oil and natural gas sales, projected production growth, and cashflows. Interruptions or restrictions in the availability of these pipeline systems may also limit the ability to deliver production volumes and could adversely impact commodity prices, sales volumes and/or the prices received for our products. These interruptions and restrictions may be caused by the inability of the pipeline to operate, or they may be related to capacity constraints as the supply of feedstock into the system exceeds the infrastructure capacity. There can be no certainty that investments in new pipeline projects, which would result in an increase in long-term takeaway capacity, will be made by applicable third-party pipeline providers or that any application to expand capacity will receive the required regulatory approval, or that any such approvals will result in the construction of the pipeline project. There is also no certainty that short-term operational constraints on the pipeline system, arising from pipeline interruption and/or increased supply of crude oil, will not occur.

There is no certainty that crude-by-rail and other alternative types of transportation for our production will be sufficient to address any gaps caused by operational constraints on the pipeline system. In addition, our crude-by-rail shipments may be impacted by service delays, inclement weather, railcar availability, railcar derailment or other rail transport incidents and could adversely impact crude oil sales volumes or the price received for product or impact our reputation or result in legal liability, loss of life or personal injury, loss of equipment or property, or environmental damage. In addition, new regulations, which will be phased in over time until 2025, will require tank cars used to transport crude oil by rail to be replaced with newer tank cars, or to be retrofitted to meet the same standards. The costs of complying with the new standards, or any further revised standards, will likely be passed on to rail shippers and may adversely affect our ability to transport crude-by-rail or the economics associated with rail transportation. Finally, planned or unplanned shutdowns or closures of our refinery customers may limit our ability to deliver product with negative implications on sales and cash from operating activities.

Insufficient transportation capacity for our products will impact our ability to efficiently access end markets. This may negatively impact our financial performance by way of higher transportation costs, wider price differentials, lower sales prices at specific locations or for specific grades of crude oil, and in extreme situations, production curtailment.

GLOBAL OR NATIONAL HEALTH CONCERNS

Global or national health concerns, including the outbreak of pandemic or contagious diseases, such as COVID-19 (coronavirus), may adversely affect us by (i) reducing global economic activity thereby resulting in lower demand for crude oil, NGLs and natural gas, (ii) impairing its supply chain (for example, by limiting the manufacturing of materials or the supply of services used in our operations), and (iii) affecting the health of our workforce, rendering employees unable to work or travel. In this current challenging economic climate, it is not possible to reliably estimate the length or severity of these developments and their financial impact. The continuation of these conditions for an extended period of time, could have a significant adverse impact on our financial results for future periods. Spur is well positioned to withstand this challenging environment with a strong balance sheet, low levels of debt, strong hedging positions, and flexibility to adjust capital spending plans and production levels. In order to protect our employees and contractors during the COVID-19 pandemic, Spur employees and contractors may work from home. Spur employees and contractors practice social distancing when they are required to work in the head or field offices. Additionally, field operations employees and contractors staying in camps or at battery sites are required to eliminate social interactions after hours, practice social distancing while working to limit face to face interaction and minimize contact with other service providers. If larger meetings are required, Spur utilizes virtual meeting cloud-based video conferencing technology.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and the Board of Directors of Spur Petroleum Ltd.

Opinion

We have audited the consolidated financial statements of Spur Petroleum Ltd. (the "Company"), which comprise:

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

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

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

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion & Analysis.

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

In connection with our audit of the 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 financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in Management's Discussion and Analysis as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
April 9, 2020

SPUR PETROLEUM LTD.

Consolidated Statement of Financial Position

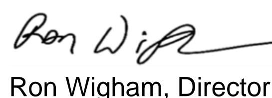
As at:	December 31, 2019	December 31, 2018
($ thousands)		
ASSETS		
Current assets		
Trade and other receivables (Note 17)	20,052	5,313
Prepaid expenses and deposits	714	555
Fair value of commodity contracts (Note 13)	72	20,879
	20,838	26,747
Exploration and evaluation assets (Note 5)	2,682	2,982
Property and equipment, net (Note 6)	236,768	144,928
	260,288	174,657
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	41,288	20,596
Income tax payable	5,183	966
Demand credit facility (Note 7)	29,745	15,509
Current portion of decommissioning obligations (Note 8)	935	869
Fair value of commodity contracts (Note 13)	7,244	1,331
	84,395	39,271
Deferred income tax (Note 14)	7,644	5,162
Decommissioning obligations (Note 8)	36,779	29,263
	128,818	73,696
SHAREHOLDERS' EQUITY		
Share capital (Note 9)	102,219	102,052
Contributed surplus	5,646	3,665
Retained earnings (deficit)	23,605	(4,756)
	131,470	100,961
	260,288	174,657

Commitments (Note 20)

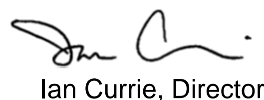
Subsequent event (Note 13, 21)

See accompanying notes to the Consolidated Interim Financial Statements

Approved on behalf of the board:



Ron Wigham, Director



Ian Currie, Director

SPUR PETROLEUM LTD.

Consolidated Statement of Income and Comprehensive Income

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Revenues		
Petroleum and natural gas (Note 12)	181,219	90,225
Royalties	(13,764)	(6,253)
Revenue, net of royalties	167,455	83,972
Realized loss on commodity contracts (Note 17)	(11,121)	(7,740)
Unrealized gain (loss) on commodity contracts (Note 17)	(26,720)	23,728
Gain on disposition of assets	17	1,175
	129,631	101,135
Expenses		
Production	17,854	12,242
Transportation	24,153	14,372
General and administrative	7,183	5,946
Depletion and depreciation (Note 6)	37,450	25,376
Exploration and evaluation (Note 5)	300	-
Impairment of assets (Note 6)	2,160	3,897
Share based compensation (Note 9)	1,981	1,966
	91,081	63,799
Income before finance and income taxes	38,550	37,336
Finance expense, net (Note 11)	1,800	536
Income before income tax	36,750	36,800
Current income tax expense (Note 14)	5,907	966
Deferred income tax expense (Note 14)	2,482	8,858
Income tax expense	8,389	9,824
Net income and comprehensive income	28,361	26,976
Weighted average shares outstanding - basic *(thousands)* (Note 10)	35,410	35,389
Weighted average shares outstanding - diluted *(thousands)* (Note 10)	39,310	39,501
Net income per share - basic	$ 0.80	$ 0.76
Net income per share - diluted	$ 0.72	$ 0.68

See accompanying notes to Consolidated Interim Financial Statements

SPUR PETROLEUM LTD.

Consolidated Statement of Changes in Shareholders' Equity

	Share Capital	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
($ thousands)				
Balance at December 31, 2017	102,050	1,699	(31,732)	72,017
Net income	-	-	26,976	26,976
Class B shares issued (Note 9)	2	-	-	2
Share-based compensation expense (Note 9)	-	1,966	-	1,966
Balance at December 31, 2018	102,052	3,665	(4,756)	100,961
Balance at December 31, 2018	102,052	3,665	(4,756)	100,961
Net income	-	-	28,361	28,361
Commons shares issued (Note 9)	164	-	-	164
Class B shares issued (Note 9)	3	-	-	3
Share-based compensation expense (Note 9)	-	1,981	-	1,981
Balance at December 31, 2019	102,219	5,646	23,605	131,470

See accompanying notes to the Consolidated Interim Financial Statements

SPUR PETROLEUM LTD.

Consolidated Statement of Cash Flows

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Cash provided by (used in):		
Operating Activities		
Net income	28,361	26,976
Add (deduct) non-cash items:		
Depletion and depreciation (Note 6)	37,450	25,376
Accretion of decommissioning obligations (Note 8)	669	503
Unrealized loss (gain) on commodity contracts (Note 17)	26,720	(23,728)
Share-based compensation (Note 9)	1,981	1,966
Exploration and evaluation (Note 5)	300	-
Impairment of assets (Note 6)	2,160	3,897
Gain on disposition of assets	(17)	(1,175)
Deferred income tax expense (Note 14)	2,482	8,858
	100,106	42,673
Decommissioning expenditures (Note 8)	(1,193)	(438)
Change in non-cash working capital (Note 19)	(5,747)	4,170
	93,166	46,405
Financing Activities		
Common shares issued (Note 9)	164	-
Issue of class B shares (Note 9)	3	2
Proceeds from demand credit facility (Note 7)	14,236	15,509
	14,403	15,511
Investing Activities		
Exploration and evaluation additions (Note 5)	(10)	(489)
Exploration and evaluation acquisitions (Note 5)	-	(2,860)
Property and equipment additions (Note 6)	(123,367)	(83,344)
Property and equipment acquisition (Note 6)	-	(306)
Property and equipment disposition proceeds (Note 6)	50	3,918
Change in non-cash working capital (Note 19)	15,758	2,755
	(107,569)	(80,326)
Increase (decrease) in cash and cash equivalents	-	(18,410)
Cash and cash equivalents, beginning	-	18,410
Cash and cash equivalents, ending	-	-

See accompanying notes to the Consolidated Interim Financial Statements

SPUR PETROLEUM LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2019

(tabular amounts in thousands)

1. FORMATION OF SPUR PETROLEUM LTD.

Spur Petroleum Ltd., ("the Corporation" or "Spur") was incorporated under the Alberta Business Corporations Act on November 14, 2016 and commenced active business as an oil and natural gas exploration and production corporation on January 11, 2017 when certain assets of Spur Resources Ltd. were transferred to Spur pursuant to a Plan of Arrangement involving Spur Resources Ltd., Tamarack Valley Energy Ltd. and Spur (the "Arrangement"). The Arrangement is described in Note 5. Spur's principal place of business is located at 1200, 332 – 6th Ave. S.W., Calgary, Alberta, Canada.

2. BASIS OF PRESENTATION

A. STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). A summary of the significant accounting policies is presented in Note 3.

The consolidated financial statements were approved by the Board of Directors on April 9, 2020.

B. BASIS OF MEASUREMENT

The consolidated financial statements have been prepared on a historical cost basis, except for certain commodity contracts which are measured at fair value. The consolidated financial statements have been prepared on a going concern basis in Canadian dollars, which is the Corporation's functional currency.

C. BASIS OF CONSOLIDATION

The consolidated financial statements include accounts of the Corporation and its wholly owned subsidiaries.

D. USE OF ESTIMATES AND JUDGMENTS

The timely preparation of financial statements requires management to make estimates and use judgement regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the applicable periods. Such estimates primarily relate to unsettled transactions and events as at the date of the consolidated financial statements. Accordingly, actual results could differ from the estimates in these. Significant estimates and judgments made by management in the preparation of these consolidated financial statements are outlined below.

(i) KEY SOURCES OF ESTIMATION UNCERTAINTY

By their nature, estimates are subject to measurement uncertainty. Significant estimates made by management in the preparation of these consolidated financial statements are as follows:

RESERVES

Estimation of recoverable quantities of proved and probable reserves include estimates and assumptions regarding future commodity prices, exchange rates, discount rates and production and transportation costs for future cash flows as well as the interpretation of complex geological and geophysical models and data. Changes in reported reserves can affect the impairment of assets, the reported amount of decommissioning obligations, the economic feasibility of exploration and evaluation assets and the amounts reported for depletion of property and equipment. These reserve estimates are verified by third party professional engineers, who work with information provided by the Corporation to establish reserve determination in accordance with the definitions prescribed by the Canadian Oil and Gas Evaluations Handbook and National Instrument (COGE) 51-101.

ACQUISITIONS

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

DECOMMISSIONING OBLIGATIONS

Amounts recorded for decommissioning obligations and the related accretion expense require the use of estimates with respect to the amount and timing of decommissioning expenditures. Actual costs and cash outflows can differ from estimates because of changes in law and regulations, public expectations, market conditions, discovery and analysis of site conditions and changes in technology.

DERIVATIVE FINANCIAL INSTRUMENTS

The estimated fair value of derivative commodity contracts results in financial assets and liabilities that, by their very nature, are subject to measurement uncertainty.

SHARE BASED COMPENSATION

Share based compensation recorded pursuant to share based compensation plans are subject to estimated fair values, forfeiture rates, volatility and the future attainment of performance criteria, if any.

DEFERRED TAXES

Tax interpretations, regulations and legislation are subject to interpretation and change. As such, income taxes are subject to measurement uncertainty. Deferred income tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

(ii) CRITICAL JUDGEMENTS

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

DETERMINATION OF CASH GENERATING UNITS

The recoverability of carrying values are assessed at a cash generating unit ("CGU") level. Determination of what constitutes a CGU is subject to management judgment. The asset composition of a CGU can directly impact the recoverability of the assets included therein.

RECOVERABILITY OF ASSET CARRYING VALUES

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

The application of the Corporation's accounting policy for exploration and evaluation assets requires management to make certain judgements regarding future events and circumstances as to whether economic quantities of reserves have been found.

3. SIGNIFICANT ACCOUNTING POLICIES

A. FINANCIAL INSTRUMENTS

(i) RECOGNITION AND MEASUREMENT

Trade receivables or debt securities issued are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Corporation becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) CLASSIFICATION AND SUBSEQUENT MEASUREMENT

On initial recognition, a financial asset is classified and measured at: amortized cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value through profit or loss (FVTPL). The Corporation's cash and accounts receivable are classified as measured at amortized cost. The Corporation's commodity contracts, described below, are measured at FVTPL.

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in income (loss). Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The Corporation's accounts payable and accrued liabilities and credit facility (when drawn) are classified as other financial liabilities measured at amortized cost.

(iii) OFFSETTING

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

(iv) DERIVATIVES

The Corporation utilizes financial derivatives and non-financial derivatives, such as swaps, costless collars and fixed-price commodity sales contracts requiring physical delivery, to manage the price risk attributable to anticipated sale of oil and natural gas production. The Corporation accounts for all fixed price commodity contracts, including physical contracts, at fair value, with changes in fair value recognized in earnings.

B. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION ASSETS

(i) RECOGNITION AND MEASUREMENT

Pre-license costs are recognized in the statement of income (loss) as exploration and evaluation expense as the costs are incurred.

(ii) EXPLORATION AND EVALUATION COSTS

Exploration and evaluation costs, including the costs of acquiring licenses, undeveloped land and drilling costs are initially capitalized as exploration and evaluation assets. The costs are accumulated in cost centres by well, field or area pending determination of technical feasibility and commercial viability. The technical feasibility and commercial viability of extracting resources is generally considered to be determinable when proved or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. If it is determined that development of the property is technically feasible and commercially viable, the drilling costs and associated undeveloped lands are transferred to property and equipment. The cost of undeveloped land that expires is recognized as exploration and evaluation expense and any impairment recognized during a period is charged as impairment expense.

(iii) DEVELOPMENT AND PRODUCTION COSTS

Items of property and equipment, which include crude oil and natural gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. The development and production assets are grouped into CGU's for the purpose of impairment testing. Within a CGU, when significant parts of property and equipment have different useful lives, the parts are accounted for as separate items (major components) of property and equipment.

Gains and losses on the disposition of property and equipment, including crude oil and natural gas interests, are determined by comparing the proceeds from disposition with the carrying amount of the property and equipment and are recognized on a net basis in the statement of income (loss).

(iv) SUBSEQUENT COSTS

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of property and equipment are recognized as crude oil and natural gas interests only when the costs increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in the statement of income (loss) as incurred. Such capitalized oil and natural gas interests generally represent costs incurred in developing proved or proved plus probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in the statement of income (loss) as incurred.

(v) DEPLETION AND DEPRECIATION

The net carrying amount of development and production assets is depleted using the unit-of-production method by reference to the ratio of production in the period to the related proved plus probable reserves, taking into account estimated future development costs necessary to bring those reserves into production. These estimates are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated annually using independent reserve engineering reports in accordance with COGEH and represent the estimated quantities of crude oil and natural gas which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for the proved component of proved and probable reserves are 90 percent.

Such reserves may be considered commercially producible if management has the intention of developing and producing them and such intention is based upon 1) a reasonable assessment of the future economics of such production, 2) a reasonable expectation that there is a market for all or substantially all the expected crude oil and natural gas production and 3) evidence that the necessary production, transmission and transportation facilities are available or can be made available.

For other assets, depreciation is recognized in the statement of income (loss) on a declining balance basis over the estimated useful lives of each part of an item of property and equipment. Any 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.

Depreciation methods, useful lives and residual values are reviewed at least annually.

C. IMPAIRMENT

(i) FINANCIAL ASSET

Loss allowances for trade receivables are measured at an amount equal to lifetime expected credit losses (ECLs). ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the Corporation in accordance with the contract and the cash flows that the Corporation expects to receive). Loss allowances for financial assets measured at amortized cost, if any, are deducted from the gross carrying amount of the assets. At December 31, 2019 the Corporation has not recorded any loss allowances.

(ii) NON-FINANCIAL ASSETS

The carrying amounts of the Corporation's property and equipment 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. Exploration and evaluation assets are assessed for impairment when they are reclassified to property and equipment and also when facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The cost of undeveloped land that expires is recognized as exploration and evaluation expense.

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

In estimating value in use, the projected future cash flows from proved and probable reserves and undeveloped properties are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the assets.

Fair value less cost to sell is determined as the amount that would be obtained from the sale of a CGU in an arm's length transaction between knowledgeable and willing parties. The fair value less costs to sell of oil and gas assets is generally determined as the net present value of the estimated future cash flows expected to arise from the continued use of the CGU. These cash flows are discounted by an appropriate discount rate which would be applied by such a market participant to arrive at a net present value of the CGU.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in the statement of income. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the assets in the unit on a pro rata basis.

Impairment losses in respect of property and equipment and exploration and evaluation assets recognized in prior years 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 depletion and depreciation, if no impairment loss had been recognized.

D. LEASED ASSETS

At inception of a contract, the Corporation determines whether a contract is, or contains a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Corporation recognizes a right-of-use asset and a corresponding lease obligation at the lease commencement date. The right of use asset is initially measured based on the initial amount of the lease obligation adjusted for lease payments made at or before the commencement date. The assets are depreciated over the term of the lease using the straight-line method as this most closely reflects the anticipated pattern of consumption of future economic benefits.

The lease obligation is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease, or if the rate cannot be readily determined, the Corporation's incremental borrowing rate. Lease components are included in the present value calculation of lease payments, with non-lease components expensed as incurred. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease obligation. The lease obligation is subsequently measured at amortized cost using the effective interest rate method.

E. SHARE-BASED PAYMENTS

The fair value of share-based compensation granted to officers, directors, employees and consultants is measured on the issue date using the Black Scholes pricing model. The fair value is subsequently recognized as share-based compensation expense over the vesting period with a corresponding increase to contributed surplus. Upon conversion of the Class B and Class C shares to common shares, consideration paid by the Class B and Class C shareholders and the value in contributed surplus pertaining to the converted Class B and Class C shares are recorded as share capital. A forfeiture rate is estimated on the issue date with the difference between the estimated and actual forfeitures adjusted through share-based compensation expense.

Share-based compensation awards that settle in cash or have the option to settle in cash or shares are measured at fair value each reporting period and recognized as an expense over the vesting period, with a corresponding adjustment to liabilities. When awards are surrendered for cash, the cash settlement paid reduces the outstanding liability. When awards are exercised for common shares, consideration paid by the holder and the previously recognized liability associated with the options are recorded to share capital in shareholders' equity.

F. PROVISIONS

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax risk-free rate that reflects current market assessments of the time value of money. Provisions are not recognized for future operating losses.

G. DECOMMISSIONING OBLIGATIONS

The Corporation's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provision is made for the estimated cost of abandonment and site restoration and capitalized in the relevant asset category.

Decommissioning obligations are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the date of the statement of financial position, using a risk-free discount rate. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

The increase in the provision due to the passage of time is recognized as finance costs whereas increases and decreases due to changes in the estimated future cash flows are capitalized. Actual costs incurred upon settlement of the decommissioning obligations are charged against the provision to the extent the provision was established.

H. BUSINESS COMBINATIONS

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

I. REVENUES

Spur's production revenues from the sale of crude oil and natural gas are based on consideration in specified contracts with customers. Spur recognizes revenue when it transfers control of the product to the customer, which is generally when legal title passes to the customer which is when it is physically transferred to the pipeline or other transportation method agreed upon and collection is reasonably assured. The amount of revenue recognized is based on the consideration specified in the contract.

Spur evaluates its arrangements with third parties and partners to determine if Spur is acting as the principal or as an agent. Spur is considered the principal in a transaction when it has primary responsibility for the transaction. If Spur acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by Spur from the transaction.

J. FINANCE COSTS

Finance costs are comprised of interest expense on borrowings and accretion of the discount on decommissioning liabilities.

K. INCOME TAX

Income tax expense comprises current and deferred tax. Income tax expense is recognized in the statement of income (loss) except to the extent that it relates to a business combination or items recognized directly in equity, in which case it is recognized in equity or other comprehensive income. In the case where tax arises from a business combination the tax effect is included in the accounting for the business combination.

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

Deferred tax is recognized using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination.

In addition, deferred taxes are not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred taxes are 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, 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 profits will be available against which the temporary differences 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.

L. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing the net earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the year. Diluted earnings per share is determined by adjusting the net earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as options granted.

M. CHANGES IN ACCOUNTING POLICIES

The Corporation adopted IFRS 16 “Leases” on January 1, 2019. IFRS 16 introduces a single lease accounting model for lessees which requires a right-of-use asset and lease liability to be recognized on the balance sheet for contracts that are, or contain, a lease. The Corporation elected to not apply lease accounting to certain leases which the lease term ends within 12 months of the date of initial application.

The Corporation has adopted IFRS 16 on January 1, 2019 using the modified retrospective method which does not require restatement of prior period comparative financial information. The Corporation has completed the evaluation of all contracts that within the scope of IFRS 16 and has determined no transition adjustment was required January 1, 2019.

N. FUTURE ACCOUNTING CHANGES

In October 2018, the International Accounting Standards Board (IASB or Board) issued amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. IFRS 3 continues to adopt a market participant’s perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; remove the assessment of whether market participants are capable of replacing any missing elements; add guidance to help entities assess whether an acquired process is substantive; narrow the definitions of a business and of outputs; and introduce an optional fair value concentration test.

The amendments to IFRS 3 are effective for annual reporting beginning on or after January 1, 2020 and apply prospectively. Early application is permitted.

4. DETERMINATION OF FAIR VALUES

Certain of the Corporation’s accounting measurements and disclosures require the determination of fair value. Fair values have been determined based on the following methods.

A. PROPERTY AND EQUIPMENT AND EXPLORATION AND EVALUATION

The fair value of property and equipment and exploration and evaluation assets recognized in a business combination or used in an impairment test, is based on market values. The market value of crude oil and natural gas interests (included in property and equipment) is generally estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production based on externally prepared reserve reports. The risk-adjusted discount rate is specific to the asset with reference to general market conditions.

The market value of other items of property and equipment and exploration and evaluation assets is based on available industry data for similar items.

B. NON - DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, accounts receivable, credit facility, and accounts payable and accrued liabilities is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At December 31, 2019, the fair value of these balances approximated their carrying value due to their short term to maturity.

C. DERIVATIVES

The fair value of forward contracts and swaps which are based on level 2 inputs is determined by discounting the difference between the contracted prices and published forward price curves as at the date of the statement of financial position, using the remaining contracted oil and natural gas volumes and a credit adjusted interest rate. The fair value of options and costless collars is based on option models that use level 2 inputs, being published information with respect to volatility, prices and interest rates. The derivatives are carried at fair value on the statement of financial position and therefore carrying amount equals fair value. Changes in fair value are reflected as an unrealized gain or loss in the statement of income (loss).

D. SHARE-BASED COMPENSATION

The fair value of employee share options is measured using a Black-Scholes pricing model. Measurement inputs included the share price on grant date, exercise price of the instrument, estimated probability of a liquidity event and liquidity price thresholds, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends and the risk-free interest rate (based on government bonds). As the Corporation's common shares do not trade on a public market exchange, the share price on grant date is determined as management's best estimate using activity on the grey market for Spur stock during the period in which the grant is issued. See Note 9 for details.

5. EXPLORATION AND EVALUATION ASSETS

Cost	Total
($ thousands)	
Balance at December 31, 2017	517
Additions	489
Acquisitions	2,860
Transferred to property and equipment	(884)
Balance at December 31, 2018	2,982
Additions	10
Transferred to property and equipment	(10)
Expiries	(300)
Balance at December 31, 2019	2,682

6. PROPERTY AND EQUIPMENT

Cost	Total
($ thousands)	
Balance at December 31, 2017	101,676
Additions	83,344
Acquisitions	306
Dispositions	(3,657)
Transferred from exploration and evaluation	884
Decommissioning costs acquired	3,398
Decommissioning costs increase	8,874
Balance at December 31, 2018	194,825
Additions	123,367
Dispositions	(33)
Transferred from exploration and evaluation	10
Decommissioning costs increase	8,106
Balance at December 31, 2019	326,275

Accumulated depletion, depreciation and impairment	Total
($ thousands)	
Balance at December 31, 2017	(21,158)
Depletion and depreciation	(25,376)
Impairment	(3,897)
Disposition	534
Balance at December 31, 2018	(49,897)
Depletion and depreciation	(37,450)
Impairment	(2,160)
Balance at December 31, 2019	(89,507)

Carrying value	Total
($ thousands)	
Balance at December 31, 2018	144,928
Balance at December 31, 2019	236,768

In accordance with IFRS, an impairment test is performed on a CGU if the Corporation identifies an indicator of impairment. At December 31, 2019 Spur determined that indicators of impairment existed due to decreases in forecasted forward commodity benchmark prices. An impairment is recognized if the carrying value of a CGU exceeds the recoverable amount for that CGU. After performing the test, the Corporation determined that an impairment of $2.2 million should be recognized on the Drumheller CGU, while the remaining CGU's all had recoverable amounts greater than it's carrying value.

The Corporation determined the recoverable amount of the Drumheller CGU based on discounted future cash flows of total proved plus probable reserves using forecast prices and costs, discounted at a pre-tax rate of 15%. The carry amount for the Drumheller CGU exceeded the fair market value less costs to sell by $2.2 million so an impairment charge was recognized for the year ended December 31, 2019. The recoverable amount of the Drumheller CGU was $2.3 million at December 31, 2019.

The following table outlines forecast benchmark prices and exchange rates used in the Corporation's impairment test at December 31, 2019:

SUMMARY OF PRICING ASSUMPTIONS
EFFECTIVE JANUARY 1, 2020
FORECAST PRICES AND COSTS

	OIL			NATURAL GAS			
Year	WTI Cushing Oklahoma ($US/Bbl)	Edmonton Par Price 40° API ($Cdn/Bbl)	WCS Heavy Oil at Hardisty ($Cdn/Bbl)	NYMEX Futures Contract ($US/mmbtu)	AECO Gas Price ($Cdn/mmbtu)	Saskatchewan Plant Gate Spot ($/mmbtu)	USD/CAD Exchange Rates
Forecast:							
2020	61.00	72.64	57.57	2.62	2.04	2.49	0.7600
2021	63.75	76.06	62.35	2.87	2.32	2.72	0.7700
2022	66.18	78.35	64.33	3.06	2.62	2.89	0.7850
2023	67.91	80.71	66.23	3.17	2.71	2.88	0.7850
2024	69.48	82.64	67.96	3.24	2.81	2.98	0.7850
2025	71.07	84.60	69.72	3.32	2.89	3.06	0.7850
2026	72.68	86.57	71.49	3.39	2.96	3.13	0.7850
2027	74.24	88.49	73.19	3.46	3.03	3.20	0.7850
2028	75.73	90.31	74.80	3.52	3.10	3.27	0.7850
2029	77.24	92.17	76.43	3.60	3.17	3.34	0.7850
2030	78.79	94.01	77.96	3.67	3.24	3.41	0.7850
2031	80.36	95.89	79.52	3.74	3.30	3.48	0.7850
2032	81.97	97.81	81.11	3.81	3.37	3.55	0.7850
2033	83.61	99.76	82.73	3.89	3.43	3.62	0.7850
2034	85.28	101.76	84.39	3.97	3.50	3.70	0.7850
2035	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	+2.0%/yr	0.7850

For the year ended December 31, 2018, the Corporation recognized an impairment of $3.9 million with respect to the Colorado Dry Natural gas CGU. The recoverable amount for the Colorado Dry Natural Gas CGU was based on discounted future cash flows of total proved plus probable reserves using forecast prices and costs, discounted at a pre-tax rate of 15%.

7. CREDIT FACILITY

At December 31, 2019, the Corporation had a $95 million credit facility with a Canadian chartered bank, as lender and agent. The senior secured demand credit facility is subject to periodic borrowing base reviews to determine the maximum borrowing amount. Advances under the credit facility are secured by a $500 million demand debenture with a floating charge over all assets of the Corporation. Borrowings under the credit facility may be made by prime loans, banker's acceptances and/or U.S. libor advances. The advances bear interest at the banker's prime rate plus 0.75% per annum, and/or at money market rates plus a stamping fee. As at December 31, 2019, the Corporation's credit facility had $29.7 million drawn (December 31, 2018 - $15.5 million). The next credit facility review is scheduled for May 2020.

8. DECOMMISSIONING OBLIGATIONS

The Corporation's decommissioning obligations result from its responsibility to abandon and reclaim its net share of all working interest properties. At December 31, 2019 the estimated total uninflated and undiscounted amount of expenditures required to settle decommissioning obligations was approximately $39.9 million (December 31, 2018 - $31.6 million). Payments to settle the obligations are expected to occur continuously over the life of the Corporation's reserves the majority of which are expected to be incurred between 2025 and 2033. At December 31, 2019 a risk-free rate of 1.76% and an inflation rate of 1.35% was used to calculate the fair value of the decommissioning obligation. (December 31, 2018 – risk free rate 2.3% and inflation rate 2.0%).

Reconciliation of decommissioning obligations	Total
($ thousands)	
Balance at December 31, 2017	18,175
Liabilities incurred	9,128
Change in estimates	(254)
Liabilities assumed on acquisitions	3,398
Liabilities removed on dispositions	(380)
Liabilities settled	(438)
Accretion expense	503
Balance at December 31, 2018	30,132
Liabilities incurred	9,019
Change in estimates	(913)
Liabilities settled	(1,193)
Accretion expense	669
Balance at December 31, 2019	37,714

Comprised of	
Current portion	935
Long-term portion	36,779

The change in estimates for the year ended December 31, 2019 resulted from the decommissioning obligations being revalued using a risk-free rate of 1.76% and an inflation rate of 1.35% as opposed to a risk-free rate of 2.3% used at December 31, 2018 and an inflation rate of 2%.

9. SHARE CAPITAL

A. ISSUED AND OUTSTANDING

The Corporation is authorized to issue the following shares:

Unlimited number of common voting shares ("common shares") without nominal or par value,
Unlimited number of preferred voting shares ("preferred shares") issuable in series without nominal or par value,
Unlimited number of Class B common non-voting shares ("Class B") issuable in series without nominal or par value,
Limited number of Class C common non-voting shares ("Class C") without nominal or par value.

Common Shares	Number of shares (thousands)	Amount ($ thousands)
Balance at December 31, 2018	35,389	101,994
Common shares issued on conversion of Class B	33	164
Balance at December 31, 2019	35,422	102,158

Class B Shares	Number of shares (thousands)	Amount ($ thousands)
Balance at December 31, 2018	2,267	23
Class B shares converted to common	(33)	-
Class B shares issued	255	3
Balance at December 31, 2019	2,489	26

Class C Shares	Number of shares (thousands)	Amount ($ thousands)
Balance at December 31, 2018 and December 31, 2019	3,521	35

Common shares are subject to the provisions and terms contained in Schedule A of the Corporation's Articles of Incorporation and to the provisions and terms of the respective subscription agreements among the Corporation and its shareholders.

B. CLASS B SHARES

Class B shares have been reserved for issue to directors, officers, employees and consultants of the Corporation. The Board of Directors resolved that the aggregate number of Class B shares may not exceed 10% of the issued and outstanding common shares of the Corporation. For the year ended December 31, 2019, the Corporation issued 255,000 Class B shares for total proceeds of $2,550. The fair market value of each Class B share issued was estimated on the date of issue using the Black-Scholes pricing model and the following assumptions in the calculations:

	Year ended December 31, 2019	Year ended December 31, 2018
Weighted average risk-free interest rate	1.64%	1.99%
Expected life (years)	3.5 - 4.5	3.5 - 4.5
Expected volatility	43.0%	52.0%
Expected dividend yield	-	-
Estimated forfeiture rate	-	-
Fair value per share	$ 5.67	$ 4.83

Class B shares are convertible to common shares of the Corporation until expiry ten years from the date of the issue at a weighted average conversion price of $5.98 per share. One third of the Class B shares purchased will be available for conversion on the second, third and fourth anniversary of the issue date.

The Corporation recognized $1.3 million (December 31, 2018 - $1.2 million) of share-based compensation related to Class B shares for the year ended December 31, 2019.

C. CLASS C SHARES

Class C shares have been reserved for issue to directors, officers, employees and consultants of the Corporation. The aggregate number of Class C shares issued is fixed at 3.5 million. During the quarter ended December 31, 2019, the Corporation issued no additional Class C shares.

Class C shares are convertible to common shares of the Corporation if a liquidity event occurs within ten years from February 8, 2017 at certain minimum price thresholds per share. A liquidity event includes the sale of all or substantially all of the common shares of the Corporation or assets for consideration that includes cash and/or securities, the liquidation of the Corporation, or any listing of the Corporation on a recognized exchange. The Class C shares were issued with various minimum price vesting and conversion price thresholds.

A summary of the number of Class C shares that vest and are convertible upon achieving price thresholds and at various conversion prices is as follows:

Number of Class C shares convertible	Liquidity event price per fully diluted share	Conversion price per share
586,834	$6.45	$4.30
586,834	$8.60	$4.82
586,833	$9.68	$5.59
586,833	$10.75	$6.24
586,833	$11.83	$6.88
586,833	$12.90	$7.53

The liquidity event price and the conversion price each increase by eight percent compounded annually beginning on February 8, 2022 until the date the Corporation enters into a definitive agreement for the completion of a liquidity event.

The Corporation recognized $725,000 (December 31, 2018 - $725,000) of share-based compensation expense related the Class C shares for the year ended December 31, 2019.

10. PER SHARE AMOUNTS

	Year ended December 31 2019	Year ended December 31 2018
(thousands)		
Weighted average number of shares - basic	35,410	35,389
Dilutive effect of Class B & C shares	3,900	4,112
Weighted average number of shares - diluted	39,310	39,501

11. FINANCE EXPENSE

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Interest expense, net and bank charges	1,131	33
Accretion of decommissioning liabilities (Note 8)	669	503
Total	1,800	536

12. REVENUES

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Oil revenues	178,912	88,231
Natural gas revenues	2,307	1,994
Total	181,219	90,225

Spur sells its crude oil and natural gas production pursuant to index-price contracts that require the Corporation to sell a variable volume of oil, liquids and natural gas to the contract counterparty. The contracts generally have a term of one year or less.

Spur's revenue was generated entirely in central and north central Alberta and the production was sold primarily to four major aggregators in these areas at monthly market prices. Spur's oil volumes were contracted at the Bow River par price at Hardisty and Western Canadian Select and adjusted for quality, tariffs, and other fees depending on the contract terms. Our natural gas volumes were contracted at 5A AECO daily index and 7A AECO monthly index. Production revenues are normally collected on the business day nearest the 25th day of the month following production.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Corporation is exposed to commodity price fluctuations on sales of oil and natural gas. The Corporation is exposed to foreign currency fluctuations as commodity prices received are referenced to US dollar denominated prices. The fair value of risk management contracts was determined by discounting the difference between the contracted prices and published forward curves as at the statement of financial position date using the remaining contracted volumes and a risk-free interest rate (based on published government rates). As at December 31, 2019 the fair market value of these contracts was a net liability of $7.2 million (December 31, 2018 - $19.5 million net asset). The Corporation's commodity contracts are classified as Level 2 and are based on directly or indirectly observable prices as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

SUMMARY OF OIL CONTRACTS

Term		Contract	Volume (bbl/d)	Contract Price ($/bbl)	Index
Jan-20	Mar-20	Swap (1)	6,000	$48.66	C$WCS
Apr-20	Jun-20	Swap (1)	3,500	$48.14	C$WCS
Jul-20	Sep-20	Swap (1)	6,000	$48.89	C$WCS
Oct-20	Dec-20	Swap (1)	5,000	$48.87	C$WCS

(1) Contract gives the counter party a call option on a monthly basis for 750 barrels per day of oil at C$49.84 for calendar December 31, 2020.

Subsequent to year end, Spur entered into the following commodity and interest rate contracts:

Term		Contract	Volume (bbl/d)	Contract Price ($/bbl)	Index
Jul-20	Sep-20	Swap	1,000	$49.00	C$WCS
Jan-21	Dec-21	Swap	2,000	$25.88	C$WCS

Term		Contract	CAD/month	Rate	Index
03-Apr-20	03-Apr-21	Fixed/Float Rate	$ 20,000,000	0.77%	CAD-BA-CDOR

The fair value of accounts receivable, prepaids and deposits, accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity.

14. INCOME TAXES

The provision for income and other taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate of 26.5% to income before taxes. The difference relates to the following:

	Year ended December 31 2019	**Period ended December 31 2018**
($ thousands)		
Income before taxes	36,750	36,800
Current statutory income tax rate	26.5%	27.0%
Expected tax expense	9,739	9,936
Share based compensation and other	451	572
Effect of change in tax rates	(1,231)	-
Unrecognized difference between tax pools and carrying value of net assets	(570)	(684)
Provision for taxes	8,389	9,824

Under the terms of the Arrangement, the Corporation acquired tax pools in the amount of approximately $60.0 million. The Corporation has not recognized a deferred income tax asset of $3.6 million (December 31, 2018 - $4.8 million) related to the excess of tax pools acquired relative to the carrying value of the net assets transferred because the common control transaction is not a business combination and is therefore subject to the initial recognition exemption under IAS 12 “Income Taxes”. Deferred income tax liabilities and assets are not recognized for temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable benefit. The unrecognized deferred income tax asset is being amortized based on the net tax pool claims calculated for the period.

The net deferred asset (liability) is comprised of the following:

A continuity of the net deferred income tax asset (liability) is detailed in the following table:

($ thousands)	Year Ended December 31, 2017 Asset/(Liability)	Recognized in profit and loss	Year Ended December 31, 2018 Asset/(Liability)
Property and equipment/exploration and evaluation assets	(2,377)	(5,670)	(8,047)
Decommissioning obligations	4,907	3,228	8,135
Unrealized loss (gain) on commodity contracts	1,129	(6,407)	(5,278)
Share issue costs	37	(9)	28
	3,696	(8,858)	(5,162)

($ thousands)	Year Ended December 31, 2018 Asset/(Liability)	Recognized in profit and loss	Year Ended December 31, 2019 Asset/(Liability)
Property and equipment/exploration and evaluation assets	(8,047)	(9,943)	(17,990)
Decommissioning obligations	8,135	539	8,674
Unrealized loss (gain) on commodity contracts	(5,278)	6,928	1,650
Share issue costs	28	(6)	22
	(5,162)	(2,482)	(7,644)

For the year ended December 31, 2019 Spur incurred $5.9 million (December 31, 2018 – $966,000) of current income taxes.

On May 28, 2019 the government of Alberta tabled legislation to reduce the general corporate tax rate to 11% from 12% on July 1, 2019, with further one percent rate reductions each year on January 1 until the general corporate tax rate is eight percent on January 1, 2022. As these corporate income tax measures were included in Alberta Bill 3, they are considered substantively enacted under IFRS for the year ended December 31, 2019. Spur's deferred income tax expense for the year ended December 31, 2019 includes a recovery of $1.2 million in relation to the change in rates.

15. KEY MANAGEMENT PERSONNEL

The Corporation considers its directors and executives to be key management personnel.

The key management compensation was comprised of the following:

	Year ended December 31 2019	**Year ended December 31 2018**
($ thousands)		
Salaries and wages	2,489	2,143
Short-term employee benefits	99	96
Share based payments (1)	1,425	1,493
Total (2)	4,013	3,732

(1) Represents the amortization of expense associated with the Corporation's share-based compensation plans granted to key management personnel.
(2) At December 31, 2019 key management personnel included thirteen individuals.

16. PERSONNEL EXPENSES

The following table details the amount of total employee and executive management compensation costs:

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Production	152	145
Capitalized	240	240
General and administrative (1)	5,115	4,233
Share based payments	1,981	1,966
Total	7,488	6,584

(1) Before the impact of overhead recoveries.

17. RISK MANAGEMENT ACTIVITIES

A. COMMODITY PRICE RISK

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices are impacted by changes in supply and demand for crude oil and natural gas. As these commodities are generally priced in US dollars, the Corporation is also exposed to risk that the fair value of future cash flows will fluctuate as a result of changes in Canadian and US dollar exchange rates. Spur has entered into fixed price swaps for the purpose of protecting its cash flow from operations. The Corporation does not apply hedge accounting for these contracts. The Corporation usually sells its production using “spot” or near-term contracts, with prices fixed at the time of transfer of custody or on the basis of a monthly average market price. For the year ended December 31, 2019 had a realized loss of $11.1 million (December 31, 2018 – realized loss $7.7 million).

At December 31, 2019 the fair value of derivative commodity contracts, determined based on the amounts the Corporation would receive or pay to terminate the contracts was a net liability of $7.2 million (December 31, 2018 - $19.5 million net asset), resulting in an unrealized loss $26.7 million for the year ended December 31, 2019 (December 31, 2018 - $23.7 million unrealized gain).

B. INTEREST RATE RISK

Interest rate risk is the risk that cash flow from operating activities will fluctuate as a result of changes in market interest rates. The Corporation’s exposure to interest rate risk relates to its bank credit facility, which bears a floating interest rate.

At December 31, 2019, the Corporation had drawn $29.7 million on its credit facility (December 31, 2018 – $15.5 million). The portion of the credit facility drawn was funded using short term bankers’ acceptances and prime based loans. For the year ended December 31, 2019 a one percent increase or decrease in the market rate on its floating bank debt would change the after-tax net income by an estimated $219,000 (December 31, 2018 - $113,000) assuming all other variables remained constant.

C. CREDIT RISK

At December 31, 2019, financial assets other than cash and cash equivalents were comprised of accounts receivable, deposits and the current portion of commodity contracts of $20.8 million (December 31, 2018 - $26.7 million). Receivables relating to the sale of petroleum and natural gas are received on or about the 25th day of the following month. Substantially all the Corporation's petroleum and natural gas production was marketed under standard industry terms. Purchasers of the Corporation's petroleum and natural gas are subject to an internal credit review to minimize the risk of non-payment. Of the $20.1 million of accounts receivable, $20.0 million related to the sale of petroleum and natural gas and was received January 24, 2020. The remainder was due from joint venture partners and trade customers.

Commodity contracts were with financial institutions having investment grade credit ratings.

D. LIQUIDITY RISK

Spur's financial liabilities are comprised of accounts payable and accrued liabilities, income tax payable, demand credit facility and risk management liabilities. The Corporation manages its liquidity risk through cash and debt management. Spur frequently assesses its liquidity position and obligations under its financial liabilities by preparing annual and quarterly financial business plan forecasts.

Since the Corporation operates in the upstream oil and gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, to develop reserves and to acquire strategic oil and gas assets. Capital programs are funded primarily through cash provided from operating activities. However, during times of low oil and gas prices, a portion of capital programs can generally be deferred. Due to the long cycle times and importance to future cash flow in maintaining production, it may be necessary to utilize alternative sources of capital to continue the Corporation's strategic investment plan during periods of low commodity prices. As a result, Spur frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, the Corporation will hedge a portion of its production to protect capital investment programs in the event of commodity price declines.

Spur's financial liabilities were $83.5 million as at December 31, 2019 (December 31, 2018 - $38.4 million) and have contractual maturities of less than one year.

18. CAPITAL RISK MANAGEMENT

The Corporation's objectives when managing capital are: (i) to deploy capital to provide an appropriate return on investment to its shareholders; (ii) to maintain financial flexibility in order to preserve its ability to meet financial obligations; and (iii) to maintain a capital structure that provides financial flexibility to execute on strategic opportunities. The Corporation's strategy is designed and formulated to maintain a flexible capital structure consistent with the objectives as stated above and to respond to changes in economic conditions and the risk characteristics of the underlying assets. The Corporation considers its capital structure to include share capital, working capital and bank debt. As at December 31, 2019 the Corporation has a $95 million credit facility with a major Canadian chartered bank. In order to maintain or adjust its capital structure, the Corporation may issue new shares, raise debt and adjust capital spending. A key measure the Corporation utilizes in evaluating its capital structure is to compare its capital spending plans on a quarterly basis to the levels of working capital and adjusted funds from operations to ensure sufficient funds are available to execute the capital program. The Corporation's share capital is not subject to external restrictions.

19. SUPPLEMENTARY INFORMATION

The table below summarizes the net change in non-cash working capital:

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Source (use) of cash:		
Trade and other receivables	(14,739)	1,151
Prepaid expenses and deposits	(159)	(197)
Accounts payable and accrued liabilities	20,692	5,005
Income tax payable	4,217	966
Changes in non-cash working capital	10,011	6,925
Related to operating activities	(5,747)	4,170
Related to investing activities	15,758	2,755
Changes in non-cash working capital	10,011	6,925

Supplementary cash flow information:

	Year ended December 31 2019	Year ended December 31 2018
($ thousands)		
Interest paid, net	1,100	18
Bank renewal fees	71	33
Taxes paid	1,692	-

20. COMMITMENTS

	Within 1 year	After 1 year but not more than 5 years	Total
($ thousands)			
Firm transportation contracts	123	95	218
Drilling commitments (1)	-	7,000	7,000
Other commitments	148	109	257
Total	271	7,204	7,475

(1) Spur's drilling commitments are to be spent by December 31, 2022.

(2) On the completion of the drilling program for the quarter ended March 31, 2020, $3 million of the $7 million drilling commitment had been completed, leaving $4 million of the commitment to be spent by December 31, 2022.

21. SUBSEQUENT EVENTS

The global oil industry is facing a time of incredible price volatility and risk due to the combination of the COVID-19 pandemic and the Russian-Saudi oil price war. In this current challenging economic climate, it is not possible to reliably estimate the length or severity of these developments and their financial impact. The continuation of these conditions for an extended period of time, could have a significant adverse impact on our financial results for future periods.

SPUR PETROLEUM LTD.
CORPORATE INFORMATION

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Ian Currie

Margaret McKenzie

David O'Brien

Ron Wigham

Grant Zawalsky

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Gerard Fischer, *Vice President, Operations*

Andrew Leuchter, *Vice President, New Ventures*

Rob Motherwell, *Vice President, Land*

Reece Shular, *Vice President, Production*

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