

TENTH AVENUE PETROLEUM CORP.
CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 and 2019
(UNAUDITED)

NOTICE OF NO AUDITORS' REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of Tenth Avenue Petroleum Corp have been prepared by and are the responsibility of management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

Calgary, Alberta
August 27, 2020

In Canadian Dollars

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT

TENTH AVENUE PETROLEUM CORP.

	Note	June 30, 2020	December 31, 2019
ASSETS			
Current			
Cash and cash equivalents	\$	88,916	\$ 2,849
Trade and other receivables		36,728	161,179
Short term investments		14,215	14,214
Prepaid expenses and deposits		72,142	76,852
		212,001	255,094
Long term			
Restricted cash held in trust	3	212,987	211,013
Exploration and evaluation assets	4	5,067	-
Property and equipment	5	1,440,500	1,505,882
	\$	1,870,555	\$ 1,971,989
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	208,753	\$ 197,450
Loan payable	6	1,197,826	1,305,798
Deferred income		353	5,668
Asset retirement obligation	7	70,755	65,501
		1,477,687	1,574,417
Asset retirement obligation	7	831,219	807,420
Total liabilities		2,308,906	2,381,837
SHAREHOLDERS' EQUITY (DEFICIT)			
Share capital	8	12,544,623	12,544,623
Contributed surplus	9	10,151,442	10,151,442
Deficit		(23,134,416)	(23,105,913)
		(438,351)	(409,848)
	\$	1,870,555	\$ 1,971,989
Going concern	1		

Signed "Gregory J. Leia"
Gregory J. Leia Director

Signed "Craig Leggatt"
Craig Leggatt Director

The accompanying notes are an integral part of these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

TENTH AVENUE PETROLEUM CORP.

In Canadian Dollars

	Note	Three Months Ended		Six Months Ended	
		June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
REVENUE					
Oil & natural gas sales	16	\$ 228,003	\$ 120,923	\$ 574,199	\$ 437,188
Royalties		(32,408)	42,959	(76,823)	(25,927)
Other revenue		20	521	40	616
		195,615	164,403	497,416	411,877
EXPENSES					
Production and transportation		105,012	63,752	266,058	193,803
General and administrative		67,930	66,927	128,626	131,876
Accretion	7	13,023	12,415	25,829	24,509
Depletion and depreciation	5	29,184	32,054	66,730	92,667
		215,149	175,148	487,243	442,855
OPERATING INCOME (LOSS) FROM OPERATIONS		(19,534)	(10,745)	10,173	(30,978)
Other income (expense) items					
Interest income		375	270	375	1,283
Interest expense		(18,575)	(33,811)	(37,406)	(67,790)
Foreign exchange		1,483	732	(1,645)	1,419
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		\$ (36,251)	\$ (43,554)	\$ (28,503)	\$ (96,066)
INCOME (LOSS) PER SHARE					
Basic and diluted		\$ (0.003)	\$ (0.004)	\$ (0.003)	\$ (0.009)

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS

In Canadian Dollars

		Three Months Ended		Six Months Ended	
	Note	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Operating activities					
Net income (loss)		\$ (36,251)	\$ (43,554)	\$ (28,503)	\$ (96,066)
Items not affecting cash:					
Depletion and depreciation	5	29,184	32,054	66,730	92,667
Loan interest accrued		-	(33,979)	-	-
Accretion	7	13,023	12,415	25,829	24,509
Foreign exchange		121	(537)	3,225	(1,084)
Change in restricted cash		(1,974)	(422)	(1,974)	(859)
Changes in non-cash working capital		50,108	15,609	135,148	11,406
CASH PROVIDED BY OPERATING ACTIVITIES		54,211	(18,414)	200,455	30,573
Repayment of loan		(14,478)	(27,566)	(107,973)	(27,566)
CASH USED IN FINANCING ACTIVITIES		(14,478)	(27,566)	(107,973)	(27,566)
Purchase of exploration and evaluation assets	4	-	-	(5,067)	-
Purchase of property and equipment	5	-	-	(1,348)	-
CASH USED IN INVESTING ACTIVITIES		-	-	(6,415)	-
NET CHANGE IN CASH AND CASH EQUIVALENTS		39,733	(45,980)	86,067	3,007
CASH AND CASH EQUIVALENTS, beginning of period		49,183	58,126	2,849	9,139
CASH AND CASH EQUIVALENTS, end of period		\$ 88,916	\$ 12,146	\$ 88,916	\$ 12,146
Interest paid		\$ 17,994	\$ 67,452	\$ 36,499	\$ 67,452
Taxes paid		-	-	-	-

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (DEFICIT)

In Canadian Dollars

FOR THE SIX MONTHS ENDED

	Note	June 30, 2020	June 30, 2019
SHAREHOLDERS' EQUITY			
<u>Share capital</u>			
Balance, beginning of period		\$ 12,544,623	\$ 12,544,623
Private placement		-	-
Balance, end of period	8	\$ 12,544,623	\$ 12,544,623
<u>Contributed surplus</u>			
Balance, beginning of period		\$ 10,151,442	\$ 10,151,442
Share based compensation		-	-
Balance, end of period	9	\$ 10,151,442	\$ 10,151,442
<u>Deficit</u>			
Balance, beginning of period		\$ (23,105,913)	\$ (22,581,756)
Net income (loss)		(28,503)	(96,066)
Balance, end of period		\$ (23,134,416)	\$ (22,677,822)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)		\$ (438,351)	\$ 18,243

The accompanying notes are an integral part of these consolidated financial statements

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

Tenth Avenue Petroleum Corp. ("the Company") is in the business of exploring for, developing, and producing petroleum and natural gas properties in Western Canada. Tenth Avenue Petroleum Corp. is a company domiciled in Canada. The address of the Company's registered office is 203, 221 10th Avenue SE, Calgary, Alberta.

1. GOING CONCERN

These consolidated financial statements do not reflect the adjustments and classifications of assets, liabilities, revenues and expenses which would be necessary if the Company were unable to continue as a going concern. The accompanying consolidated financial statements have been prepared using the going concern assumption which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

As the Company incurred losses has a working capital deficit and will need capital to fund its planned operating, exploration and development activities, there is a material uncertainty which casts significant doubt on the Company's ability to continue as a going concern. For the period ended June 30, 2020, the Company had net loss of \$28,503 and has working capital deficit of \$1,265,686 and an accumulated deficit of \$23,134,416.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and measurement - Statement of compliance and authorization:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC"). The consolidated financial statements of the Company include the accounts of Tenth Avenue Petroleum Corp. and its wholly owned subsidiaries, Jadela Disposal Well Corp and Jadela Oil (US) Operating LLC (collectively referred to as ("the Company")) and have been prepared by management. Except as outlined below, the consolidated financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2019. These consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2019.

These financial statements were authorized for issue by the Board of Directors on August 27, 2020.

Changes in accounting policies

The interim consolidated financial statements have been prepared, for all periods presented, following the same accounting policies and methods of computation as described in the consolidated financial statements for the fiscal year ended December 31, 2019.

3. RESTRICTED CASH HELD IN TRUST

Restricted cash held in trust includes \$54,287 (2019 - \$53,913) held by the Alberta Energy and Utilities Board, \$124,629 (2019 - \$124,629) held by British Columbia Minister of Energy, Mines and Petroleum Resources and \$34,071 (USD \$25,000) (2019 - \$32,471 (USD \$25,000)) held by the Texas Railway Commission.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

4. EXPLORATION AND EVALUATION ASSETS

	June 30, 2020
Balance, beginning of period	\$ -
Purchase of assets	5,067
Balance, end of period	\$ 5,067

5. PROPERTY AND EQUIPMENT

	Oil and Natural Gas Assets	Water-well assets	Other assets	Total
COSTS				
Balance, December 31, 2019	\$ 2,611,863	\$ 155,800	\$ 75,060	\$ 2,842,723
Additions	-	-	1,348	1,348
Balance, June 30, 2020	\$ 2,611,863	\$ 155,800	\$ 76,408	\$ 2,844,071

ACCUMULATED DEPLETION AND DEPRECIATION

Balance, December 31, 2019	\$ 1,109,505	\$ 155,800	\$ 71,536	\$ 1,336,841
Depletion and depreciation	66,030	-	700	66,730
Balance, June 30, 2020	\$ 1,175,535	\$ 155,800	\$ 72,236	\$ 1,403,571

CARRYING AMOUNT

December 31, 2019	\$ 1,502,358	\$ -	\$ 3,524	\$ 1,505,882
June 30, 2020	\$ 1,436,328	\$ -	\$ 4,172	\$ 1,440,500

6. LOAN PAYABLE

On July 31, 2017, the Company entered into a Loan and Participation Agreement with Smoky Oil & Gas Corp ("**Smoky**") and Batoche Oil & Gas Exploration Ltd. ("**Batoche**") which are related companies by way of common directors and officers. Pursuant to the terms of the Loan and Participation Agreement ("**LPA**"), Smoky lent the Company the sum of \$1,326,593 to make the acquisition of the Waskahigan Assets. The interest rate on the loan principal is 6% per annum. All obligation owing are secured by a general security agreement charging all of the assets of the Company.

The loan is a related party loan. For the fiscal periods ended December 31, 2017 (restated financial statements) and 2018 the interest rate charged on the loan was deemed to be below the interest market rate which was estimated to be 15%. The expected future cash flows from the loan were discounted by 15% and the resulting difference of \$491,920 between the fair value of the loan and the face value was charged to contributed surplus when the loan was initially recognized. On May 6, 2019 the LPA was amended and the loan was converted to a demand loan. When the loan was modified to a demand loan,

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

for the fiscal period ended December 31, 2019 the entire value became a current liability and was required to be shown at face value which resulted in a \$399,408 loss on the modification of the debt which was included in profit and loss. Subsequent to the modification of the loan, the interest on the loan will be recorded at the 6% stated rate from the loan agreement rather than the 15% market rate.

7. ASSET RETIREMENT OBLIGATIONS

The Company estimates the total undiscounted cash flows to settle its asset retirement obligations are approximately \$1,488,466 (2019 - \$1,485,044). A risk-free interest rate of 6.0% (2019 – 6.0%) and an estimated inflation rate of 1.4% (2019 - 1.4%) was used to calculate the present value of asset retirement obligations.

The following table reconciles the asset retirement obligations:

		June 30, 2020		December 31, 2019
Balance, beginning of period	\$	872,921	\$	837,306
Change in estimate		-		(10,322)
Reclamation expenditures		-		(919)
Foreign exchange		3,224		(3,272)
Accretion		25,829		50,128
Balance, end of period		901,974		872,921
Less: current portion		(70,755)		(65,501)
Long term portion	\$	831,219	\$	807,420

8. SHARE CAPITAL

Authorized:

Unlimited	Common voting shares with no par value
Unlimited	First Preferred shares, issuable in series, with rights and privileges to be determined at time of issue

Common shares	Number of shares	Value
Balance, December 31, 2018	10,512,658	\$ 12,544,623
Issued	-	-
Balance, December 31, 2019	10,512,658	\$ 12,544,623
Issued	-	-
Balance, June 30, 2020	10,512,658	\$ 12,544,623

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

9. CONTRIBUTED SURPLUS

The Company's contributed surplus consists of value assigned to issued options and other contributions from related parties. The following table reconciles the Company's contributed surplus:

		June 30, 2020	December 31, 2019
Contributed surplus, beginning of period	\$	10,151,442	\$ 10,151,442
Transactions		-	-
Contributed surplus, end of period	\$	10,151,442	\$ 10,151,442

10. WARRANTS

The following table reflects share purchase warrants activity from January 1, 2019 to June 30, 2020 and the weighted average exercise prices.

	Number	Weighted Average Exercise Price (\$)
Balance, December 31, 2018	3,600,000	0.075
Issued	-	-
Balance, December 31, 2019	3,600,000	0.075
Expired	(2,000,000)	0.075
Balance, June 30, 2020	1,600,000	0.075

Details of warrants outstanding at June 30, 2020:

Year Issued	Exercise Price (\$)	Number	Years to expiry
2018	0.075	1,600,000	3.50

11. STOCK OPTIONS

The Company has a stock option plan available to directors, officers, employees and consultants. The maximum number of common shares reserved for issuance pursuant to the plan cannot exceed 10 percent of the issued and outstanding common shares. Options vest on grant, are generally exercisable for five years from the date of grant and are exercisable at prices equal to or greater than the market value of the shares at the date of the grant less the maximum discount permitted by the stock exchange. At June 30, 2020, there were an additional 500,265 common shares that are still available to be reserved for the granting of stock options.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

A summary of the status of the Company's stock option plan as at December 31, 2019 and June 30, 2020 and changes during the periods ending on those dates is as follows:

	June 30, 2020		December 31, 2019	
	Number of Options	Weighted Average Exercise Price (\$)	Number of Options	Weighted Average Exercise Price (\$)
Outstanding, beginning of period	510,000	0.075	780,000	0.075
Expired	-	0.075	(270,000)	0.075
Outstanding, end of period	510,000	0.075	510,000	0.075
Exercisable, end of period	510,000	0.075	510,000	0.075

Outstanding and exercisable stock options as at June 30, 2020 have a weighted average remaining contractual life of 1.78 years (December 31, 2019 – 2.28 years).

12. RELATED PARTY TRANSACTIONS

The Company has determined that the key management personnel of the Company consist of its officers and directors. The following table provides information on compensation expense related to officers and directors.

		June 30, 2020	June 30, 2019
Consulting fees to a company controlled by directors	\$	53,450	\$ 70,116

Included in accounts payable as at June 30, 2020 is a balance owing to a company controlled by directors of \$2,310 (2019 - \$Nil).

The Company entered into a LPA with Smoky and Batoche on July 31, 2017. Pursuant to the terms of the LPA, Smoky lent the Company the sum of \$1,326,593 to make the Waskahigan Asset acquisition. The interest rate on the loan principal is 6% per annum. All obligations owing are secured by a general security agreement charging all of the assets of the Company. Gregory J. Leia is President and a director of the Company. Gregory J. Leia is an officer and director of Smoky and Batoche. Gregory J. Leia owns approx. 65% of the common shares and preferred shares of Smoky. Interest incurred on the loan during the period ended June 30, 2020 is \$36,499 (2019 - \$67,452).

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

13. PER SHARE AMOUNTS

Basic income (loss) per share has been calculated using the weighted average number of common shares outstanding during the period of 10,512,658 (June 30, 2019 – 10,512,658). The effect of all stock options and warrants has been excluded from the calculation of diluted income (loss) per share as they are anti-dilutive.

14. FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including credit risk, capital market risk and liquidity risk, interest rate risk, commodity price risk and foreign exchange risk.

Financial instruments, consisting of cash and cash equivalents, short term investments, trade and other receivables, restricted cash held in trust, accounts payable and accrued liabilities, and loan payable, are recorded at amortized cost. There are no financial instruments recorded at fair value. The Company classifies the fair value of these transactions according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy as following:

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

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

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

At June 30, 2020, the Company's financial instruments approximate their fair value due to their current nature.

As at June 30, 2020

Financial instrument	Classification	Carrying Value (\$)	Fair Value (\$)
Cash and cash equivalents	Amortized cost	88,916	88,916
Trade and other receivables	Amortized cost	36,728	36,728
Short term investments	Amortized cost	14,215	14,215
Prepaid expenses and deposits	Amortized cost	72,142	72,142
Restricted cash held in trust	Amortized cost	212,987	212,987
Accounts payable and accrued liabilities	Amortized cost	208,753	208,753
Loan payable	Amortized cost	1,197,826	1,197,826

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

As at December 31, 2019

Financial instrument	Classification	Carrying Value (\$)	Fair Value (\$)
Cash and cash equivalents	Amortized cost	2,849	2,849
Trade and other receivables	Amortized cost	161,079	161,079
Short term investments	Amortized cost	14,214	14,214
Prepaid expenses and deposits	Amortized cost	76,852	76,852
Restricted cash held in trust	Amortized cost	211,013	211,013
Accounts payable and accrued liabilities	Amortized cost	197,350	197,350
Loan payable	Amortized cost	1,305,798	1,305,798

Credit risk – Consists of cash and cash equivalents, restricted cash held in trust and accounts receivable. A portion of the Company's accounts receivable are with joint venture partners in the petroleum and natural gas industry and are subject to normal credit terms. The Company generally extends unsecured credit to these customers and, therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. The carrying value of accounts receivable reflects management's assessment of the associated credit risk. The Company is also exposed to credit risk on certain deposits to the extent that the Company may not be refunded these amounts. The Company does not anticipate any default or non-performance by its oil and gas sales customers. As such, a provision for doubtful accounts has not been recorded at June 30, 2020 and December 31, 2019.

Liquidity risk - The Company approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations when due, under normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company has to date, required funds from private placements to finance capital expenditures and operations (see note 1).

Contractual undiscounted cash flow requirements for contractual obligations as at June 30, 2020 are due as follows:

Accounts payable and accrued liabilities	\$	208,753	Due within 90 days
Loan payable	\$	1,197,826	Due on demand

Commodity price risk - The Company is exposed to oil and gas commodity price risk and has not entered any financial derivatives to manage this risk.

	June 30, 2020		June 30, 2019	
Commodity price risk sensitivity	Increase (decrease) to net income		Increase (decrease) to net income	
Increase of \$1.00/bbl oil	\$	408	\$	1,151
Decrease of \$1.00/bbl of oil	\$	(408)	\$	(1,151)
Increase of \$0.10/Mcf of natural gas	\$	25,359	\$	17,201
Decrease of \$0.10/Mcf of natural gas	\$	(25,359)	\$	(17,201)

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

Interest rate risk – The risk that future cash flows will fluctuate as a result of changes in market rates. The Company is exposed to fair value interest rate risk on its loan payable as the rate is fixed.

15. CAPITAL DISCLOSURES

The Company' has defined its capital to mean its consolidated shareholders' equity and long-term debt. The Company's objective when managing capital is to maintain the confidence of shareholders and investors in the implementation of its business plans by maintaining sufficient levels of liquidity to fund and support its exploration and development as well as other corporate activities. The Company's capital historically has been derived from the issuance of equity or debentures. Management monitors its financial position on an ongoing basis. Equity or debentures are issued to finance drilling programs and the Company's operations (see notes 1 and 2).

16. REVENUE

The Company sells its oil, natural gas, and natural gas liquids production pursuant to variable price contracts. The transaction price for variable priced contracts is based on a benchmark commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula (apart from the benchmark commodity price) can be either fixed or variable, depending on the contract terms. Revenues are typically collected on the 25th day of the month following the prior month's production, with revenue being recorded once the product is delivered to a contractually agreed upon delivery point.

The following table presents the Company's production disaggregated by revenue source:

	June 30, 2020	June 30, 2019
Crude oil	\$ 15,824	\$ 64,167
Natural gas	477,612	290,326
Condensate	80,763	82,695
Total	\$ 574,199	\$ 437,188

17. RISK MANAGEMENT

There have been no changes to the Company's exposure to risks, or the objectives, policies and processes to manage these risks from December 31, 2019, other than: (a) the natural gas and oil commodity price; and (b) the exposure to natural gas plants being closed because of failure of plant owners to expend funds to maintain the gas processing plants and inability or unwillingness of producers to underwrite the costs to pay for such maintenance. If the plants close, the Company may have exposure under hedge contracts.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's comprehensive loss to the extent the Company has outstanding financial instruments. The objective of the Company is to mitigate market risk exposures within acceptable limits, while maximizing returns.

TENTH AVENUE PETROLEUM CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2020

In Canadian Dollars

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices and initiates instruments to manage exposure to these risks when it deems appropriate. As a means of managing commodity price volatility, the Company enters into various derivative financial instrument agreements and physical contracts. The fair values of the derivative financial instruments are based on mark-to-market assessments and estimates of fair value and are recorded on the consolidated balance sheet as either an asset or liability with the change in fair value recognized in comprehensive loss. The price which TAPC receives (unless hedged), referred to as AECO, has traded at historical lows from the summer of 2017 to August 2020.

There are many factors influencing the drop in sales prices for AECO natural gas prices, including: (a) pipeline construction by TCPL; (b) excess supply of Canadian gas; (c) lack of take-away capacity in Canada; (d) increased production in the US due to pipeline access availability; (e) no LNG exports from Canada; and (f) panic selling as a result of inordinate differential spreads between North American prices and AECO pricing. Pipeline takeaway capacity may improve until TCPL and Alliance complete construction of expansion in 2021. Oversupply of natural gas in the US may depress prices until such time as US LNG exports deplete North American inventories. The structural elements may take 2 years to balance themselves.