



**Yangarra Resources Ltd.**  
**2014 Annual Report**

# YANGARRA RESOURCES LTD.

## Message to Shareholders

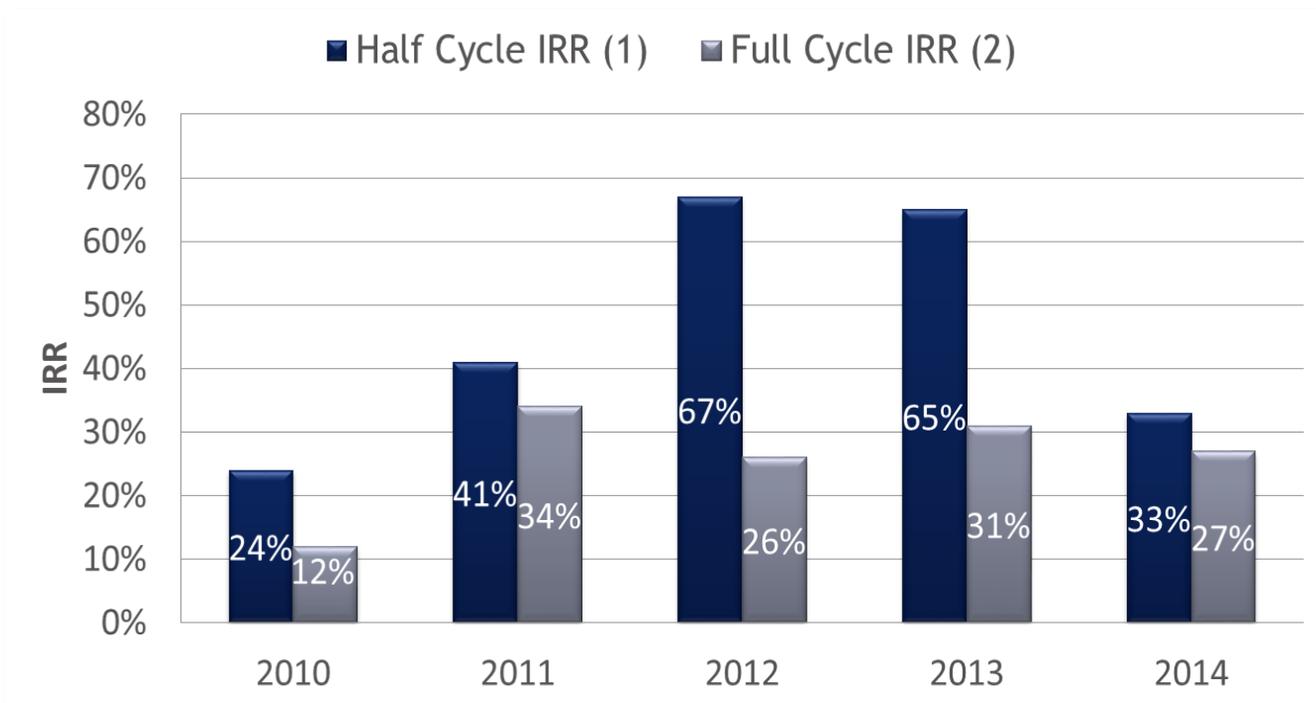
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Dear fellow shareholders:

During 2014, Yangarra focused on keeping its cost structure competitive by reducing drilling and completion costs and maintaining low operating and G&A costs. Royalty costs remain low primarily due to the purchase in 2010 of a Gross Overriding Royalty (GORR) on 11 sections in the heart of our Cardium and Glauconite acreage. These advantages are meaningful given the current commodity pricing environment and provide Yangarra with superior internal rates of return (IRR's) and higher relative cash netbacks.

Yangarra focused the 2014 capital budget on validating Cardium acreage and continuing its Duvernay acreage. With our 2P Reserve Life Index ("RLI") increasing to 34 years, Yangarra is positioned to accelerate the drilling program as conditions improve.

We believe measurement of full cycle returns are the best indicator of value creation and we continue to focus on full-cycle rates of return to determine capital allocation. The chart below graphs half cycle and full cycle results for Yangarra since we started drilling HZ wells in 2010.



1. Half cycle IRR is based on actual drilling and completion costs, production to date and P+P reserves.
2. Full cycle IRR allocates all other capital costs to the wells (i.e. land, G&G, infrastructure)

The Company continues to manage the balance sheet with the strategy of maintaining debt to cash flow levels near 1 to 1 when commodity prices are high so that debt levels do not become problematic when commodity prices are low.

In January, the Company drilled its first Cardium well using a sleeve system/cemented production liner replacing the previous open-hole/ball-drop completion approach. Advantages of the sleeve system/cemented liner include

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

---

lower well costs, higher initial production rates and a simplified drilling and completion process. With the success of the first well we recently drilled a second well from the same pad using a closable sleeve/cemented production liner and increased stages from 18 on the previous well to 30 (1 mile lateral) to determine optimum frack intensity. Yangarra believes the closable sleeve will enable the company to more easily re-frac these wells at a later date and will monitor results from both wells over breakup to formulate best practice go forward.

As Yangarra moves through 2015 and gets better visibility on commodity pricing, where service cost reductions settle and the economic impact of closable sleeve/cemented liners, we will adjust 2015 capital spending accordingly.

I would like to thank the shareholders for their support. I thank my colleagues at Yangarra for their ongoing dedication to the development of the Company. I also wish to take this opportunity to thank my fellow directors for their support and leadership.



James Evaskevich

President and Chief Executive Officer



**Yangarra Resources Ltd.**  
**Management's Discussion and Analysis**  
*For year ended December 31, 2014*

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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*Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the December 31, 2014 audited consolidated financial statements, together with the accompanying notes.*

*Additional information about Yangarra filed with Canadian securities commissions is available on-line at [www.sedar.com](http://www.sedar.com).*

*The MD&A has been prepared using information that is current to March 19, 2015.*

*The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.*

**BOE Presentation** – *Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.*

**Non-IFRS and Additional IFRS Measures**

*This document contains "funds from operations", which is an additional IFRS measure presented in the consolidated financial statements. The Company uses funds generated from operations as a key measure to demonstrate the Company's ability to generate funds to repay debt and fund future capital investment. This document also contains the terms "net debt" and "netbacks", which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.*

**Funds flow from (used in) operations**

*Yangarra's determination of funds flow from (used in) operations and funds flow from (used in) operations per share may not be comparable to that reported by other companies. Management uses funds flow from (used in) operations to analyze operating performance and leverage, and considers funds flow from (used in) operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. Funds flow from (used in) operations is calculated using cash from (used in) operating activities as presented in the statement of cash flows before changes in non-cash working capital and decommissioning costs incurred. Yangarra presents funds flow from (used in) operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.*

*The following table reconciles funds flow from (used in) operations to cash from (used in) operating activities, which is the most directly comparable measure calculated in accordance with IFRS:*

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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	Year Ended	
	2014	2013
Cash from operating activities	\$ 31,663,428	\$ 27,077,123
Decommissioning costs incurred	76,361	-
Changes in non-cash working capital	6,586,199	(1,428,457)
Funds flow from operations	\$ 38,325,988	\$ 25,648,666

Netbacks

*The Company considers corporate netbacks to be a key measure as they demonstrate Yangarra's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, funds flow and net income / (loss) netbacks. Operating netback is calculated as the average sales price of its commodities (including realized gains on financial instruments) and then subtracts royalties, operating costs and transportation expenses. Funds flow netback starts with the operating netback and further deducts general and administrative costs, finance expense and adds finance income. To calculate the net income (loss) netback, Yangarra takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. There is no IFRS measure that is reasonably comparable to netbacks.*

Net debt

*Net debt and working capital (deficit), which represent current assets less current liabilities, excluding current derivative financial instruments, are used to assess efficiency, liquidity and the general financial strength of the Company. There is no IFRS measure that is reasonably comparable to net debt or working capital (deficit).*

**Forward-looking Statements** – *Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive from such events.*

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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## **Overview**

Yangarra is a junior oil and gas company engaged in the exploration, development and production of natural gas and oil with operations in Western Canada, with a main focus on Central Alberta, where the Company has extensive infrastructure and land holdings.

Yangarra is dedicated to creating value for its shareholders through its commitment to a clear business strategy and performance objectives. The Company's strategy is to increase the value of its corporate assets through the drill bit and by assembling a large focused land base in Central Alberta that features high-quality, long-life light oil and liquids-rich gas reserves. The Company has assembled a significant future drilling inventory and will strive to grow this inventory through drilling, geology and strategic acquisitions.

## **2014 Highlights**

- Average daily production was 2,870 boe/d, a 30% increase from 2013.
- Oil and gas sales, after royalties, were \$51.4 million with funds flow from operations of \$38.3 million (\$0.70 per share - basic). This represents a 48% increase and a 49% increase, respectively, from 2013.
- Net Income of \$24.4 million (\$0.45 per share - basic) or \$33.4 million before future income taxes (\$0.61 per share - basic).
- Earnings before interest, taxes, depletion & depreciation, amortization and changes in commodity contracts ("EBITDA") was \$39.7 million (\$0.73 per share - basic) or \$52.7 million including changes in commodity contracts (\$0.97 per share - basic).
- Operating costs were \$8.47/boe (including \$1.58/boe of transportation costs).
- Field net backs (operating netback excluding commodity contracts) were \$41.10, an increase of 18% from 2013. Operating netbacks were \$40.62 per boe, a 12% increase from 2013.
- G&A costs of \$2.05/boe.
- Royalties were 6% of oil and gas revenue.
- Total capital expenditures were \$79.9 million (including \$2.6 million of property acquisition costs under the August 2013 farm-in and \$1.7 million in exploration and evaluation assets). The Company drilled 29 gross (19.4 net) wells in 2014.
- Net debt, excluding the current portion of the fair value of commodity contracts, was \$59.8 million (\$51.4 million including the current portion of the fair value of commodity contracts).
- Year-end debt to 2014 cash flow ratio excluding the current portion of the fair value of commodity contracts was 1.56 : 1 (1.34 : 1 including the current portion of the fair value of commodity contracts).

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

**Financial Information**

	Year Ended		
	2014	2013	2012
<b>Statements of Comprehensive Income (Loss)</b>			
Petroleum & natural gas sales and royalty income	\$ 54,582,213	\$ 34,726,657	\$ 21,327,157
Net income (before tax)	\$ 33,413,237	\$ 4,146,706	\$ 21,174
Net income (loss)	\$ 24,371,606	\$ 2,585,699	\$ (217,712)
Net income (loss) per share - basic	\$ 0.45	\$ 0.06	\$ (0.01)
Net income (loss) per share - diluted	\$ 0.44	\$ 0.06	\$ (0.01)
<b>Statements of Cash Flow</b>			
Funds flow from operating activities	\$ 38,325,988	\$ 25,648,666	\$ 14,588,405
Funds flow from operating activities per share - basic	\$ 0.70	\$ 0.63	\$ 0.41
Funds flow from operating activities per share - diluted	\$ 0.69	\$ 0.63	\$ 0.38
Cash from operating activities	\$ 31,663,428	\$ 27,077,123	\$ 17,016,431
<b>Statements of Financial Position</b>			
Property and equipment	\$ 218,154,343	\$ 152,971,016	\$ 121,842,378
Total assets	\$ 250,491,053	\$ 169,798,021	\$ 138,894,114
Working capital deficit	\$ 51,399,838	\$ 40,778,148	\$ 34,241,989
Working capital deficit, excluding MTM on commodity contracts	\$ 59,766,933	\$ 36,794,243	\$ 36,301,842
Subordinated Debt	\$ -	\$ 7,786,632	\$ -
Non-Current Liabilities	\$ 26,382,773	\$ 7,523,351	\$ 12,274,710
Shareholders equity	\$ 147,838,197	\$ 95,583,587	\$ 79,689,765
Weighted average number of shares - basic	54,581,750	41,033,862	35,320,108
Weighted average number of shares - diluted	55,793,173	41,033,862	37,927,041

**Business Environment**

	Year Ended	
	2014	2013
<b>Realized Pricing (Including realized commodity contracts )</b>		
Oil (\$/bbl)	\$ 84.40	\$ 92.08
NGL (\$/bbl)	\$ 52.93	\$ 54.32
Gas (\$/mcf)	\$ 4.06	\$ 3.53
<b>Realized Pricing (Excluding commodity contracts )</b>		
Oil (\$/bbl)	\$ 88.41	\$ 90.93
NGL (\$/bbl)	\$ 56.50	\$ 52.91
Gas (\$/mcf)	\$ 4.53	\$ 3.25
<b>Oil Price Benchmarks</b>		
West Texas Intermediate ("WTI") (US\$/bbl)	\$ 93.00	\$ 97.95
Edmonton (C\$/bbl)	\$ 86.10	\$ 93.90
<b>Natural Gas Price Benchmarks</b>		
AECO gas (Cdn\$/GJ)	\$ 4.50	\$ 3.15
<b>Foreign Exchange</b>		
U.S./Canadian Dollar Exchange	\$ 0.91	\$ 0.97

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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Crude oil prices decreased for the year ended December 31, 2014, with the West Texas Intermediate ("WTI") reference price averaging US\$93.00/bbl compared with US\$97.95/bbl in 2013. Demand for crude oil is generally tied to global economic growth, but is also influenced by factors such as infrastructure, political instability, market uncertainty, weather conditions and government regulations. In the fourth quarter of 2014, there was a significant decrease in crude oil benchmark prices primarily due to slowing global economic conditions outside of the U.S. combined with strong growth in North American crude oil supply and the unexpected return of Libyan crude oil supply.

Edmonton par differentials to WTI remained relatively flat for the year ended December 31, 2014 when compared to the same period in 2013, moving from a \$7.60/bbl differential in 2013 to \$7.94/bbl in 2014. The US/CDN foreign exchange rate moved from \$0.97 in 2013 to \$0.91 for 2014. The Edmonton par reference price is denominated in Canadian dollars so the change in the foreign exchange rate has increased the Edmonton par price relative to WTI. Edmonton par is the closest reference price point for Yangarra's oil and therefore is the closest proxy to realized pricing.

When compared to 2013 realized pricing on oil decreased by 3%, excluding commodity contracts, and decreased by 8% when the effects of commodity contracts are included. The decrease in oil pricing is a direct result of the decreased WTI pricing.

When compared to 2013 liquids pricing increased by 7%, excluding commodity contracts, and decreased by 3% when the effects of commodity contracts are included.

For the year ended December 31, 2014, Yangarra had contracted 1,200 bbl/day of oil production utilizing WTI fixed price contracts at an average price of \$95.20 per bbl. Since the benchmark price was higher than our contracted value the realized prices were negatively impacted. As the product is intended to provide protection to both the oil and NGL revenue streams the commodity contracts impact is split between the two products based on their relative production.

AECO natural gas prices increased for the year ended December 31, 2014 by 43% to \$4.50/GJ from \$3.15/GJ in 2013.

Yangarra had contracted 5,000 GJ/day of 2014 natural gas production utilizing AECO fixed price contracts at an average price of \$3.39 per GJ. These contracts negatively impacted the realized natural gas price.

When compared to 2013 realized pricing on natural gas increased by 39%, excluding commodity contracts and by 15% when the effects of commodity contracts are included.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**Results of Operations**

**Net petroleum and natural gas production, pricing and revenue**

	Year Ended	
	2014	2013
<b>Daily production volumes</b>		
Natural gas (mcf/d)	8,514	6,583
Oil (bbl/d)	1,022	556
NGL's (bbl/d)	364	422
Royalty income		
Natural gas (mcf/d)	271	557
Oil (bbl/d)	1	1
NGL's (bbl/d)	20	37
Combined (boe/d 6:1)	2,870	2,206
<b>Revenue</b>		
Petroleum & natural gas sales - Gross	\$ 54,582,213	\$ 34,726,657
Royalty income	853,203	1,108,750
Commodity contract settlement	(510,369)	1,181,080
Total sales	54,925,047	37,016,487
Royalty expense	(3,505,935)	(1,796,832)
Petroleum & natural gas sales - Net	51,419,112	35,219,655
Change in fair value of contracts	13,024,535	(6,928,607)
Total Revenue - Net of royalties	\$ 64,443,647	\$ 28,291,048

Total sales increased by 48% in 2014 to \$54.9 million from \$37.0 million in 2013. The increase is attributable to:

- a 21% increase in average product prices; and
- a 30 % increase in production (on a boe basis).

The increased production in 2014 can be attributed to additional wells that were brought on production during the year. The Company drilled or participated in 29 gross (19.4 net) horizontal wells during 2014.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**Company Netbacks (\$/boe)**

	Year Ended	
	2014	2013
Sales price	\$ 52.10	\$ 43.12
Royalty income	0.81	1.38
Royalty expense	(3.35)	(2.23)
Production costs	(6.89)	(6.30)
Transportation costs	(1.58)	(1.26)
<b>Field operating netback</b>	<b>41.10</b>	<b>34.71</b>
Commodity contract settlement	(0.49)	1.47
<b>Operating netback</b>	<b>40.62</b>	<b>36.18</b>
G&A and other (excludes non-cash items)	(2.05)	(2.06)
Finance expenses	(2.36)	(2.32)
<b>Cash flow netback</b>	<b>36.21</b>	<b>31.80</b>
Depletion and depreciation	(15.88)	(17.50)
Accretion	(0.16)	(0.18)
Stock-based compensation	(0.70)	(0.36)
Unrealized gain (loss) on financial instruments	12.43	(8.60)
Deferred income tax	(8.63)	(1.94)
<b>Net Income netback</b>	<b>\$ 23.26</b>	<b>\$ 3.21</b>

The overall average price earned by the Company was higher when compared to 2013 as natural gas prices increased by 39% and oil prices decreased by 3%. The net affect was positive to pricing as the Company has a 51% gas weighting. The average sales price increased by 21% for the year ended December 31, 2014 when compared to 2013.

**Royalty Income**

	Year Ended	
	2014	2013
Royalty income	\$ 853,203	\$ 1,108,750

Royalty income decreased in 2014 to \$853,203 as no new wells have been drilled on the royalty lands, leaving the existing royalty production subject to regular decline rates. The majority of royalty income is a result of the 15% sliding scale royalty purchased in the Willesden Green area in March 2010. At the end of 2014, there were a total of 12 wells generating the 15% royalty income.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**Royalty Expense**

	Year Ended	
	2014	2013
Royalty expense	\$ 3,505,935	\$ 1,796,832
Per boe	\$ 3.35	\$ 2.23
As a % of sales (including commodity contracts)	6%	5%
As a % of sales (excluding commodity contracts)	6%	5%

Royalties increased to \$3,505,935 for the year ended December 31, 2014 or 6% as a percentage of sales (excluding commodity contact settlements). The increase is a result of higher production volumes during the year as the percentage of sales remained relatively constant.

Generally, royalty rates in Western Canada are sensitive to prevailing commodity prices, individual well depth and production rates. The crown royalty rate on the new horizontal wells in Central Alberta is 5% for the earlier of 2 years or 60,000 boe of production. Deep natural gas wells have a royalty rate of 5% for the first 5 years of production.

**Production and Transportation Costs**

	Year Ended	
	2014	2013
Production costs	\$ 7,218,786	\$ 5,074,900
Per boe	\$ 6.89	\$ 6.30
Transportation costs	\$ 1,651,072	\$ 1,016,247
Per boe	\$ 1.58	\$ 1.26
Combined (\$/boe)	\$ 8.47	\$ 7.56

Production and transportation costs increased in 2014 to \$8,869,858 on a dollar basis due to additional production and increased by 12% on a per boe basis when compared to 2013. The change is due to the additional third party processing charges and higher processing and transportation fees charged by the mid-stream operators.

**Depletion, depreciation, impairment and accretion**

	Year Ended	
	2014	2013
Depletion and depreciation	\$ 16,635,642	\$ 14,091,803
Per boe	\$ 15.88	\$ 17.50
Accretion	\$ 170,409	\$ 148,714

Depletion, depreciation increased when compared 2013 as a result of increased production. The DD&A rate per boe decreased in 2014 as the reserve base increased at a faster pace than the 2014 capital additions.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**General and administrative expenses ("G&A")**

	Year Ended	
	2014	2013
Gross G&A expenses	\$ 3,462,309	\$ 2,588,674
G&A recoveries	(1,316,433)	(929,708)
Net G&A expenses	\$ 2,145,876	\$ 1,658,966
Per boe	\$ 2.05	\$ 2.06

On a net basis, general and administrative expenses increased by 29% in 2014 as a result of increased head office costs due to the growth in production and the graduation to the TSX. On a per boe basis, G&A decreased due to higher production and increased recoveries.

**Other expenses**

	Year Ended	
	2014	2013
Finance		
Interest (includes released losses on interest rate contracts)	\$ 2,077,390	\$ 1,820,876
Change in fair value of interest rate contracts	396,551	43,236
Accretion	170,409	\$ 148,714
	\$ 2,644,350	\$ 2,012,826
Stock-based compensation	\$ 734,684	\$ 289,600

Interest and financing fees for the year ended December 31, 2014 include interest on the revolving operating demand loan (the average amount drawn in 2014 was \$47 million), the subordinated term facility and the change in fair value of the interest rate contracts.

The Company had the following interest rate contracts in place at December 31, 2014:

- Pay a floating rate to receive a 2.35% (plus a 2.50% credit spread) fixed rate on \$10 million (January 2015 - June 2018)
- Pay a floating rate to receive a 2.15% (plus a 2.50% credit spread) fixed rate on \$10 million (January 2015 - May 2018)

The fair value on the interest rate contracts was in a loss position of (\$439,786) as at December 31, 2014 (2013 – \$43,236).

During the year ended December 31, 2014, the Company granted options to purchase 1,291,677 common shares, (400,002 of the options vested immediately and 891,675 of the options will vest equally over three years with the first tranche vesting one year after the grant date). The fair value of the options was estimated at \$1,683,600 (\$1.32 per option) using the Black-Scholes pricing model.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

---

**Deferred Taxes**

	Year Ended	
	2014	2013
Deferred income tax expense	\$ 9,041,631	\$ 1,561,007

The Company's effective tax rate for 2014 was 25%, however, Yangarra did not pay income taxes in 2014 and does not expect to pay income taxes in 2015 as it has sufficient tax pools to cover taxable income.

The Company has the following estimated tax pools as at December 31:

	Year Ended	
	2014	2013
Canadian exploration expenses	\$ 10,247,874	\$ 13,023,280
Canadian development expenses	103,782,030	71,317,286
Canadian oil and gas property expenses	15,493,336	8,516,809
Undepreciated capital costs	22,328,502	20,909,028
Non-capital losses (various expiry dates)	1,568,775	1,592,090
Share issuance costs	2,471,312	1,983,594
	<u>\$ 155,891,829</u>	<u>\$ 117,342,087</u>

**Commodity price risk contracts**

	Year Ended	
	2014	2013
Realized (loss) gain on contract settlement	\$ (510,369)	\$ 1,181,080
Change in fair value of commodity contracts	13,024,535	(6,928,607)
	<u>\$ 12,514,166</u>	<u>\$ (5,747,527)</u>

As at December 31, 2014, the Company was committed to the following commodity price risk contracts for the sale of oil:

2015 Oil

- 100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$86.05 USD/bbl
- 100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$91.20 CDN/bbl
- 100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.25 CDN/bbl
- 200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.45 CDN/bbl
- 200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$100.00 CDN/bbl

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

---

As at December 31, 2014 the Company was committed to the following commodity price risk contracts on the AECO basis:

2015 Gas

2,000 GJ/d from January 1 to December 31, 2015 at a fixed price of \$4.11/GJ

The fair value of the commodity contracts was \$8,494,039 as at December 31, 2014 (2013 – \$4,530,496).

Subsequent to year end the Company monetized 400 bbl/d of commodity contracts (the \$91.20/bbl, \$92.25/bbl and \$92.45/bbl contracts) for proceeds of \$4,016,652. The Company then entered into 500 bbl/d of costless collars at a floor of C\$65.00 WTI per barrel and a ceiling of C\$73.50 WTI per barrel, for the remainder of 2015. The Company also added 800 bbl/d of Edmonton par to WTI differential contracts at US\$6.75/bbl for 2015.

The Company's commodity contract position for 2015 now consists of the 500 bbl/d costless collar, 300 bbl/d crude oil swap at an average price of C\$102.56 WTI per barrel, 800 bbl/d of differential at US\$6.75/bbl and 2,000 GJ/d of gas at \$4.11 AECO per GJ.

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at December 31, 2014 to fluctuations in commodity prices, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable measure (\$0.27/mcf for natural gas and \$5.65/bbl for oil). Fluctuations in commodity prices potentially could have resulted in unrealized gains (losses) impacting income before tax as follows:

Sensitivities	Impact on Income Before Tax	
	Increase 10%	Decrease 10%
Crude oil	(1,698,324)	1,698,324
Natural Gas	(193,450)	193,450

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**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

**Liquidity and Capital Resources**

The following table summarizes the change in working capital during the year ended December 31, 2014 and December 31, 2013:

	2014	2013
Working capital (deficit) - beginning of year <sup>(1)</sup>	\$ (36,794,243)	\$ (36,301,842)
Funds flow from operating activities	38,325,988	25,648,666
Additions to property and equipment	(78,125,708)	(45,023,600)
Additions to E&E Assets	(1,680,941)	(2,461,506)
Issuance of shares	26,408,338	13,593,273
Issuance (repayment) of Subordinated Debt	(7,786,632)	7,786,632
Decommissioning costs incurred	(76,361)	-
Other Debt	(37,374)	(35,866)
Working capital (deficit) - end of year <sup>(1)</sup>	\$ (59,766,933)	\$ (36,794,243)
Subordinated Debt Outstanding	\$ -	\$ (7,786,632)
Total Debt	\$ (59,766,933)	\$ (44,580,875)
Credit facility limit	\$ 70,000,000	\$ 45,000,000
Subordinated debt facility limit	\$ 20,000,000	\$ 20,000,000

*(1) Excludes current portion of fair value of commodity contracts*

As at December 31, 2014, the 55,602,093 (2013 – \$32,112,455) reported amount of bank debt with Alberta Treasury Branches (“ATB”) was comprised of \$29,150,000 (2013 – \$9,850,000) drawn on the revolving operating demand loan, \$24,940,715 (2013 – \$19,963,177) of guaranteed notes and \$1,511,378 (2013 – \$2,299,280) of outstanding cheques. The Company is subject to a financial covenant requiring an adjusted working capital ratio above 1 : 1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility, excluding unrealized commodity contracts and flow-through share premium liability). The facility is secured by a general security agreement.

As at December 31, 2014, the maximum amount available under the revolving operating demand loan was \$70,000,000 (December 31, 2013 – \$45,000,000) at an interest rate of bank prime plus 0.75% per annum on the operating demand loan, payable monthly, or a credit spread of 2.0% on guaranteed notes. The next scheduled review is May 31, 2015. A decrease in the borrowing base could result in a reduction to the credit facility, which may require repayment to the lenders. During the period, the weighted average effective interest rate for the bank debt was approximately 4.1% (2013 – 4.9%).

As at December 31, 2014 nil (2013 – \$7,786,632) was drawn on the \$20,000,000 subordinated term loan facility with Alberta Treasury Branches (“ATB”). The subordinated term loan has a two year committed term (subject to an extension for an additional year upon mutual consent). There are two tranches (\$9,000,000 to be drawn on or before October 1, 2014 and \$11,000,000 to be drawn on or before January 1, 2015) at an interest rate of bank prime plus 7.0% per annum, payable monthly, or a credit spread of 8.0% on guaranteed notes. Full payment of the principal is due on September 3, 2015. The second tranche was not drawn on January 1, 2015 and the current balance outstanding is \$nil.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

---

The Company is subject to financial covenants on the subordinated term facility requiring an adjusted working capital ratio greater than 1 : 1 (calculation consistent with the calculation disclosed above) and a debt to EBITDA ratio below 4 : 1 (debt is defined as all obligations, liabilities and indebtedness on the statement of financial position less asset retirement obligation, future income taxes, flow-through share premium liability and commodity\interest contracts and EBITDA is defined as net income plus interest expense and other financing costs, depletion and depreciation and income taxes). In addition the Company is required to comply with a PV-10 proved developed producing ("PDP") to debt ratio of not less than 0.92 : 1 on specified dates and a PV-10 total proved to debt ratio of not less than 1.5 : 1 on specified dates. This facility is secured with a pledge of a general demand debenture and a general security agreement.

The Company is in compliance with all covenants as at December 31, 2014.

The 2014 cash flow ratio as at December 31, 2014 was 1.56 : 1, excluding the current portion of the fair value of commodity contracts (1.34 : 1 including the current portion of the fair value of commodity contracts).

Yangarra intends to fund the 2015 budget with cash flow from operations and the availability on the revolving operating demand loan. There are no drilling commitments for 2015.

### **Contractual Obligations and Commitments**

As at December 31, 2014	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
A/P and accrued liabilities	20,541,046	20,541,046	20,541,046	-	-	-
Bank debt <sup>(1)</sup>	55,602,093	55,602,093	55,602,093	-	-	-
Other long-term liabilities	720,874	720,874	-	40,167	680,707	-
Interest rate contract	439,786	439,786	126,944	126,944	185,898	-
Estimated interest payments <sup>(1)</sup>	-	588,147	588,147	-	-	-
	<u>77,303,799</u>	<u>77,891,946</u>	<u>76,858,230</u>	<u>167,111</u>	<u>866,605</u>	<u>-</u>

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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## Capital Spending

Capital spending is summarized as follows:

Cash additions	Year Ended	
	2014	2013
Land, acquisitions and lease rentals	\$ 1,188,777	\$ 184,606
Property acquisitions (Farm-in drilling)	2,627,312	-
Drilling and completion	65,125,540	35,705,499
Geological and geophysical	1,612,737	756,870
Equipment	7,569,877	7,595,294
Other asset additions	1,465	318,233
	<b>\$ 78,125,708</b>	<b>\$ 44,560,502</b>

Exploration & evaluation assets additions \$ 1,680,941 \$ 2,461,506

The Company drilled 29 gross (19.4 net) horizontal wells during 2014, including a Duvernay horizontal well. The drilling resulted in increased production.

In 2014 excluding the Duvernay well, the average drill cost per well was \$1.8 million and the average completion cost per well was \$1.2 million.

## Outlook

Yangarra continues to manage the balance sheet and is targeting debt to cash flow of 2 to 1 or less in 2015 (assuming current strip pricing). The hedging program has provided excellent coverage in this low commodity environment which together with many other cost cutting initiatives will assist with keeping the balance sheet strong. Yangarra continues to make all capital allocation decisions based on maximizing full cycle economics.

## Decommissioning Liabilities

As at December 31, 2014, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be \$11,922,672 for which \$8,250,475 has been recorded using a discount rate of 1.46% - 2.33%, an inflation rate of 2% and an estimated weighted average timing of cash flows of 15 years.

## Off Balance Sheet Arrangements

There were no off balance sheet arrangements, other than the office and truck lease commitment which is accounted for as an operating lease.

## Related Party Transactions

During the year ended December 31, 2014 and 2013, the Company was charged or invoiced the following amounts by certain of its officers and directors through controlled companies:

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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	Year Ended	
	2014	2013
Administration and consulting fees	\$ 424,085	\$ 540,043
Production and capital expenditures	\$ 114,291	203,023
	\$ 538,376	\$ 743,065

Included in accounts payable and accrued liabilities at December 31, 2014 is \$6,478 (December 31, 2013 – \$7,727) relating to the above transactions. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other long-term liabilities include a mortgage for \$291,172 (December 31, 2013 - \$328,545) held in the name of an officer of the Company for a property that is used as a field office. The Company is the beneficial owner through a trust agreement of the property against which the mortgage is secured. All mortgage payments are made by the Company.

## Share Capital

Details of changes in the number of outstanding equity instruments are detailed in the following table:

	Common Shares	Warrants	Stock Options
<b>Balance - December 31, 2013</b>	49,039,002	473,335	3,545,031
Equity financing	8,333,417	-	-
Expiry of warrants	-	(473,335)	-
Grant of options	-	-	1,291,677
Exercise of options	383,335	-	(383,336)
Share consolidation	50	-	-
<b>Balance - December 31, 2014</b>	57,755,804	-	4,113,370
Grant of options	-	-	-
Exercise of options	-	-	-
<b>Balance - Date of MD&amp;A</b>	57,755,804	-	4,113,370

In May 2014, the Company consolidated its outstanding common shares, stock options and warrants on a 1 for 3 basis (the "Share Consolidation"). As a result, the number of outstanding common shares, stock options and warrants of comparative periods have been reduced by a factor of three, in order for the comparative common share, stock options, warrants, per share amounts and diluted per share amounts to be equivalent.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

---

## Contingency

In December 2009, the Company terminated the Standstill Agreement that it had with an industry partner regarding a joint producing property and served that industry partner with a Statement of Claim issued from The Court of Queen's Bench of Alberta, by which the Company claims breach of the agreements between the parties, gross negligence and default of operator. The Company seeks judgment for specified and such further damages to be determined by the Court, as well as appointment as operator. The Company increased the statement of claim based on the information provided by the defendant. The potential outcome of the lawsuit and claims are undetermined, however, they could be material.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations

## Commitments

The Company has satisfied its full CEE commitment related to the CEE flow-through shares issued in December 2013 as at December 31, 2014.

The Company has entered into lease agreements for office premises, field equipment and Company vehicles with estimated minimum annual payments as follows:

2015	\$	241,277
2016	\$	241,277
2017	\$	241,277

## Financial Instruments and Financial Risk Management

The Company's financial instruments include accounts receivable, bank debt, subordinated debt, accounts payable and accrued liabilities, other long term liabilities, interest rate contracts and commodity contracts. The carrying values of accounts receivable, accounts payable and accrued liabilities, other long term liabilities and bank debt approximate their fair values due to their relatively short periods to maturity. The fair value of the subordinated debt is approximately equal to the carrying value as the debt is subject to a floating interest rate.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of the interest rate contracts and the commodity contracts is classified at level 2. The fair value is calculated using the forward price curves as at December 31, 2014 for the period the contract is outstanding.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. The Board of Directors has overall responsibility

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

**a. Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at December 31, 2014, the maximum credit exposure is the carrying amount of the accounts receivable of \$13,609,036 (December 31, 2013 – \$8,846,547).

The maximum exposure to credit risk for receivables at the reporting date by type of customer was:

Oil and natural gas marketers	\$	2,644,221
Joint venture partners		8,258,199
Realized Commodity Contracts		1,063,489
Other		1,643,127
		<hr/>
	\$	13,609,036

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers (Computershare). The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. All of the revenue accruals and receivables from petroleum and natural gas marketers were received in January 2015.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company did not provide for any doubtful accounts nor was it required to write-off any accounts receivable during the year ended December 31, 2014.

As at December 31, 2014, the Company considers its receivables to be aged as follows:

Not past due	\$	6,609,455
Past due by less than 90 days		3,710,806
Past due by more than 90 days		3,288,775
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	\$	13,609,036

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**b. Liquidity risk**

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Company has a credit facility agreement which is regularly reviewed by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, commodity contracts, interest rate contracts, bank debt and subordinated debt, which are classified as current or non-current on the statement of financial position based on their maturity dates.

Yangarra intends to fund the 2015 budget with cash flow from operations and the availability on the revolving operating demand loan.

**c. Market risk**

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein:

**i. Interest rate risk**

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate and to mitigate this risk, the Company has entered into interest rate contracts. For the year ended December 31, 2014, if interest rates had been 1% lower with all other variables held constant, income for the period would have been \$465,573 (December 31, 2013 - \$308,150) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

**ii. Currency risk**

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2014.

**iii. Commodity price risk**

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. The commodity price risk contracts are listed in the commodity price risk contracts section.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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## Capital Resources

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debt:

	<i>December 31,</i> <i>2014</i>	<i>December 31,</i> <i>2013</i>
Shareholders' equity	\$ 147,838,197	\$ 95,583,587
Bank debt	\$ 55,602,093	\$ 32,112,455
Subordinated debt	\$ –	\$ 7,786,632

The Company monitors capital based on annual cash from operations before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company considers its forecasted cash from operations before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At December 31, 2014, the Company's capital structure was not subject to external restrictions. No changes have been made to the capital policy in 2014.

## Selected Quarterly Financial Information

	<b>2014</b> <b>Q4(\$)</b>	2014 Q3(\$)	2014 Q2(\$)	2014 Q1(\$)
Petroleum & natural gas sales and royalty income	<b>10,524,238</b>	14,796,645	14,106,137	16,008,396
Net petroleum and natural gas revenue	<b>9,774,426</b>	13,845,994	13,238,221	15,070,840
Net income (loss)	<b>12,833,554</b>	7,967,369	2,851,233	719,450
Net income (loss) per share – basic	<b>0.22</b>	0.14	0.05	0.03
Net income (loss) per share – diluted	<b>0.22</b>	0.13	0.05	0.03
Funds flow from operations	<b>10,339,008</b>	9,346,927	8,180,361	10,459,692
Funds flow from operations per share – basic	<b>0.18</b>	0.16	0.15	0.21
Funds flow from operations per share – diluted	<b>0.18</b>	0.16	0.15	0.21
Net capital expenditures	<b>18,783,353</b>	19,588,859	19,445,229	21,989,208

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

	2013 Q4(\$)	2013 Q3(\$)	2013 Q2(\$)	2013 Q1(\$)
Petroleum & natural gas sales and royalty income	11,265,291	9,568,399	8,113,998	6,887,719
Net petroleum and natural gas revenue	10,708,013	8,866,802	7,837,133	6,626,627
Net income (loss)	750,851	11,330	2,082,942	(259,424)
Net income (loss) per share – basic	0.03	0.00	0.06	0.00
Net income (loss) per share – diluted	0.03	0.00	0.06	0.00
Funds flow from operations	7,975,588	6,378,207	6,480,689	4,814,183
Funds flow from operations per share – basic	0.18	0.16	0.15	0.16
Funds flow from operations per share –diluted	0.18	0.16	0.15	0.16
Net capital expenditures	23,483,590	8,567,226	3,708,601	11,262,592

Fluctuations in quarterly revenues net income and funds flow from operations over the last eight quarters are due primarily to the volatility in commodity prices and changes in sales volumes due to production growth through successful drilling activity. The Company has focused capital expenditures on drilling and completions, with major infrastructure costs for a facility built in the first quarter of 2013. Production has grown steadily over the two year period with revenue and cash increasing when accounting for changes in commodity pricing.

### **Fourth Quarter Activities**

Fourth quarter 2014 production of 3,035 boe/d is an increase of 10% compared to the 2,764 boe/d in the comparable period in 2013. Petroleum and natural gas sales decreased by 5% when compared to the same period in 2013 and funds flow from operations increased by 30%, due to the effect of commodity contracts. Production increased by 10% however realized pricing (excluding commodity contracts) decreased by 21% due to the drop in oil and liquids pricing.

Capital expenditures were \$19 million in the fourth quarter of 2014 compared to \$23 million in the same period in 2013. The Company drilled three Cardium wells in the fourth quarter, satisfied its CEE commitment by drilling a Duvernay well in the South Block, and participated in four non-operated wells.

### **Business Risks and Uncertainties**

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact; and credit risk of non-payment for sales contracts and joint venture partners.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses.

## **Environmental Risks**

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an asset retirement obligation that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities are discussed in further detail under "Critical Accounting Estimates" below, as well as in note 6 to the Company's Consolidated Financial Statements.

## **Disclosure Controls and Procedures**

Disclosure controls and procedures ("DC&P") as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure. The Chief Executive Officer and Chief Financial Officer of the Company evaluated the effectiveness of the design and operation of the Company's DC&P. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's DC&P were effective as at December 31, 2014.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's DC&P provide a reasonable level of assurance that they are effective, they do not expect that the DC&P will necessarily prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **Internal Controls over Financial Reporting**

Internal control over financial reporting is a process designed to provide reasonable assurance that all the assets are safeguarded and transactions are appropriately authorized, and to facilitate the preparation of relevant, reliable and timely information.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Yangarra is required to comply with National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings" and management has assessed the effectiveness of the Company's internal control over financial reporting as defined by this instrument. The assessment was based on the framework in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The certification of annual filings for the period ended December 31, 2014 requires that Yangarra disclose in the interim MD&A any weaknesses in the Company's internal control over financial reporting that

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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occurred during the period that have materially affected, or are reasonably likely to materially affect, Yangarra's internal control over financial reporting.

During the design assessment certain material weaknesses in internal controls over financial reporting were identified, as follows:

- Due to the relative small number of employees at Yangarra, Management is aware that there is a lack of segregation of duties relating to complex and non-routine financial and tax issues that may arise. It is not deemed as economically feasible at this time to have such personnel. Yangarra relies on external experts for review and advice on complicated financial and tax issues and for tax planning, tax provision and compilation of corporate tax returns.

These weaknesses in internal controls over financial reporting result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, however, management and the Board of Directors do not have reasonable assurance that this risk can be reduced to a remote likelihood of a material misstatement.

## **New Accounting Standards**

### **Financial Instruments**

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Yangarra does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations. The amendments clarify that business combination accounting is required to be applied to acquisitions of interests in a joint operation (e.g. oil and gas property) that constitutes a business. To be applied prospectively for annual periods beginning on or after January 1, 2016. Early adoption is permitted.

### ***New and Amended Accounting Standards Adopted***

The Company adopted the following new amendment:

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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**Offsetting Financial Assets and Financial Liabilities**

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "*Financial Instruments: Presentation*" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the Consolidated Financial Statements.

**Critical Accounting Estimates**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments in applying accounting policies

CGU Determination

The Company's assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure and geographical proximity.

Impairment indicator assessment

The Company assesses its P&E and E&E assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The assessment of contingencies inherently involves the estimates of the outcome of future events.

Key sources of estimation uncertainty

Reserves

Reserves are used in the unit of production calculation for depletion and depreciation as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. These estimates and projections are uncertain as the Company does not have a long commercial production history to assist in the development of these forward-looking estimates. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Company's assessment of future cash flows is based on the Company's independent evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information. The Company believes these prices are reasonable estimates for a long-term outlook.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the year ended December 31, 2014**

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#### Decommissioning liabilities

The Company measures decommissioning liabilities at each financial statement date. The estimate is based on the Company's share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. As a result of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase and future income to decrease.

#### Impairment Estimate

The assessment for impairment for P&E and E&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. Impairment is recognized in the statement of income (loss) and comprehensive income (loss) in the period in which carrying amount exceeded the recoverable amount.

#### Deferred taxes

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. An estimate is required for both the timing and corresponding tax rate for this reversal. Should these estimates change, it may impact the measurement of the Company's assets or liabilities as well as deferred tax recovery or expense recognized to earnings. Where unfavorable evidence exists, additional considerations and evidence for recognition of deferred tax assets is required. The Company has applied management's judgment and evaluated applicable factors necessary in making this determination and has concluded that the positive evidence in consideration of the estimated future cash flows based on reserve reports from the Company's independent engineers, does not sufficiently outweigh negative factors. The Company only recognizes deferred tax assets arising from unused tax losses to the extent that the Company has sufficient taxable temporary differences or it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized.

#### Contingencies

When recognized, management makes its best estimate with respect to future cash outflows.

#### Other areas of estimates

The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance including share price, risk free rate, volatility, expected life and dividend yield. The fair value of commodity contracts is calculated using valuation models that require estimates as to future market prices expected interest rates and expected volatility in these variables. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.



**Yangarra Resources Ltd.**  
**Consolidated Financial Statements**  
*December 31, 2014 and 2013*



## Management's Responsibility

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To the Shareholders of Yangarra Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

KPMG LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 19, 2015

"James G. Evaskevich" (signed)

James G. Evaskevich  
Chief Executive Officer

"James A. Glessing" (signed)

James A. Glessing  
Chief Financial Officer

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**KPMG LLP**  
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www.kpmg.ca

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of Yangarra Resources Ltd.

We have audited the accompanying consolidated financial statements of Yangarra Resources Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Yangarra Resources Ltd. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

**KPMG LLP**

Chartered Accountants

March 19, 2015  
Calgary, Canada

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**KPMG Confidential**

**Yangarra Resources Ltd.**  
**Consolidated Statements of Financial Position**  
**As at:**

	December 31, 2014	December 31, 2013
<b>Assets</b>		
Current		
Accounts receivable (note 14)	\$ 13,609,036	\$ 8,846,547
Prepaid expenses and deposits	2,767,170	1,493,124
Commodity contracts (note 14c iii)	8,494,039	–
Total current assets	24,870,245	10,339,671
Non-current		
Property and equipment (note 3)	218,154,343	152,971,016
Exploration and evaluation assets (note 4)	7,466,465	6,487,334
<b>Total assets</b>	<b>\$ 250,491,053</b>	<b>\$ 169,798,021</b>
<b>Liabilities</b>		
Current		
Bank debt (note 5)	\$ 55,602,093	\$ 32,112,455
Accounts payable and accrued liabilities	20,541,046	15,021,459
Commodity contracts (note 14c iii)	–	3,169,630
Interest rate contracts (note 14)	126,944	–
Flow-through share premium liability	–	814,275
Total current liabilities	76,270,083	51,117,819
Non-current		
Subordinated debt (note 5)	–	7,786,632
Other long-term liabilities	720,874	758,248
Commodity contract (note 14c iii)	–	1,360,866
Interest rate contract (note 14)	312,842	43,236
Decommissioning liability (note 6)	8,250,475	5,497,222
Deferred tax liability (note 12)	17,098,582	7,650,411
<b>Total liabilities</b>	<b>102,652,856</b>	<b>74,214,434</b>
<b>Shareholders' Equity</b>		
Share capital (note 7)	134,406,725	107,590,652
Warrants (note 9)	–	241,826
Contributed surplus	11,337,527	10,028,770
Retained Earnings	2,093,945	(22,277,661)
<b>Total shareholders' equity</b>	<b>147,838,197</b>	<b>95,583,587</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 250,491,053</b>	<b>\$ 169,798,021</b>

Contingency (note 17), Commitments (note 18), Subsequent events (note 14)

Approved on behalf of the Board of Directors

"James G. Evaskevich" (signed)  
**James G. Evaskevich**

"Gordon A. Bowerman" (signed)  
**Gordon A. Bowerman**

**Yangarra Resources Ltd.**  
**Consolidated Statements of Income and Comprehensive Income**  
**For the year ended December 31:**

	2014	2013
<b>Revenue</b>		
Petroleum and natural gas sales	\$ 54,582,213	\$ 34,726,657
Royalty income	853,203	1,108,750
Royalties	(3,505,935)	(1,796,832)
	<b>51,929,481</b>	<b>34,038,575</b>
Commodity price risk contracts ( <i>note 14c iii</i> )		
Commodity contract settlement	(510,369)	1,181,080
Change in fair value of commodity contracts	13,024,535	(6,928,607)
	<b>64,443,647</b>	<b>28,291,048</b>
<b>Expenses</b>		
Production	7,218,786	5,074,900
Transportation	1,651,072	1,016,247
General and administrative	2,145,876	1,658,966
Finance ( <i>note 16</i> )	2,644,350	2,012,826
Share-based compensation ( <i>note 8</i> )	734,684	289,600
Depletion, depreciation and impairment ( <i>note 3</i> )	16,635,642	14,091,803
	<b>31,030,410</b>	<b>24,144,342</b>
<b>Income before tax</b>	<b>33,413,237</b>	<b>4,146,706</b>
Deferred tax ( <i>note 12</i> )	9,041,631	1,561,007
<b>Net income and total comprehensive income</b>	<b>\$ 24,371,606</b>	<b>\$ 2,585,699</b>
<b>Income per share (<i>note 10</i>)</b>		
Basic	\$ 0.45	\$ 0.06
Diluted	\$ 0.44	\$ 0.06
<b>Weighted average number of shares (<i>note 10</i>)</b>		
Basic	54,581,750	41,033,862
Diluted	55,793,173	41,075,345

**Yangarra Resources Ltd.**  
**Consolidated Statements of Changes in Equity**  
**For the year ended December 31:**

	2014	2013
<b>Share Capital</b>		
Balance, beginning of year	\$ 107,590,652	\$ 94,717,629
Issued	27,500,275	14,486,875
Share issue costs (net of \$407,735 in tax)	(1,223,203)	(792,077)
CDE Flow-through share premium liability	–	(170,000)
CEE Flow-through share premium liability	–	(814,275)
Exercise of options	539,001	162,500
Balance, end of year	134,406,725	107,590,652
<b>Warrants</b>		
Balance, beginning of year	241,826	241,826
Exercised	–	–
Expired	(241,826)	–
Balance, end of year	–	241,826
<b>Contributed Surplus</b>		
Balance, beginning of year	10,028,770	9,593,670
Share-based compensation related to:		
Options granted in current year	1,066,931	435,100
Expired warrants	241,826	–
Balance, end of year	11,337,527	10,028,770
<b>Deficit</b>		
Balance, beginning of year	(22,277,661)	(24,863,360)
Net income	24,371,606	2,585,699
Balance, end of year	2,093,945	(22,277,661)
<b>Total Equity</b>	<b>\$ 147,838,197</b>	<b>\$ 95,583,587</b>

**Yangarra Resources Ltd.**  
**Consolidated Statements of Cash Flows**  
**For the year ended December 31:**

	2014	2013
<b>Operating</b>		
Net income for the year	\$ 24,371,606	\$ 2,585,699
Add back non-cash items:		
Change in fair value of commodity contracts	(13,024,535)	6,928,607
Change in fair value of interest rate contracts	396,551	43,236
Share-based compensation (note 8)	734,684	289,600
Depletion, depreciation and impairment (note 3)	16,635,642	14,091,803
Accretion expense (note 6)	170,409	148,714
Deferred tax (note 12)	9,041,631	1,561,007
Funds flow from operations	38,325,988	25,648,666
Decommissioning costs incurred	(76,361)	–
Change in non-cash working capital (note 11)	(6,586,199)	1,428,457
Net cash from operating activities	31,663,428	27,077,123
<b>Financing</b>		
Issue of equity instruments, net of costs	26,408,338	13,593,273
Bank debt advance (repayment) (note 5)	23,489,638	(26,306)
Subordinated debt advance (repayment) (note 5)	(7,786,632)	7,786,632
Other long-term liabilities repayment	(37,374)	(35,866)
Change in non-cash working capital (note 11)	–	–
Net cash from financing activities	42,073,970	21,317,733
<b>Investing</b>		
Expenditures on property and equipment	(78,125,708)	(44,560,502)
Expenditures on exploration and evaluation assets	(1,680,941)	(2,461,506)
Change in non-cash working capital (note 11)	6,069,251	(1,372,848)
Net cash used in investing activities	(73,737,398)	(48,394,856)
<b>Change in cash and cash equivalents</b>	–	–
<b>Cash, beginning of the year</b>	–	–
<b>Cash, end of the year</b>	\$ –	\$ –
<b>Supplemental cash flow information</b>		
Interest paid	\$ 1,886,231	\$ 1,714,760

**1. Basis of preparation, adoption of IFRS and statement of compliance**

Yangarra Resources Ltd. (the “Company”) is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Yangarra Resources Corp. (“YRC”), after the elimination of intercompany transactions and balances.

Statement of compliance and authorization:

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 19, 2015.

**2. Summary of significant accounting policies**

**a) Basis of measurement**

The consolidated financial statements have been prepared under the historical cost method, except for derivative instruments which were recognized at fair value.

**b) Cash and cash equivalents**

Cash consists of bank balances.

**c) Property and equipment and exploration and evaluation assets**

**(i) Exploration and evaluation assets**

Exploration and evaluation (“E&E”) costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated in cost centers by well, field or exploration area, pending determination of technical feasibility and commercial viability.

The Company assesses the recoverability of the E&E assets, before and at the moment of reclassification, to property and equipment. E&E assets are assessed for impairment if (a) sufficient data exists to determine technical feasibility and commercial viability and (b) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The impairment of E&E assets, and eventual reversal thereof, is recognized in profit or loss.

The technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. A review of each license or field is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, intangible E&E assets attributable to these reserves are first tested for impairment and then reclassified from E&E assets to property and equipment. The costs of undeveloped land that expires is recognized in profit or loss.

**2. Summary of significant accounting policies (continued)**

**c) Property and equipment and exploration and evaluation assets**

**(ii) Property and equipment**

Property and equipment (“P&E”) is carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost of an item of P&E consists of the purchase price, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Oil and gas capitalized costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the year to the remaining total proved and probable reserves before royalties, taking into account future development costs necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports. There is a 50 percent estimated statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable. The statistical probability for proven reserves is 90 percent.

Where an item of P&E comprises major components with different useful lives, the components are accounted for as separate items of P&E. The expected useful lives of P&E, residual values and methods of depreciation are reviewed at each reporting period and, if necessary, changes are accounted for prospectively.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&E is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income (loss) in the period incurred.

Corporate assets are recorded at cost less accumulated amortization, which is calculated using the declining balance method at rates of 20 percent to 30 percent per annum.

**(iii) Impairment of non-financial assets**

At each financial reporting date, the carrying amounts of P&E are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

Individual assets are grouped together for impairment assessment purposes into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit or CGU). The carrying amount of P&E assets within a CGU are compared to the recoverable amount of the CGU. Goodwill is allocated to CGUs that are expected to benefit from synergies of the combination. E&E assets are allocated to CGUs when they are assessed for impairment if indicators of impairment exist as well as upon their reclassification into P&E.

**2. Summary of significant accounting policies (continued)**

**c) Property and equipment and exploration and evaluation assets (continued)**

**(iii) Impairment of non-financial assets (continued)**

A CGU's recoverable amount is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money to the Company and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant's view of the risks associated with the assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is charged to the statement of income (loss) and comprehensive income (loss). A previously recognized impairment loss is reversed or partially reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The new carrying amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior periods.

**(iv) Decommissioning liability**

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the carrying amount of the related asset. Measurement occurs when a legal or constructive obligation arises. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation discounted using the pre-tax risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time (accretion) is recognized as a finance expense whereas increases or decreases due to changes in the estimated cost to decommission the asset are capitalized as P&E or E&E. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established. The related decommissioning asset is depreciated or depleted on the same basis as the P&E to which it relates.

**d) Leases**

Leases that transfer substantively all the benefits, risks and rewards of ownership to the Company are recorded as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments with a corresponding increase to obligations under finance leases. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the obligation outstanding. The finance charge is included in the statement of comprehensive income (loss) over the lease period.

Leases that do not transfer the risks and rewards of ownership to the Company are classified as operating leases under which leasing costs are expensed in the period incurred.

**2. Summary of significant accounting policies (continued)**

**e) Joint operations**

A portion of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

**f) Revenue recognition**

Revenue is recognized from petroleum sales when the petroleum is delivered to the buyer and from gas sales when the gas passes through the pipeline at the delivery point. Petroleum and natural gas royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

**g) Income taxes**

Income tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on the taxable profits for the year. Income tax expense is recognized in the statement of comprehensive income (loss) except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

Deferred tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable difference arising in the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized.

Deferred taxes are measured based on enacted or substantively enacted tax rates for the period in which the temporary differences are expected to be realized or settled, and are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

**h) Flow-through shares**

Expenditure deductions for income tax purposes related to exploratory activities funded by flow-through equity instruments are renounced to investors in accordance with income tax legislation. The proceeds from issuance are allocated between the offering of shares and the sale of tax benefits. The allocation is made based on the difference between the quoted price of the existing shares and the amount the investor pays for the shares. A flow through share premium liability is recognized for this difference. The liability is reversed when tax benefits are incurred and a deferred tax liability is recognized at that time. Income tax expense is the difference between the amount of the deferred tax liability and the liability recognized on issuance.

**2. Summary of significant accounting policies (continued)**

**i) Share-based compensation plans**

Stock options granted to directors, officers, employees and consultants are accounted for using the fair value method under which compensation expense is recorded based on the estimated fair value of the options at the grant date using the Black-Scholes option pricing model. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Compensation cost is either expensed or capitalized depending upon whether or not the individual to which the award relates is directly related to the development of its oil and gas projects, over the vesting period with a corresponding increase in contributed surplus. When stock options are exercised, the cash proceeds along with the amount previously recorded as contributed surplus are recorded as share capital. The number of awards expected to vest is reviewed annually.

**j) Per share amounts**

Basic income per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive instruments are comprised of stock options granted and warrants issued.

**k) Financial instruments**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantively all the risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded contract are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measure at fair value through profit or loss. Changes in the fair value of separate embedded derivatives are recognized immediately in the statement of income (loss) and comprehensive income (loss).

The Company accounts for forward physical delivery contracts, which are entered into and continue to be held for the purpose of receipt or delivery of non-financial items in accordance with its expected purchase, sale or usage requirements, as executory contracts. As such these contracts are not considered to be derivative financial instruments and are not recorded at fair value on the statement of financial position. Settlements on physical sales contracts are recognized in oil and natural gas revenues.

**2. Summary of significant accounting policies (continued)**

**k) Financial instruments (continued)**

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instrument were acquired.

**(i) Fair value through profit or loss**

A financial asset can be classified as fair value asset through profit or loss only if it is designated at fair value through profit or loss or held-for-trading. Held-for-trading assets are comprised of derivatives or assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. The Company's commodity contracts and interest rate contracts are derivatives and are recorded at fair value with changes in fair value included in the statement of income (loss) and comprehensive income (loss). The Company does not apply hedge accounting to its derivative instruments.

**(ii) Held-to-maturity**

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has the positive intention and ability to hold until maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, impairment losses are included in the statement of income (loss) and comprehensive income (loss). The Company has no held-to-maturity financial assets.

**(iii) Loans and receivables**

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortized cost using the effective interest method. Any gains or losses on the realization of receivables are included in the statement of income (loss) and comprehensive income (loss). The financial assets that are categorized as loans and receivables included cash and cash equivalents and accounts receivable.

**iv) Other financial liabilities**

Other financial liabilities are measured at amortized cost using the effective interest method. Any gains or losses in the realization of other financial liabilities are included in profit or loss. The financial liabilities that are categorized as other financial liabilities include bank debt, subordinated debt, accounts payable and accrued liabilities and other long-term liabilities.

**Impairment of financial assets**

All financial assets except for those at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets are impaired. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

**Borrowing costs**

Borrowing costs that are directly related to the issuance of new debt are recorded net of the associated debt and recognized into income using the effective interest rate method over the life of the debt.

**2. Summary of significant accounting policies (continued)**

**k) Financial instruments (continued)**

**Discounts or transaction costs on issuance of new debt**

Discounts, where proceeds received are less than the par value of the debt or transaction costs related to the issuance of debt, are recorded as a reduction to long-term debt. These discounts would be amortized using the effective interest method and included in finance expense.

**Share capital**

Common shares are classified as equity on the statement of financial position. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

**l) Provisions**

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable a future cash outflow resulting from past operations or events will occur and the amount of the cash outflow can be reasonably estimated. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change, and the carrying amounts of provisions and liabilities are reviewed regularly and adjusted accordingly. The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations, and determine that the loss can be reasonably estimated. When a loss is recognized, it is charged to the statement of income (loss) and comprehensive income (loss). The Company continually monitors known and potential contingent matters and makes appropriate provisions when warranted by the circumstances present.

**m) Assets held for sale**

Non-current assets are classified as assets held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. The assets are measured at the lower of the carrying amount and the fair value less costs to sell. Once classified as held for sale, P&E is no longer amortized or depreciated.

**n) Significant accounting estimates judgments and estimates**

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments in applying accounting policies

**CGU Determination**

The Company's assets are aggregated into cash-generating-units (CGUs) based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure and geographical proximity.

**2. Summary of significant accounting policies (continued)**

**n) Significant accounting judgments and estimates (continued)**

Impairment indicator assessment

The Company assesses its P&E and E&E assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company's business plans, changes in commodity prices, evidence of physical damage and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The recognition of contingencies inherently involves the estimates of the outcome of future events.

Key sources of estimation uncertainty

Reserves

Reserves are used in the unit of production calculation for depletion and depreciation as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. These estimates and projections are uncertain as the Company does not have a long commercial production history to assist in the development of these forward-looking estimates. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Company's assessment of future cash flows is based on the Company's independent evaluator's estimate of future prices and evaluated for reasonability by the Company against other available information. The Company believes these prices are reasonable estimates for a long-term outlook.

Decommissioning liabilities

The Company measures decommissioning liabilities at each financial statement date. The estimate is based on the Company's share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. As a result of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

Impairment Estimate

The assessment for impairment for P&E and E&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs to sell. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. Impairment is recognized in the statement of income (loss) and comprehensive income (loss) in the period in which carrying amount exceeded the recoverable amount.

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**2. Summary of significant accounting policies (continued)**

**n) Significant accounting judgments and estimates (continued)**

Key sources of estimation uncertainty (continued)

Impairment reversals are recognized to the extent of the original impairment, but are limited to the net book value that would have existed had the original impairment never been recorded, including estimates for depletion. In determining the appropriate discount rate the Company considers the acquisition metrics of recent transactions completed on similar assets to those in the specific CGU.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to 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.

Contingencies

When recognized, management makes its best estimate with respect to future cash outflow.

Other areas of estimates

The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance including share price, risk free rate, volatility, expected life and dividend yield. The fair value of commodity and interest rate contracts is calculated using valuation models that require estimates as to future market prices expected interest rates and expected volatility in these variables. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

**o) Pending Accounting standards**

Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” (“IFRS 9”) to replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”).

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity’s own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. The Company does not currently apply hedge accounting.

**2. Summary of significant accounting policies (continued)**

**o) New Accounting Standards (continued)**

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations. The amendments clarify that business combination accounting is required to be applied to acquisitions of interests in a joint operation (e.g. oil and gas property) that constitutes a business. IFRS 11 is effective for annual periods beginning on or after January 1, 2016. Early adoption is permitted. The Company is currently evaluating the impact of adopting IFRS 11

***New and Amended Accounting Standards Adopted***

The Company adopted the following new amendment:

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, “*Financial Instruments: Presentation*” (“IAS 32”). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the Consolidated Financial Statements.

IFRIC 21, "Levies," the adoption of this standard had no impact on the amounts recorded in Yangarra's consolidated financial statements.

**3. Property and equipment**

	<i>Oil and Natural Gas Interests</i>	<i>Well and plant equipment</i>	<i>Other Assets</i>	<i>Total</i>
<b>Cost or Deemed Cost</b>				
Balance at December 31, 2012	\$ 125,550,753	\$ 28,004,352	\$ 1,299,471	\$ 154,854,576
Cash Additions	36,646,975	7,595,294	318,233	44,560,502
Transfers	–	463,100	–	463,100
Capitalized share based compensation	145,497	–	–	145,497
Decommissioning liability	51,342	–	–	51,342
Balance at December 31, 2013	162,394,567	36,062,746	1,617,704	200,075,017
Cash Additions	<b>70,554,366</b>	<b>7,569,877</b>	<b>1,465</b>	<b>78,125,708</b>
Transfers from E&E	<b>701,810</b>	–	–	<b>701,810</b>
Capitalized share based compensation	<b>332,246</b>	–	–	<b>332,246</b>
Decommissioning liability	<b>2,659,205</b>	–	–	<b>2,659,205</b>
<b>Balance at December 31, 2014</b>	<b>\$ 236,642,194</b>	<b>\$ 43,632,623</b>	<b>\$ 1,619,169</b>	<b>\$ 281,893,986</b>

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**3. Property and equipment (continued)**

**Depletion, depreciation and impairment**

	<i>Oil and Natural Gas Interests</i>	<i>Well and plant equipment</i>	<i>Other Assets</i>	<i>Total</i>
Balance at December 31, 2012	29,432,771	3,198,400	381,027	33,012,198
Depletion and depreciation	12,189,400	1,663,000	239,403	14,091,803
Balance at December 31, 2013	41,622,171	4,861,400	620,430	47,104,001
Depletion and depreciation	<b>14,695,800</b>	<b>1,735,400</b>	<b>204,442</b>	<b>16,635,642</b>
<b>Balance at December 31, 2014</b>	<b>\$ 56,317,971</b>	<b>6,596,800</b>	<b>824,872</b>	<b>63,739,643</b>
At December 31, 2013	\$ 120,772,396	\$ 31,201,346	\$ 997,274	\$ 152,971,016
<b>At December 31, 2014</b>	<b>\$ 180,324,223</b>	<b>\$ 37,035,823</b>	<b>\$ 794,297</b>	<b>\$ 218,154,343</b>

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the statement of income and comprehensive income. Future development costs of \$290,600,000 (2013 – \$124,786,200) are included in the depletion calculation. At December 31, 2014 all of the Company's properties are subject to security for the bank facilities.

During the year ended December 31, 2014, the Company capitalized \$2,659,205 (2013 – \$51,342) related to the decommissioning liability of property and equipment and \$332,246 (2013 – \$178,772) of share-based compensation. The Company also capitalized \$1,316,433 (2013 - \$929,708) of recoveries related to the Company's working interest in operated capital expenditure programs on which overhead has been charged in accordance with standard industry operating agreements. The Company capitalized \$987,850 of salaries and consulting expenses directly to geological, drilling and completions projects as the individuals worked in the field directly on the operations.

The Company performed an impairment assessment of its property and equipment on a CGU basis and determined that due to the reduction in commodity prices there were impairment triggers as at December 31, 2014. The Company performed an impairment test on all the CGU's and based on the results the Company did not record any impairments in the year ended December 31, 2014.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**4. Exploration and evaluation assets**

**Cost or Deemed Cost**

Balance at December 31, 2012	\$ 8,391,115
Additions	2,461,506
Balance at December 31, 2013	10,852,621
Additions	1,680,941
Transfers to Developed	(701,810)
Balance at December 31, 2014	<b>\$ 11,831,752</b>

**Depletion, depreciation and impairment losses**

Balance at December 31, 2012, 2013 and 2014	\$ 4,365,287
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**Net book value**

At December 31, 2013	\$ 6,487,334
<b>At December 31, 2014</b>	<b>\$ 7,466,465</b>

Exploration and evaluation (“E&E”) assets consist of the Company’s undeveloped land which is pending the determination of proven or probable reserves. Additions represent the Company’s share of costs incurred on E&E assets during the period.

**5. Bank debt and Subordinated Debt**

As at December 31, 2014, the \$55,602,093 (2013 – \$32,112,455) reported amount of bank debt with Alberta Treasury Branches (“ATB”) was comprised of \$29,150,000 (2013 – \$9,850,000) drawn on the revolving operating demand loan, \$24,940,715 (2013 – \$19,963,177) of guaranteed notes and \$1,511,378 (2013 – \$2,299,280) of outstanding cheques. The Company is subject to a financial covenant requiring an adjusted working capital ratio above 1 : 1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility, excluding unrealized commodity contracts and flow-through share premium liability). The facility is secured by a general security agreement.

As at December 31, 2014, the maximum amount available under the revolving operating demand loan was \$70,000,000 (December 31, 2013 – \$45,000,000) at an interest rate of bank prime plus 0.75% per annum on the operating demand loan, payable monthly, or a credit spread of 2.0% on guaranteed notes. The next scheduled review is May 31, 2015. A decrease in the borrowing base could result in a reduction to the credit facility, which may require repayment to the lenders. During the period, the weighted average effective interest rate for the bank debt was approximately 4.1% (2013 – 4.9%).

As at December 31, 2014 nil (2013 – \$7,786,632) was drawn on the \$20,000,000 subordinated term loan facility with Alberta Treasury Branches (“ATB”). The subordinated term loan has a two year committed term (subject to an extension for an additional year upon mutual consent). There are two tranches (\$9,000,000 to be drawn on or before October 1, 2014 and \$11,000,000 to be drawn on or before January 1, 2015) at an interest rate of bank prime plus 7.0% per annum, payable monthly, or a credit spread of 8.0% on guaranteed notes. Full payment of the principal is due on September 3, 2015. The second tranche was not drawn on January 1, 2015 and the current balance outstanding is \$nil.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**5. Bank debt and Subordinated debt (continued)**

The Company is subject to financial covenants on the subordinated term facility requiring an adjusted working capital ratio greater than 1 : 1 (calculation consistent with the calculation disclosed above) and a Debt to EBITDA ratio below 4 : 1 (debt is defined as all obligations, liabilities and indebtedness on the statement of financial position less asset retirement obligation, future income taxes, flow-through share premium liability and commodity\interest contracts and EBITDA is defined as net income plus interest expense and other financing costs, depletion and depreciation and income taxes). In addition the Company is required to comply with a PV-10 proved developed producing ("PDP") to debt ratio of not less than 0.92 : 1 on specified dates and a PV-10 total proved to debt ratio of not less than 1.5 : 1 on specified dates. This facility is secured with a pledge of a general demand debenture and a general security agreement.

The Company is in compliance with all covenants as at December 31, 2014.

**6. Decommissioning liability**

The following table presents the reconciliation of the carrying amount of the liability associated with the decommissioning of the Company's property and equipment:

	<i>December 31, 2014</i>	<i>December 31, 2013</i>
Balance, beginning of year	\$ 5,497,222	\$ 5,297,166
Liabilities incurred	1,458,866	871,164
Liabilities disposed	-	(31,275)
Decommissioning costs incurred	(76,361)	-
Effect of change in discount rate	757,927	(788,547)
Accretion	170,409	148,714
Change in assumptions	442,412	-
Balance, end of year	<u>\$ 8,250,475</u>	<u>\$ 5,497,222</u>

The following significant assumptions were used to estimate the decommissioning liability:

	<i>December 31, 2014</i>	<i>December 31, 2013</i>
Undiscounted cash flows	\$ 11,922,672	\$ 8,745,195
Discount rate	1.46% - 2.33%	1.80% - 3.24%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	15 years	15 years

**7. Share capital**

**a. Authorized**

Unlimited number of common shares, without nominal or par value  
Unlimited number of preferred shares, without nominal or par value

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
For the year ended December 31, 2014 and 2013

**7. Share capital (continued)**

**b. Common shares issued**

	<i>Number of shares</i>		<i>Amount</i>
Balance, December 31, 2012	40,570,574	\$	94,717,629
Equity financing (i)	4,618,457		7,481,900
CDE Flow-through financing (i)	1,131,638		2,003,000
CDE Flow-through premium liability	–		(170,000)
CEE Flow-through financing (i)	2,585,000		5,001,975
CEE Flow-through premium liability	–		(814,275)
Share issue costs (net of \$264,026 in tax)	–		(792,077)
Exercise of options (ii)	133,333		162,500
Balance, December 31, 2013	49,039,002	\$	107,590,652
Equity financing (iii)	<b>8,333,417</b>		<b>27,500,275</b>
Share issue costs (net of \$407,735 in tax) (iii)	–		<b>(1,223,203)</b>
Exercise of options (iv)	<b>383,335</b>		<b>539,001</b>
Issued on consolidation (v)	<b>50</b>		–
Balance, December 31, 2014	<b>57,755,804</b>	<b>\$</b>	<b>134,406,725</b>

- i) On December 12, 2013 the Company, closed a "bought deal" financing, completed by way of a short form prospectus. 4,618,457 common shares were issued at a price of \$1.62 per common share for gross proceeds of \$7,481,900. An aggregate of 3,716,638 common shares of the Corporation were issued on a "flow-through" basis pursuant to the Income Tax Act (Canada) comprised of: (i) 2,585,000 common shares issued in respect of Canadian exploration expenses ("CEE Flow-Through Shares") at a price of \$1.94 per CEE Flow-Through Share for gross proceeds of \$5,001,975; and (ii) 1,131,638 common shares issued on a flow-through basis in respect of Canadian development expenses ("CDE Flow-Through Shares") at a price of \$1.77 per CDE Flow-Through Share for gross proceeds of \$2,003,000. The total aggregated gross proceeds were \$14,486,875 and a total of 8,335,095 common shares were issued.
- ii) In 2013, The Company issued 133,333 common shares on the exercise of options at an average of \$1.23 per share for cash proceeds of \$162,500.
- iii) On May 15, 2014 the Company closed a "bought deal" financing, completed by way of a short form prospectus. 8,333,417 common shares were issued at a price of \$3.30 per common share for gross proceeds of \$27,500,275.
- iv) In 2014, the Company issued 383,335 common shares on the exercise of options at an average of \$1.41 per share for cash proceeds of \$539,001.
- v) In May 2014, the Company consolidated its outstanding common shares, stock options and warrants on a 1 for 3 basis. As a result, comparative figures have been adjusted to reflect this consolidation.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**8. Share-based payments**

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

During the year ended December 31, 2014, the Company granted options to purchase 1,291,677 common shares, (400,002 of the options vested immediately and 891,675 of the options will vest equally over three years with the first tranche vesting one year after the grant date). The fair value of the options was estimated at \$1,683,600 (\$1.32 per option) using the Black-Scholes pricing model.

The following tables summarize information about stock options outstanding as at:

	<i>December 31, 2014</i>		<i>December 31, 2013</i>	
	<i>Options</i>	<i>Weighted – average exercise price</i>	<i>Options</i>	<i>Weighted – average exercise price</i>
Opening	<b>3,545,001</b>	<b>\$1.59</b>	3,946,667	\$1.77
Granted	<b>1,291,677</b>	<b>2.36</b>	846,667	0.96
Exercised	<b>(383,335)</b>	<b>1.41</b>	(133,333)	1.23
Forfeited	–	–	(988,333)	1.47
Expired	<b>(340,002)</b>	<b>1.50</b>	(126,667)	1.50
Share Consolidation	<b>29</b>	–	–	–
Closing	<b>4,113,370</b>	<b>\$1.90</b>	3,545,001	\$1.59

The following provides a summary of the stock option plan as at December 31, 2014:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 0.50 – \$ 1.00	543,339	3.78	\$ 0.90	543,339
\$ 1.01 – \$ 1.50	696,678	2.77	1.18	696,678
\$ 1.51 – \$ 2.00	941,670	1.90	1.81	775,003
\$ 2.01 – \$ 2.50	858,338	2.83	2.24	858,338
\$ 2.51 – \$ 3.00	1,073,345	3.87	2.67	348,337
	<b>4,113,370</b>	<b>2.57</b>	<b>\$ 1.90</b>	<b>3,221,695</b>

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**8. Share-based payments (continued)**

The Black-Scholes pricing model was used to estimate the fair value of options granted issued based on the following significant assumptions:

	<b>2014</b>	<b>2013</b>
Weighted average exercise per option	<b>\$2.49</b>	\$0.96
Risk-free interest rate	<b>1.61% - 1.72%</b>	1.24% - 1.86%
Expected volatility	<b>63%</b>	64% - 65%
Expected life	<b>5 years</b>	5 years
Forfeiture rate	<b>5%</b>	0%
Weighted average fair value per option	<b>\$1.32</b>	\$0.50

**9. Warrants**

The following table summarizes information about warrants outstanding as at:

	<i>December 31, 2014</i>			<i>December 31, 2013</i>		
	<i>Number of warrants</i>	<i>Exercise price</i>	<i>Fair value ascribed</i>	<i>Number of warrants</i>	<i>Exercise price</i>	<i>Fair value ascribed</i>
Opening	<b>473,334</b>	<b>\$1.50</b>	<b>\$241,826</b>	473,334	\$1.50	\$241,826
Exercised	-	-	-	-	-	-
Expired	<b>(473,334)</b>	<b>\$1.50</b>	<b>(\$241,826)</b>	-	-	-
Closing	-	-	-	473,334	\$1.50	\$241,826

As at December 31, 2014, all remaining warrants had expired.

**10. Net income per common share**

Basic earnings per share was calculated as follows:

	<b>2014</b>	<b>2013</b>
Net income for the year	\$ <b>24,371,706</b>	\$ 2,585,699
Weighted average number of shares (basic)		
Issued common shares at beginning of year	<b>49,039,002</b>	40,570,575
Stock options exercised	<b>291,553</b>	29,407
Warrants exercised	-	-
Effect of shares issued	<b>5,251,194</b>	433,882
Weighted average number of common shares - basic	<b>54,581,750</b>	41,033,864

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**10. Net (loss) income per common share (continued)**

Diluted earnings per share was calculated as follows:

	<b>2014</b>	2013
Weighted average number of shares (basic)	<b>54,581,750</b>	40,221,032
Effect of outstanding options	<b>1,211,423</b>	–
Weighted average number of common shares - diluted	<b>55,793,173</b>	40,221,032

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. Excluded from diluted earnings per share is the effect of 66,668 options (2013 – 2,246,667 options) and nil warrants (2013 – 473,334) as they are out of the money.

**11. Change in non-cash working capital**

	<b>2014</b>	2013
Accounts receivable	\$ (4,762,489)	\$ (1,176,298)
Prepaid expenses and deposits	(1,274,046)	273,531
Accounts payable and accrued liabilities	<b>5,519,587</b>	958,376
	\$ (516,948)	\$ 55,609

The changes in non-cash working capital has been allocated to the following activities:

Operating	\$ (6,586,199)	\$ 1,428,457
Financing	–	–
Investing	<b>6,069,251</b>	(1,372,848)
	\$ (516,948)	\$ 55,609

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**12. Income taxes**

The provision for income taxes differs from the amount computed by applying the combined federal and provincial tax rates to the income before income tax. The difference results from the following:

	<i>2014</i>	<i>2013</i>
Income before income taxes	\$ <b>33,413,237</b>	\$ 4,146,706
Combined federal and provincial statutory income tax rate	25.0%	25.0%
Expected income tax expense (reduction)	\$ <b>8,353,334</b>	\$ 1,036,677
Stock-based compensation	<b>251,889</b>	137,999
Settlement of flow-through share obligation	<b>411,219</b>	330,750
Other	<b>25,189</b>	55,581
	<b>\$ 9,041,631</b>	<b>\$ 1,561,007</b>

The 2014 corporate tax rate was 25.0% in 2014 (25.0% - 2013).

The components of the net deferred income tax asset (liability) are:

	<i>Balance December 31, 2013</i>	<i>Recognized in Income</i>	<i>Flow Through Share Premium</i>	<i>Recognized in Equity</i>	<i>Balance December 31, 2014</i>
Decommissioning liability	1,391,348	<b>613,928</b>	–	–	<b>2,005,276</b>
Non-capital loss carry-forwards	340,907	<b>(83,267)</b>	–	–	<b>257,640</b>
Share issue costs	495,898	<b>(285,805)</b>	–	<b>407,735</b>	<b>617,828</b>
Commodity price risk contracts	1,132,624	<b>(3,256,133)</b>	–	–	<b>(2,123,509)</b>
Interest rate contracts	–	<b>88,115</b>	–	–	<b>88,115</b>
Property and equipment	(11,011,188)	<b>(6,118,469)</b>	<b>(814,275)</b>	–	<b>(17,943,932)</b>
	<b>(7,650,411)</b>	<b>(9,041,631)</b>	<b>(814,275)</b>	<b>407,735</b>	<b>(17,098,582)</b>

	<i>Balance December 31, 2012</i>	<i>Recognized in Income</i>	<i>Flow Through Share Premium</i>	<i>Recognized in Equity</i>	<i>Balance December 31, 2013</i>
Decommissioning liability	1,324,292	67,056	–	–	1,391,348
Non-capital and capital loss carry- forwards	257,639	83,268	–	–	340,907
Share issue costs	476,881	(245,009)	–	264,026	495,898
Commodity price risk contracts	(599,528)	1,732,152	–	–	1,132,624
Property and equipment	(7,642,714)	(3,198,474)	(170,000)	–	(11,011,188)
	<b>(6,183,430)</b>	<b>(1,561,007)</b>	<b>(170,000)</b>	<b>264,026</b>	<b>(7,650,411)</b>

As at December 31, 2014, the Company has approximately \$156 million of tax pools available for deduction against future taxable income.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**13. Related party disclosure**

The consolidated financial statements include the financial statements of the Company and the subsidiary listed below:

Name	Country of Incorporation	% equity interest	
		2014	2013
Yangarra Resources Corp.	Canada	100%	100%

Balances between the Company and its subsidiary have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

During the year ended December 31, 2014 and 2013, the Company was charged or invoiced the following amounts by certain of its officers and directors through controlled companies:

	Year Ended December 31,	
	2014	2013
Administration and consulting fees	\$ 424,085	\$ 540,042
Production and capital expenditures	114,291	203,023
	<b>\$ 538,376</b>	<b>\$ 743,065</b>

Included in accounts payable and accrued liabilities at December 31, 2014 is \$6,478 (December 31, 2013 – \$7,727) relating to the above transactions. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Other long-term liabilities include a mortgage for \$291,172 (December 31, 2013 - \$328,545) held in the name of an officer of the Company for a property that is used as a field office. The Company is the beneficial owner through a trust agreement of the property against which the mortgage is secured. All mortgage payments are made by the Company.

Compensation of key management personal (Directors and Officers):

	2014	2013
Compensation	\$ 1,331,000	\$ 1,383,500
Share-based payments	1,097,532	310,089
	<b>\$ 2,428,532</b>	<b>\$ 1,693,589</b>

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**14. Financial instruments and financial risk management**

The Company's financial instruments include accounts receivable, bank debt, subordinated debt, accounts payable and accrued liabilities, other long term liabilities, interest rate contracts and commodity contracts. The carrying values of accounts receivable, accounts payable and accrued liabilities, other long term liabilities and bank debt approximate their fair values due to their relatively short periods to maturity. The fair value of the subordinated debt is approximately equal to the carrying value as the debt is subject to a floating interest rate.

The Company is required to classify fair value measurements using a hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy is as follows:

- Level 1 - quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for the asset or liability that are not based on observable market data.

The fair value of the interest rate contracts and the commodity contracts is classified at level 2. The fair value is calculated using the forward price curves as at December 31, 2014 for the period the contract is outstanding.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has implemented and monitors compliance with the risk management policies as set out herein:

**b. Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks.

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at December 31, 2014, the maximum credit exposure is the carrying amount of the accounts receivable of \$13,609,036 (December 31, 2013 – \$8,846,547) and \$8,494,039 of commodity contracts.

The maximum exposure to credit risk for receivables at the reporting date by type of customer was:

Oil and natural gas marketers	\$	2,644,221
Joint venture partners		8,258,199
Realized Commodity Contracts		1,063,489
Other		1,643,127
		13,609,036
	\$	13,609,036

**14. Financial instruments and financial risk management (continued)**

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company's policy to mitigate credit risk associated with these balances is to establish marketing relationships with large purchasers (Computershare). The Company historically has not experienced any significant collection issues with its petroleum and natural gas marketers. All of the revenue accruals and receivables from petroleum and natural gas marketers were received in January 2015.

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company did not provide for any doubtful accounts nor was it required to write-off any accounts receivable during the year ended December 31, 2014.

As at December 31, 2014, the Company considers its receivables to be aged as follows:

Not past due	\$	6,609,455
Past due by less than 90 days		3,710,806
Past due by more than 90 days		3,288,775
		3,288,775
	\$	13,609,036

**d. Liquidity risk**

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Company has a credit facility agreement which is regularly reviewed by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, commodity contracts, interest rate contracts, bank debt and subordinated debt, which are classified as current or non-current on the statement of financial position based on their maturity dates.

The Company intends to fund the 2015 budget with cash flow from operations and the availability on the revolving operating demand loan. The Company has no drilling commitments for the year ending 2015.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**14. Financial instruments and financial risk management (continued)**

As at December 31, 2014	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
A/P and accrued liabilities	20,541,046	20,541,046	20,541,046	-	-	-
Bank debt <sup>(1)</sup>	55,602,093	55,602,093	55,602,093	-	-	-
Other long-term liabilities	720,874	720,874	-	40,167	680,707	-
Interest rate contract	439,786	439,786	126,944	126,944	185,898	-
Estimated interest payments <sup>(1)</sup>	-	588,147	588,147	-	-	-
	<b>77,303,799</b>	<b>77,891,946</b>	<b>76,858,230</b>	<b>167,111</b>	<b>866,605</b>	<b>-</b>

(1) Assumes the revolving credit facility is not renewed May 2015

**c. Market risk**

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein:

ii. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate and to mitigate this risk, the Company has entered into interest rate contracts. For the year ended December 31, 2014, if interest rates had been 1% lower with all other variables held constant, income for the period would have been \$465,573 (December 31, 2013 - \$308,150) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

The Company had the following interest rate contracts in place at December 31, 2014:

<b>Contracts</b>	<b>Fair Value</b>
Pay a floating rate to receive a 2.35% (plus a 2.50% credit spread) fixed rate on \$10 million (January 2015 - June 2018)	\$ (254,586)
Pay a floating rate to receive a 2.15% (plus a 2.50% credit spread) fixed rate on \$10 million (January 2015 - May 2018)	\$ (185,200)
	<b>\$ (439,786)</b>

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**14. Financial instruments and financial risk management (continued)**

iv. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2014.

v. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above.

As at December 31, 2014, the Company was committed to the following commodity price risk contracts:

<b>Contracts</b>	<b>Fair Value</b>
<u>2015 Oil</u>	
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$86.05 USD/bbl	\$ 1,239,144
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$91.20 CDN/bbl	\$ 904,239
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.25 CDN/bbl	\$ 942,285
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.45 CDN/bbl	\$ 1,899,063
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$100.00 CDN/bbl	\$ 2,446,195
<u>2015 Gas</u>	
2,000 GJ/d from January 1 to December 31, 2015 at a fixed price of \$4.11/GJ	\$ 1,063,113
<b>Total</b>	<b>\$ 8,494,039</b>

In December 2014, the Company closed the following 2015 commodity contracts.

<b>Contracts</b>	<b>Settlement</b>
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$90.10 CDN/bbl	\$ 1,491,989
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$90.37 CDN/bbl	\$ 1,506,373
<b>Total</b>	<b>\$ 2,998,362</b>

Subsequent to year end the Company monetized 400 bbl/d of commodity contracts (the \$91.20/bbl, \$92.25/bbl and \$92.45/bbl contracts) for proceeds of \$4,016,652. The Company then entered into 500 bbl/d of costless collars at a floor of C\$65.00 WTI per barrel and a ceiling of C\$73.50 WTI per barrel, for the remainder of 2015. The Company also added 800 bbl/d of Edmonton par to WTI differential contracts at US\$6.75/bbl for 2015.

The Company's commodity contract position for 2015 now consists of the 500 bbl/d costless collar, 300 bbl/d crude oil swap at an average price of C\$102.56 WTI per barrel, 800 bbl/d of differential at US\$6.75/bbl and 2,000 GJ/d of gas at \$4.11 AECO per GJ.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**14. Financial instruments and financial risk management (continued)**

The following table summarizes the fair value and the change in fair value for year ended December 31, 2014:

	2014	2013
Commodity contract (liability) asset, beginning of year	\$ (4,530,496)	\$ 2,398,111
Unrealized change in fair value	<b>13,024,535</b>	(6,928,607)
Commodity contract (liability) asset, end of year	<b>\$ 8,494,039</b>	\$ (4,530,496)

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at December 31, 2014 to fluctuations in commodity prices, with all other variables held constant. When assessing the potential impact of these commodity price changes, the Company believes 10 percent volatility is a reasonable measure (\$0.27/mcf for natural gas and \$5.65/bbl for oil). Fluctuations in commodity prices potentially could have resulted in unrealized gains (losses) impacting income before tax as follows:

	Impact on Income Before Tax	
	Increase 10%	Decrease 10%
Crude oil	<b>(1,698,324)</b>	1,698,324
Natural Gas	<b>(193,450)</b>	193,450

**15. Capital disclosures**

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debt:

	<i>December 31,</i> <i>2014</i>	<i>December 31,</i> <i>2013</i>
Shareholders' equity	\$ <b>147,838,197</b>	\$ 95,583,587
Bank debt	\$ <b>55,602,093</b>	\$ 32,112,455
Subordinated debt	\$ —	\$ 7,786,632

The Company monitors capital based on annual cash from operations before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

**Yangarra Resources Ltd.**  
**Notes to the Consolidated Financial Statements**  
*For the year ended December 31, 2014 and 2013*

**15. Capital disclosures (continued)**

In order to maintain or adjust the capital structure, the Company considers its forecasted cash from operations before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At December 31, 2014, the Company's capital structure was not subject to external restrictions. No changes have been made to the capital policy since 2014.

**16. Finance Expenses**

During the year ended December 31, 2014 and 2013, the following items were included in the finance expense on the Condensed Consolidated Interim Statements of Income (loss) and Comprehensive Income (loss):

	Year ended December 31,	
	2014	2013
Interest	\$ 2,077,390	\$ 1,820,876
Change in fair value of interest rate contracts	396,551	43,236
Accretion ( <i>note 6</i> )	170,409	148,714
	\$ 2,644,350	\$ 2,012,826

**17. Contingency**

In December 2009, the Company terminated the Standstill Agreement that it had with an industry partner regarding a joint producing property and served that industry partner with a Statement of Claim issued from The Court of Queen's Bench of Alberta, by which the Company claims breach of the agreements between the parties, gross negligence and default of the operator. The Company seeks judgment for specified and such further damages to be determined by the Court, as well as appointment as operator. The Company increased the statement of claim based on the information provided by the defendant. The potential outcome of the lawsuit and claims are undetermined, however, they could be material.

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.

**18. Commitments**

The Company has satisfied its full CEE capital spending commitment related to the CEE flow-through shares issued in December 2013 as at December 31, 2014.

The Company has entered into lease agreements for office premises, field equipment and Company vehicles with estimated minimum annual payments as follows:

2015	\$ 241,277
2016	\$ 241,277
2017	\$ 241,277