Yangarra Resources Ltd.

Condensed Interim Consolidated Financial Statements

September 30, 2011 and 2010

(Unaudited)

		September 30, 2011		December 31, 2010 (note 17)
Assets				
Current				
Cash and cash equivalents	$	–	$	11,678
Accounts receivable		**8,007,489**		3,752,477
Prepaid expenses and deposits		**348,249**		243,214
Assets held for sale *(note 3)*		**463,100**		463,100
Commodity contract *(note 13c iii)*		**3,893,444**		–
Total current assets		**12,712,282**		4,470,469
Non-current				
Property and equipment *(note 3)*		**104,908,392**		63,263,452
Exploration and evaluation assets *(note 4)*		**639,892**		639,892
Total assets	$	**118,260,566**	$	68,373,813
Liabilities				
Current				
Bank debt *(note 5)*	$	**14,564,752**	$	5,559,208
Accounts payable and accrued liabilities		**13,799,425**		9,383,722
Preferred shares *(note 7)*		–		1,000,000
Flow-through share premium liability *(note 7)*		**1,500,000**		1,093,182
Total current liabilities		**29,864,177**		17,036,112
Non-current				
Decommissioning liability *(note 6)*		**4,589,374**		3,501,805
Deferred tax liability		**5,431,604**		–
Total liabilities		**39,885,155**		20,537,917
Shareholders' Equity				
Share capital *(note 7)*		**90,695,113**		65,909,948
Warrants *(note 9)*		**2,167,654**		2,216,541
Contributed surplus		**8,002,709**		5,740,753
Deficit		**(22,490,065)**		(26,031,346)
Total shareholders' equity		**78,375,411**		47,835,896
Total liabilities and equity	$	**118,260,566**	$	68,373,813

Contingency (*note 15), Commitments (note 16)*

Approved on behalf of the Board of Directors

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010 (note 17)	**2011**	2010 (note 17)
Revenue				
Petroleum and natural gas sales	$ **5,378,932**	$ 1,821,333	$ **13,186,832**	$ 3,669,575
Royalty income	**137,243**	–	**277,521**	–
Royalties	**(209,529)**	32,375	**(409,444)**	(36,325)
	5,306,646	1,853,708	**13,054,909**	3,633,250
Commodity price risk contracts *(note 13)*				
Commodity contract settlement	**834,284**	–	**1,107,912**	73,500
Change in fair value of commodity contracts	**2,888,898**	6,270	**3,893,444**	119,631
	9,029,828	1,859,978	**18,056,265**	3,826,381
Expenses				
Production	**742,035**	482,944	**2,016,356**	1,081,852
Transportation	**116,075**	70,829	**277,158**	164,903
General and administrative	**245,426**	268,792	**985,481**	780,744
Interest	**69,541**	68,511	**220,097**	170,471
Dividends *(note 7)*	–	12,397	**8,960**	37,397
Share-based compensation *(note 8)*	**148,828**	121,645	**1,424,283**	784,955
Depletion and depreciation *(note 3)*	**2,253,782**	1,036,799	**5,025,020**	2,249,464
Accretion expense *(note 6)*	**30,067**	26,977	**83,865**	93,042
Other expenses	–	–	–	25,129
	3,605,754	2,088,894	**10,041,220**	5,387,957
Income (loss) before tax	**5,424,074**	(228,916)	**8,015,045**	(1,561,576)
Deferred tax	**1,317,983**	–	**4,473,764**	–
Total comprehensive income (loss) for the period attributable to common shareholders	$ **4,106,091**	$ (228,916)	$ **3,541,281**	$ (1,561,576)
Net income (loss) per share *(note 10)*				
Basic	$ **0.04**	$ (0.00)	$ **0.03**	$ (0.03)
Diluted	$ **0.03**	$ (0.00)	$ **0.03**	$ (0.03)
Weighted average number of shares *(note 10)*				
Basic	**116,307,057**	60,713,460	**102,463,621**	52,092,914
Diluted	**124,209,770**	60,713,460	**110,610,771**	52,092,914

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Share Capital				
Balance, beginning of period	$ **90,728,753**	$ 54,133,985	$ **65,909,948**	$ 47,066,815
Issued	–	–	**25,751,725**	7,410,518
Share issue costs (net of tax)	**(33,640)**	–	**(1,437,741)**	(531,032)
Exercise of warrants	–	–	**147,137**	187,684
Exercise of options	–	–	**324,044**	–
Balance, end of period	**90,695,113**	54,133,985	**90,695,113**	54,133,985
Warrants				
Balance, beginning of period	**2,167,654**	2,283,216	**2,216,541**	340,600
Issued	–	–	–	1,990,300
Exercised	–	–	**(48,887)**	(47,684)
Balance, end of period	**2,167,654**	2,283,216	**2,167,654**	2,283,216
Contributed Surplus				
Balance, beginning of period	**7,365,309**	3,869,797	**5,740,753**	2,972,097
Share-based compensation related to:				
Options granted in current year	**637,400**	362,400	**2,456,000**	1,260,100
Exercised options	–	–	**(194,044)**	–
Balance, end of Period	**8,002,709**	4,232,197	**8,002,709**	4,232,197
Deficit				
Balance, beginning of period	**(26,596,156)**	(25,618,856)	**(26,031,346)**	(24,286,196)
Total comprehensive income (loss)	**4,106,091**	(228,916)	**3,541,281**	(1,561,576)
Balance, end of period	**(22,490,065)**	(25,847,772)	**(22,490,065)**	(25,847,772)
Total Equity	$ **78,375,411**	$ 34,801,626	$ **78,375,411**	$ 34,801,626

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Operating				
Total comprehensive income (loss) for the period	$ **4,106,097**	$ (228,916)	$ **3,541,281**	$ (1,561,576)
Add back non-cash items:				
Change in fair value of commodity contracts	**(2,888,898)**	(6,270)	**(3,893,444)**	(119,631)
Share-based compensation *(note 8)*	**148,828**	121,645	**1,424,283**	784,955
Depletion and depreciation *(note 3)*	**2,253,782**	1,036,799	**5,025,020**	2,249,464
Net financing expenses (including accretion)	**30,067**	26,977	**83,865**	93,042
Deferred tax	**1,317,983**	–	**4,473,764**	–
Abandonment expenditures	–	(28,263)	–	(54,724)
	4,967,853	921,972	**10,654,769**	1,391,530
Change in non-cash working capital *(note 11)*	**(1,356,691)**	(346,430)	**(3,244,347)**	(602,311)
	3,611,162	575,542	**7,410,422**	789,219
Financing				
Issue of equity instruments, net of costs	**(44,854)**	–	**25,562,986**	9,405,957
Redemption of preferred shares *(note 7)*	–	–	**(1,000,000)**	–
Bank debt extension, net	**9,711,382**	1,601,557	**9,005,544**	(3,183,602)
Change in non-cash working capital *(note 11)*	–	–	**45,894**	–
	9,666,528	1,601,557	**33,614,424**	6,222,355
Investing				
Expenditures on exploration and evaluation assets and property and equipment	**(19,005,315)**	(2,689,049)	**(44,290,633)**	(10,245,469)
Asset acquisition deposit	–	(400,000)	–	(400,000)
Change in non-cash working capital *(note 11)*	**5,727,625**	911,950	**3,254,109**	3,633,895
	(13,277,690)	(2,177,099)	**(41,036,524)**	(7,011,574)
Change in cash	–	–	**(11,678)**	–
Cash, beginning of the period	–	–	**11,678**	–
Cash, end of the period	$ –	$ –	$ –	$ –
Supplemental cash flow information				
Interest paid	$ **36,019**	$ 68,511	$ **186,575**	$ 146,071
Dividends paid	$ –	$ –	$ **8,960**	$ 25,000

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.

On May 1, 2010, the Company and its wholly owned subsidiary Athabaska Energy Ltd. ("Athabaska") were amalgamated and continue to carry on business under the name Yangarra Resources Ltd. At that time, the Company consolidated its common shares on a five old for one new (5:1) basis. All common share, warrant and stock option figures disclosed herein are presented on a consolidated basis.

These unaudited interim 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.

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements including IAS 34 "Interim Financial Reporting" and IFRS 1 "First-time Adoption of IFRS". The disclosures regarding the transition to IFRS are included in note 17, which includes the impact on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended December 31, 2010. Subject to certain transition elections taken and disclosed in note 17, the Company has consistently applied the same accounting policies in its opening IFRS balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. The Company previously prepared its annual and interim financial statements under Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (Canadian GAAP). In these interim financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The policies applied in these interim financial statements are based on IFRS issued and outstanding as of November 23, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect to the Company's annual financial statements for the year ended December 31, 2011 could result in restatement of these interim financial statements, including the transition adjustments described in note 17.

The condensed interim consolidated financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010 as well as the Company's financial statements for the three months ended March 31, 2011. Note 17 discloses information on the transition to IFRS effective for the year ended December 31, 2010 that is material to the understanding of these interim financial statements.

2. Changes in accounting policies

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011 or later periods. The standards impacted that are applicable to the Company are as follows:

2. Changes in accounting policies (continued)

IFRS 9, 'Financial Instruments' was issued in November 2009 as the first step in its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets that must be applied starting January 1, 2013, with early adoption permitted. The IASB intends to expand IFRS 9 during the intervening period to add new requirements for classifying and measuring financial liabilities, de-recognition of financial instruments, impairment and hedge accounting. The Company is currently assessing the impact of this standard.

IFRS 10, 'Consolidated Financial Statements' was issued in May 2011 and will supersede the consolidation requirements in SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated and Separate Financial Statements' effective for annual periods beginning on or after January 1, 2013, with early application permitted. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is currently assessing the impact of this standard.

IFRS 11, 'Joint Arrangements' was issued in May 2011 and will supersede existing IAS 31, 'Joint Ventures' effective for annual period beginning on or after January 1, 2013, with early application permitted. IFRS 11 provides for the accounting of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard also eliminates the option to account for jointly controlled entities using the proportionate consolidation method. The Company is currently assessing the impact of this standard.

IFRS 12, 'Disclosure of Interests in Other Entities' was issued in May 2011 and is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

IFRS 13, 'Fair Value Measurement' was issued in May 2011 and sets out in a single IFRS a framework for measuring fair value. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement. In addition, IFRS 13 also requires specific disclosures about fair value measurement. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The Company is currently assessing the impact of this standard.

3. Property and equipment

	Oil and Natural Gas Interests	*Well and plant equipment*	*Head Office*	*Total*
Cost or Deemed Cost				
Balance at January 1, 2010	$ 26,213,578	$ 11,334,327	$ 76,144	$ 37,624,049
Additions	24,444,623	4,213,570	59,308	28,717,501
Acquisitions	2,959,691	156,502	–	3,116,193
Balance at December 31, 2010	53,617,892	15,704,399	135,452	69,457,743
Additions	**40,286,706**	**5,818,001**	**565,253**	**46,669,960**
Balance at September 30, 2011	**$ 93,904,598**	**$ 21,522,400**	**$ 700,705**	**$ 116,127,703**
Depletion, depreciation and impairment losses				
Balance at January 1, 2010	$ –	$ –	$ –	$ –
Depletion and depreciation	3,251,822	537,500	22,346	3,811,668
Impairment loss	2,382,623	–	–	2,382,623
Balance at December 31, 2010	5,634,445	537,500	22,346	6,194,291
Depletion and depreciation	**4,412,600**	**541,400**	**71,020**	**5,025,020**
Balance at September 30, 2011	**$ 10,047,045**	**$ 1,078,900**	**$ 93,366**	**$ 11,219,311**
Net book amount				
At September 30, 2011	**$ 83,857,552**	**$ 20,443,500**	**$ 607,339**	**$ 104,908,392**
At December 31, 2010	$ 47,983,447	$ 15,166,899	$ 113,106	$ 63,263,452
At January 1, 2010	$ 26,213,578	$ 11,334,327	$ 76,144	$ 37,624,049

a) Amortization and impairment charge

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in depletion, depreciation and amortization in the statement of operations.

b) Security:

At September 30, 2011 and December 31, 2010 all of the Company's properties are pledged as security for the bank loans.

c) Contingencies:

Although the Company believes that it has title to its oil and natural gas properties, it cannot control or completely protect itself against the risk of title disputes or challenges.

3. Property and equipment (continued)

During the nine months ended September 30, 2011, the Company capitalized $1,003,704 (2010 – $438,385) related to the decommissioning liability of property and equipment and $1,375,622 (2010 – $475,145) of stock based compensation. The Company also capitalized $206,983 (2010 – $193,420) of general and administrative costs as well as $747,366 (2010 - $147,258) of recoveries related to the Company's working interest in operated capital expenditure programs on which operator's fees have been charged in accordance with standard industry operating agreements.

As at September 30, 2011, property and equipment totaling $463,100 (2010 – $463,100) was classified as a current asset held for sale as the Company intends to recover the carrying amount principally through a sale transaction rather than through continuing use in the next twelve months. The current asset classified as held for sale was measured at the lower of its carrying amount and fair value less costs to sell.

No impairment was recognized in the nine months ended September 30, 2011.

4. Exploration and evaluation assets

	E&E Assets
Cost	
Balance at January 1, 2010	$ 5,005,179
Additions	–
Balance at December 31, 2010 & September 30, 2011	$ 5,005,179
Amortization and impairment losses	
Balance at January 1, 2010	$ 3,798,712
Amortization	566,575
Balance at December 31, 2010 & September 30, 2011	$ 4,365,287
Net book amount	
At September 30, 2011	$ 639,892
At December 31, 2010	$ 639,892
At January 1, 2010	$ 1,206,467

Exploration and evaluation (E&E) assets consist of the Company’s exploration projects which are pending the determination of proven or probable reserves. Additions represent the Company’s share of costs incurred on E&E assets during the period.

(a) Amortization and impairment charge:

The impairment of intangible exploration assets, and any eventual reversal thereof, is recognized as additional depletion and depreciation expense in the statement of comprehensive income. The impairment of other intangible assets and goodwill, and any eventual reversal thereof (excluding goodwill), is recognized as amortization expense in the income statement.

4. Exploration and evaluation assets (continued)

(b) Recoverability of exploration and evaluation assets:

The Company assesses the recoverability of intangible exploration ("E&E") assets, before and at the moment of reclassification to property and equipment, using CGU's. The CGU includes both the E&E CGU and CGU's related to oil and natural gas interests for that area, but not larger than a segment.

5. Bank debt

As at September 30, 2011, the $14,564,752 (2010 – $5,559,208) reported amount of bank debt was comprised of $9,100,000 (2010 – $4,600,000) drawn on the revolving operating demand loan and $5,464,752 (2010 – $959,208) of bank overdraft. The Company is subject to a financial covenant with respect to working capital, which the Company was in compliance with at September 30, 2011. The facility is secured by a fixed and floating charge on the assets of the Company and is secured by a general security agreement.

As at September 30, 2011, the maximum amount available under the revolving operating demand loan was $21,000,000 (December 31, 2010 – $12,000,000) at an interest rate of bank prime plus 1.5% per annum, payable monthly, the interest rate was increased from bank prime plus 1.0% as the Company's net debt to trailing cash flow ratio is greater than 1 to 1. Subsequent to September 30, 2011 the amount available under the revolving operating demand loan was increased to $32,000,000.

6. Decommissioning liability

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

	2011	*2010*
Balance, beginning of period	$ **3,501,805**	$ 2,936,792
Liabilities incurred	**350,106**	384,333
Liabilities settled	–	(13,091)
Effect of change in rates	**401,669**	67,143
Accretion	**83,865**	126,628
Change in assumptions	**251,929**	–
Balance, end of period	$ **4,589,374**	$ 3,501,805

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

	2011	*2010*
Undiscounted cash flows	$ **5,738,775**	$ 4,815,382
Discount rate	**1.68% - 3.35%**	2.7% - 3.61%
Inflation rate	**2%**	2%
Weighted average expected timing of cash flows	**11.4 years**	10.2 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

b. Common shares issued

	Number of shares	*Amount*
Balance December 31, 2010	79,718,127	$ 65,909,948
Transfer agent correction	(70)	–
Equity financing *(i)*	23,632,500	17,251,725
Flow-through equity financing *(ii)*	12,500,000	8,500,000
Exercise of stock options *(iii)*	260,000	324,044
Exercise of warrants *(iv)*	196,500	147,137
Share issue costs, net of $479,248 of deferred income tax	–	(1,437,741)
Balance, September 30, 2011	116,307,057	$ 90,695,113

i) On March 8, 2011 the Company, closed a "bought deal" financing, completed by way of a short form prospectus, for the sale of 23,632,500 common shares of the Company at a price of $0.73 per share for gross proceeds of $17,251,725.

ii) On June 23, 2011 the Company, closed a "bought deal" financing, completed by way of private placement, for the sale of 12,500,000 flow through shares of the Company at a price of $0.80 per share for gross proceeds of $10,000,000. $1.5 million is classified as a flow through premium liability until the tax effect is renounced.

iii) The Company issued 260,000 common shares on the exercise of options at $0.50 per share for cash proceeds of $130,000 plus a pro-rata allocation of the options' fair value in the amount of $194,044.

iv) The Company issued 196,500 common shares on the exercise of warrants at $0.50 per share for cash proceeds of $98,250 plus a pro-rata allocation of the warrants' fair value in the amount of $48,887.

c. Preferred shares

On March 8, 2011, the Company redeemed preferred shares for $1,000,000 cash plus outstanding dividends payable. As at December 31, 2010, the Company had 1,000,000 preferred shares issued and outstanding with an annual dividend rate of 5% payable semi-annually in cash or common shares of the Company. The preferred shares had an eighteen month term, at which time they were redeemable for $1,000,000 cash. Dividends of $8,960 were paid and expensed during first quarter of 2011. As the terms of the preferred shares provide for a mandatory redemption at a fixed amount, they were classified as a current financial liability in 2010.

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.

8. Share based payments (continued)

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 nine months ended September 30, 2011, the Company granted options to purchase 3,715,000 common shares, the options vested immediately. The fair value of the options was estimated at $2,456,000 ($0.66 per option) using the Black-Scholes pricing model. $1,424,283 was recognized as stock-based compensation expense and $1,375,622 (including $343,905 for the tax effect) was capitalized to property and equipment.

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

	September 30, 2011		*December 31, 2010*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**7,808,800**	**$0.67**	3,542,255	$0.75
Granted	**3,715,000**	**0.71**	4,595,000	0.69
Exercised	**(260,000)**	**0.50**	(70,000)	0.50
Cancelled	**(30,000)**	**–**	(35,000)	(1.39)
Expired	**(15,000)**	**(3.55)**	(223,455)	(2.84)
Closing	**11,218,800**	**$0.66**	7,808,800	$0.67

The following provides a summary of the stock option plan as at September 30, 2011:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.00 – $ 0.50	2,640,000	3.43	$ 0.50	2,640,000
$ 0.51 – $ 1.00	8,478,800	4.08	0.72	8,478,800
$ 1.01 – $ 1.50	–	–	–	–
$ 1.51 – $ 2.00	100,000	0.37	1.59	100,000
	11,218,800	3.83	$ 0.66	11,218,800

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

	2011	*2010*
Weighted average fair value per option	**$0.66**	$0.62
Risk-free interest rate	**1.56% to 2.81%**	1.59% to 3.09%
Expected volatility	**164%**	146% to 164%
Expected life	**5 years**	5 years
Forfeiture rate	**0%**	0%

9. Warrants

The following table summarizes information about warrants outstanding as at:

	September 30, 2011			*December 31, 2010*		
	Number of warrants	***Exercise price***	***Fair value ascribed***	*Number of warrants*	*Exercise price*	*Fair value ascribed*
Opening	**9,452,000**	**$0.50**	**$2,216,541**	2,000,000	$0.50	$340,600
Issued	–	–	–	8,000,000	0.50	1,990,300
Exercised	**(196,500)**	**(0.50)**	**(48,887)**	(548,000)	(0.50)	(114,359)
Closing	**9,255,500**	**$0.50**	**$2,167,654**	9,452,000	$0.50	$2,216,541

As at September 30, 2011, warrants had a weighted average remaining life of 1 year.

10. Net loss per common share

Basic earnings per share was calculated as follows:	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Net income (loss) for the period	$ **4,106,091**	$ (228,916)	$ **3,541,281**	$ (1,561,576)
Weighted average number of shares (basic)				
Issued common shares at beginning of period	**116,307,057**	60,713,460	**79,718,127**	37,388,006
Stock options exercised	–	–	**200,952**	–
Transfer agent correction	–	–	**(70)**	–
Warrants exercised	–	–	**179,064**	187,692
Effect of shares issued	–	–	**22,365,549**	2,971,428
Weighted average number of common shares - basic	**116,307,057**	60,713,460	**102,463,622**	52,092,914
Diluted earnings per share was calculated as follows:				
Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	**116,307,057**	60,713,460	**102,463,622**	52,092,914
Effect of outstanding options	**965,384**	–	**1,209,820**	–
Effect of outstanding warrants	**6,937,329**	–	**6,937,329**	–
Weighted average number of common shares - diluted	**124,209,770**	60,713,460	**110,610,771**	52,092,914

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 4,868,800 options (2010 – 3,543,605 options) as their effect is anti-dilutive.

11. Change in non-cash working capital

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Accounts receivable	$ **(4,491,337)**	$ (1,143,996)	$ **(4,255,012)**	$ (1,257,027)
Prepaid expenses, assets held for sale and deposits	**26,901**	(153,902)	**(105,035)**	(109,270)
Accounts payable and accrued liabilities	**11,938,538**	1,863,418	**4,415,703**	4,397,881
	$ **7,474,102**	$ 565,520	$ **55,656**	$ 3,031,584

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

Operating	$ **(2,235,469)**	$ (346,430)	$ **(3,244,347)**	$ (602,311)
Financing	**–**	–	**45,894**	–
Investing	**9,709,571**	911,950	**3,254,109**	3,633,895
	$ **7,474,102**	$ 565,520	$ **55,656**	$ 3,031,584

12. Related party disclosure

The consolidated financial statements include the financial statements of Yangarra Resources Ltd. and the subsidiary listed below:

Name	*Country of Incorporation*	*% equity interest* *2011*	*2010*
Yangarra Resources Corp.	Canada	100%	100%

Balances between Yangarra Resources Ltd. and its subsidiary, which is a related party, 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.

As at September 30, 2011 and December 31, 2010 there were no significant balances outstanding with related parties.

Compensation of key management personal:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	**2011**	2010
Compensation	$ **193,750**	$ 100,000	$ **461,750**	$ 508,241
Share-based payments	**14,274**	–	**881,927**	855,620
	$ **208,024**	$ 100,000	$ **1,343,677**	$ 1,363,861

13. Financial instruments and financial risk management

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank debt, credit facility and preferred shares. The carrying values of accounts receivable, accounts payable and accrued liabilities, bank debt, credit facility and preferred shares approximate their fair values due to their relatively short periods to maturity.

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 cash and bank debt is level 1 as it is determined by amounts held at/lent by financial institutions.

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:

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 September 30, 2011, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of $8,007,489 (December 31, 2010 – $3,752,477). As at September 30, 2011, the Company's receivables consisted of $6,372,905 from joint venture partners and other trade receivables and $1,634,584 of revenue receivable from petroleum and natural gas marketers.

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. 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 October and November 2011.

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.

13. Financial instruments and financial risk management (continued)

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the three months ended September 30, 2011. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at September 30, 2011, the Company considers its receivables to be aged as follows:

Not past due	$	4,492,883
Past due by less than 90 days		2,644,172
Past due by more than 90 days		870,434
	$	8,007,489

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, as disclosed in note 5, 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, bank debt and the credit facility, which have expected maturities of less than one year resulting in their current classification on the balance sheet.

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. For the three months ended September 30, 2011, if interest rates had been 1% lower with all other variables held constant, earnings for the period would have been $14,579 (2010 - $9,452) 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 no interest rate swap or financial contracts in place at September 30, 2011.

13. Financial instruments and financial risk management (continued)

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 September 30, 2011.

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.

As at September 30, 2011, the Company was committed to the following commodity price risk contracts for the sale of oil:

- 100 barrels per day from February 1 to December 31, 2011 at a fixed price of $94.00 CAD per barrel;
- 100 barrels per day from February 1 to December 31, 2011 at a fixed price of $93.85 CAD per barrel;
- 300 barrels per day from October 1 to December 31, 2011 at a fixed price of $95.00 CAD per barrel;
- 100 barrels per day from January 1 to December 31, 2012 at a fixed price of $99.00 CAD per barrel;
- 200 barrels per day from January 1 to December 31, 2012 at a fixed price of $97.00 CAD per barrel; and
- 200 barrels per day from January 1 to December 31, 2013 at a fixed price of $98.00 CAD per barrel.

In addition, the Company entered into collars which provided a floor and a ceiling for the price it received for oil as follows:

- 100 barrels per day from April 1 to December 31, 2011 at a floor price of $95.00 CAD per barrel and a ceiling price of $113.00 CAD per barrel;
- 100 barrels per day from April 1 to December 31, 2011 at a floor price of $95.00 CAD per barrel and a ceiling price of $114.00 CAD per barrel;
- 100 barrels per day from January 1 to December 31, 2012 at a floor price of $95.00 CAD per barrel and a ceiling price of $110.00 CAD per barrel;
- 100 barrels per day from January 1 to December 31, 2012 at a floor price of $95.00 CAD per barrel and a ceiling price of $109.15 CAD per barrel.

As at September 30, 2011, the Company was committed to the following commodity price risk contract on the AECO basis:

- 2,000 mmbtu/day of AECO Basis for Nov11-Mar12 at a price ranging from -$0.38 to -$0.42 USD/mmbtu.

The mark-to-market on the hedges was in a gain position of $3,893,444 as at September 30, 2011. During the nine months ended September 30, 2011 $1,107,912 worth of contracts was settled.

14. 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:

	September 30, 2011	*December 31, 2010*
Shareholders' equity	$ 78,375,411	$ 47,835,896

The Company monitors capital based on annual funds from operations 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 funds from operations 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 September 30 2011, the Company's capital structure was not subject to external restrictions.

15. 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 and expects the matter to go to trial during 2012. The potential outcome of the lawsuit and claims are undetermined, however, they may be material. As the likely outcome of this litigation cannot be determined at this time, no provision has been made in these consolidated financial statements.

16. Commitments

As at September 30, 2011, the Company has until December 31, 2011 to incur $9,690,000 of qualifying flow-through expenditures related to flow-through shares issued in March, May, June and October 2010 of which all required expenditures have been incurred. The Company has until December 31, 2012 to incur $10,000,000 of qualifying flow-through expenditures related to flow-through shares issued in June 2011.

16. Commitments (continued)

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

2011	$	47,260
2012	$	185,571
2013	$	109,695

17. Transition to IFRS

The effect of the Company's transition to IFRS, described in note 1, is summarized in this note. In accordance with IFRS 1 "First-time adoption of IFRS", certain disclosures relating to the transition are also provided in this note.

IFRS 1 allows first time adopters of IFRS to elect a number of optional exemptions from the general principle of retrospective application of IFRS. The Company has taken the following optional exemptions:

Oil and Gas Exemption
In July 2009, the IASB published an amendment to IFRS 1 "Additional Exemptions for First-time Adopters", which introduces a first-time adoption exemption for first-time adopters that accounted under their previous GAAP for exploration and development costs for oil and gas properties in the development or production phases in cost centres that include all properties in a large geographical area (defined as full cost method under Canadian GAAP). Under the exemption, a first-time adopter may elect to measure oil and gas assets at the date of transition to IFRS on a deemed cost basis, but does not permit continued application of the previous GAAP accounting policy. The Company followed a full cost approach under Canadian GAAP and have elected to use this election to measure oil and gas exploration and production assets at the date of transition to IFRS on a deemed cost basis.

Share based payments

IFRS 2 "Share-based Payment" has not been applied to any equity instruments as all stock options were fully vested before January 1, 2010, the date of transition to IFRS.

Decommissioning liabilities

An entity that uses the deemed cost oil and gas exemption under IFRS 1 may also use an additional exemption with respect to decommissioning liabilities on oil and gas properties encompassed by the full cost method under Canadian GAAP. As the Company has elected to apply the deemed cost oil and gas exemption, the Company has also elected to apply this exemption and as such, the Company has re-measured the decommissioning liability as at January 1, 2010 under IAS 37 provisions, and has recognized directly into deficit any differences between that amount and the carrying amount of the liabilities at January 1, 2010 as determined by Canadian GAAP.

17. Transition to IFRS (continued)

Reconciliation of statement of financial position as previously reported under Canadian GAAP to IFRS

		December 31 2010			September 30 2010			January 1 2010		
	Notes	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
Assets										
Current										
Cash and cash equivalents		11,678		11,678	-		-	-		-
Accounts receivable		3,752,477		3,752,477	1,915,107		1,915,107	658,080		658,080
Prepaid expenses and deposits		243,214		243,214	262,123		262,123	152,853		152,853
Assets held for sale		463,100		463,100	-		-	-		-
Commodity contract		-			6,270		6,270	-		
Total current assets		4,470,469		4,470,469	2,183,500		2,183,500	810,933		810,933
Property and equipment	a, b, c	61,475,178	1,788,274	63,263,452	46,227,804	543,449	46,771,253	38,830,516	(1,206,467)	37,624,049
Exploration and evaluation assets	a	-	639,892	639,892	400,000	781,536	1,181,536	-	1,206,467	1,206,467
Total assets		65,945,647		68,373,813	48,811,304		50,136,289	39,641,449		39,641,449
Liabilities										
Current liabilities										
Bank debt		5,559,208		5,559,208	5,011,467		5,011,467	8,195,069		8,195,069
Accounts payable and accrued liabilities		9,383,722		9,383,722	4,863,435		4,863,435	465,554		465,554
Preferred shares		1,000,000		1,000,000	-		-	-		-
Flow through Shares	d	-	1,093,182	1,093,182	-	573,182	573,182	-		-
Commodity contract		-		-	-		-	113,361		113,361
Total current liabilities		15,942,930		17,036,112	9,874,902		10,448,084	8,773,984		8,773,984
Preferred shares		-		-	1,000,000		1,000,000	1,000,000		1,000,000
Decommissioning liability	b	2,620,549	881,256	3,501,805	2,306,684	761,167	3,067,851	2,181,727	755,065	2,936,792
Deferred income tax liability		-		-	818,728		818,728	837,357		837,357
Total liabilities		18,563,479		20,537,917	14,000,314		15,334,663	12,793,068		13,548,133
Shareholders' Equity										
Share capital	d	62,955,605	2,954,343	65,909,948	50,659,642	3,474,343	54,133,985	43,019,290	4,047,525	47,066,815
Warrants		2,216,541		2,216,541	2,283,216		2,283,216	340,600		340,600
Contributed surplus		5,740,753		5,740,753	4,232,197		4,232,197	2,972,097		2,972,097
Deficit	b, d	(23,530,731)		(26,031,346)	(22,364,065)	(3,483,707)	(25,847,772)	(19,483,606)	(4,802,590)	(24,286,196)
Total shareholders' equity		47,382,168		47,835,896	34,810,990		34,801,626	26,848,381		26,093,316
Total liabilities and equity		65,945,647		68,373,813	48,811,304		50,136,289	39,641,449		39,641,449

17. Transition to IFRS (continued)

Reconciliation of net loss and comprehensive loss as previously reported under Canadian GAAP to IFRS

		Year Ended December 31, 2010			9 months ended September 30, 2010			3 months ended September 30, 2010		
	Notes	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS	CDN GAAP	ADJ	IFRS
Revenue										
Petroleum and natural gas sales		6,534,377		6,534,377	3,669,575		3,669,575	1,821,333		1,821,333
Royalty Income		123,106		123,106	-		-	-		-
Royalties		(165,309)		(165,309)	(36,325)		(36,325)	32,375		32,375
		6,492,174		6,492,174	3,633,250		3,633,250	1,853,708		1,853,708
Commodity contract		154,095		154,095	193,131		193,131	6,270		6,270
		6,646,269		6,646,269	3,826,381		3,826,381	1,859,978		1,859,978
Expenses										
Production		1,820,683		1,820,683	1,081,852		1,081,852	482,944		482,944
Transportation costs		237,893		237,893	164,903		164,903	70,829		70,829
General and administrative		1,161,575		1,161,575	780,744		780,744	268,792		268,792
Interest and financing fees		265,251		265,251	170,471		170,471	68,511		68,511
Dividends		50,000		50,000	37,397		37,397	12,397		12,397
Stock-based compensation		1,746,939		1,746,939	784,955		784,955	121,645		121,645
Depletion and depreciation	c	6,066,568	(2,254,900)	3,811,668	3,534,164	(1,284,700)	2,249,464	1,464,899	(428,100)	1,036,799
Financing expense	b	173,703	(47,075)	126,628	127,225	(34,183)	93,042	42,455	(15,478)	26,977
Other expenses		25,129		25,129	25,129		25,129	-		-
		11,547,741		9,245,766	6,706,840		5,387,957	2,532,472		2,088,894
Loss before income taxes		(4,901,472)		(2,599,497)	(2,880,459)		(1,561,576)	(672,494)		(228,916)
Deferred income tax provision (recovery)		(854,347)		(854,347)	-		-	-		-
Net loss and comprehensive loss for the period		(4,047,125)		(1,745,150)	(2,880,459)		(1,561,576)	(672,494)		(228,916)

Explanation of the effect of the transition to IFRS

a) Exploration and evaluation assets

In accordance with IAS 16 “Property, Plant and Equipment”, IFRS 6 “Exploration and Evaluation of Mineral Resources” and as a result of the Company using the oil and gas exemption, the Company reallocated costs relating to the exploration and evaluation phase from P&E to E&E assets. Under Canadian GAAP, capitalized E&E costs were included in P&E on the balance sheet. While the accounting treatment for E&E assets is unchanged under IFRS other than expensing of pre-acquisition costs, E&E and P&E are presented separately in the balance sheet under IFRS. This has resulted in a reclassification from P&E to E&E assets at January 1, 2010 of $1,206,467, at September 30, 2010 an adjustment of $781,536 and at December 31, 2010 an adjustment of $639,892.

17. Transition to IFRS (continued)

b) Decommissioning liabilities

Under Canadian GAAP, decommissioning obligations are measured at fair value, incorporating market assumptions and discount rates based on the Company's credit adjusted risk-free rate at the time the obligation arose. Changes in the discount rate did not result in the re-measurement of the entire obligation. Changes in estimates that decreased the liability are discounted using the rate applied upon initial recognition while changes that increase the liability are discounted using the current discount rate. Accretion expense resulting from the increase in the liability due to the passage of time was recorded in depreciation, depletion and accretion expense.

IFRS requires adjustments to the liability to be made each period for changes in the timing or amount of cash-flow, changes in discount rates and the accretion of the liability. Estimated future cash flows have been discounted using the risk-free rate. Under IFRS, accretion expense is recorded as a borrowing cost. As described previously, the Company has elected to use the oil and gas exemption and the exemption from full retrospective application of decommissioning liabilities. The Company has re-measured the liabilities relating to resource assets as at January 1, 2010 using the risk-free rate, and this has resulted in an increase to the liability of $755,065 at January 1, 2010 with a corresponding increase in deficit.

The change to the decommissioning liability resulting from changes in the period end risk-free rate for the nine months ended September 30, 2010 was $6,102 and for the year ended December 31, 2010 was $132,293 with increases to the cost of the corresponding assets.

The reduction in accretion related to changes in the measurement basis of the liability was $34,183 for the nine months ended September 30, 2010 and a cumulative amount of $47,075 for the year ended December 31, 2010, recognized in finance expense.

c) Method of depletion

Canadian GAAP includes specific standards that prescribe the method for the calculation of depletion which does not exist under IFRS. Using full-cost accounting under Canadian GAAP, oil and gas assets are depleted using the unit-of-production method using remaining proved reserves. Under IFRS, the accounting policy for depletion includes proved and probable reserves, as this more accurately reflects the estimate for the usage of the resource assets. This has resulted in a decrease to depreciation and depletion expense of $1,284,700 for the nine months ended September 30, 2010 and $2,254,900 for the year ended December 31, 2010.

d) Flow-through shares

Flow-through shares are a Canadian tax incentive which is the subject of specific guidance under Canadian GAAP, however there is no specific guidance under IFRS. Under Canadian GAAP, when flow-through shares are issued they are recorded at face value. The related future tax liability is established for the tax effect of the difference between the tax basis and the book basis of the assets when renounced and is recorded as a reduction of share capital. There is no income statement effect associated with the issuance of these shares.

17. Transition to IFRS (continued)

The Company has adopted a policy under IFRS where the proceeds from the offering are to be allocated between the sale of the shares and the sale of the tax benefit. The allocation is made based on the difference between the quoted market price of the existing shares and the amount an investor pays for the flow-through shares. A liability is established for this difference that is reversed upon renunciation of the tax benefit. The difference between this liability and the deferred tax liability is recorded as an income tax expense. This has resulted in a re-classification between deficit and share capital at January 1, 2010 of $4,047,525.

e) The following is a summary of the transition adjustments to Company's deficit from Canadian GAAP to IFRS

	Notes	December 31, 2010	September 30, 2010	January 1, 2010
Deficit as reported under Canadian GAAP		(23,530,731)	(22,364,065)	(19,483,606)
Decommishing liablities	b	(755,065)	(755,065)	(755,065)
Flow-through shares	d	(4,047,525)	(4,047,525)	(4,047,525)
Depletion and depeciation	c	2,254,900	1,284,700	-
Accretion	b	47,075	34,183	-
Deficit as reported under IFRS		(26,031,346)	(25,847,772)	(24,286,196)

f) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company except that under IFRS, cash flows relating to interest are classified as operating, investing or financing in a consistent manner each period which has resulted in interest being classified as financing. Under Canadian GAAP, cash flows relating to interest were classified as operating.