Yangarra Resources Ltd.

Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

		March 31, 2013		December 31, 2012
Assets				
Current				
Accounts receivable *(note 9)*	$	**12,738,939**	$	8,398,042
Prepaid expenses and deposits		**1,350,934**		1,766,655
Assets held for sale *(note 3)*		–		463,100
Commodity contract *(note 9c iii)*		**289,814**		2,059,853
Total current assets		**14,379,687**		12,687,650
Non-current				
Property and equipment *(note 3)*		**130,356,002**		121,842,378
Exploration and evaluation assets		**4,025,828**		4,025,828
Commodity contract *(note 9c iii)*		–		338,258
Total assets	$	**148,761,517**	$	138,894,114
Liabilities				
Current				
Bank debt *(note 4)*	$	**40,755,835**	$	32,138,763
Accounts payable and accrued liabilities		**16,093,118**		14,790,876
Total current liabilities		**56,848,953**		46,929,639
Non-current				
Other long-term liabilities		**785,285**		794,114
Decommissioning liability *(note 5)*		**5,570,183**		5,297,166
Commodity contract *(note 9c iii)*		**77,187**		–
Deferred tax liability		**6,049,568**		6,183,430
Total liabilities		**69,331,176**		59,204,349
Shareholders' Equity				
Share capital		**94,717,629**		94,717,629
Warrants		**241,826**		241,826
Contributed surplus		**9,593,670**		9,593,670
Deficit		**(25,122,784)**		(24,863,360)
Total shareholders’ equity		**79,430,341**		79,689,765
Total liabilities and shareholders’ equity	$	**148,761,517**	$	138,894,114

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

For the three months ended March 31, 2013 and 2012

(unaudited)

		2013		2012
Revenue				
Petroleum and natural gas sales	$	**6,518,381**	$	6,907,412
Royalty income		**369,338**		839,177
Royalty expense		**(261,092)**		(446,817)
		6,626,627		7,299,772
Commodity price risk contracts *(note 9c iii)*				
Commodity contract settlement		**430,418**		(425,781)
Change in fair value of commodity contracts		**(2,185,484)**		(1,819,208)
		4,871,561		5,054,783
Expenses				
Production		**1,309,798**		952,673
Transportation		**155,673**		147,372
General and administrative		**412,850**		370,331
Finance		**417,861**		280,249
Share-based compensation		–		231,000
Depletion and depreciation *(note 3)*		**2,968,665**		4,056,492
		5,264,847		6,038,117
Income before tax		**(393,286)**		(983,334)
Deferred income tax (recovery) expense		**(133,862)**		807,455
Net loss and total comprehensive loss	$	**(259,424)**	$	(1,790,789)
Loss per share				
Basic & Diluted	$	**0.00**	$	(0.02)
Weighted average number of shares				
Basic and Diluted		**121,711,723**		117,494,735

		2013		2012
Share Capital				
Balance, beginning of period	$	**94,717,629**	$	90,895,319
Exercise of warrants		–		3,812,576
Balance, end of period		**94,717,629**		94,707,895
Warrants				
Balance, beginning of period		**241,826**		2,116,564
Exercised		–		(1,266,743)
Expired		–		(604,761)
Balance, end of period		**241,826**		245,060
Contributed Surplus				
Balance, beginning of period		**9,593,670**		8,261,009
Share-based compensation related to:				
Options granted in current period		–		231,000
Expired warrants		–		604,761
Balance, end of period		**9,593,670**		9,096,770
Deficit				
Balance, beginning of period		**(24,863,360)**		(24,645,648)
Net loss		**(259,424)**		(1,790,789)
Balance, end of period		**(25,122,784)**		(26,436,437)
Total Equity	$	**79,430,341**	$	77,613,288

	2013	2012
Operating		
Net loss for the period	$ **(259,424)**	$ (1,790,789)
Add back non-cash items:		
Change in fair value of commodity contracts	**2,185,484**	1,819,208
Share-based compensation	–	231,000
Depletion, depreciation and impairment *(note 3)*	**2,968,665**	4,056,492
Accretion expense *(note 5)*	**53,320**	23,188
Deferred income tax expense	**(133,862)**	807,455
	4,814,183	5,146,554
Change in non-cash working capital *(note 7)*	**(361,304)**	(3,209,178)
Net cash from operating activities	**4,452,879**	1,937,376
Financing		
Issue of equity instruments, net of costs	–	2,545,833
Bank debt advance *(note 4)*	**8,617,071**	9,349,847
Other long-term liabilities repayment	**(8,828)**	–
Change in non-cash working capital *(note 7)*	–	279,500
Net cash from financing activities	**8,608,243**	12,175,180
Investing		
Expenditures property and equipment	**(10,799,492)**	(7,584,519)
Change in non-cash working capital *(note 7)*	**(2,261,630)**	(6,528,037)
Net cash used in investing activities	**(13,061,122)**	(14,112,556)
Change in cash and cash equivalents	–	–
Cash, beginning of the period	–	–
Cash, end of the period	$ –	$ –
Supplemental cash flow information		
Interest paid	$ **552,328**	$ 257,061

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 condensed consolidated interim 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 condensed consolidated financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and using the accounting policies outlined by the Company in its annual consolidated financial statements for the year ended December 31, 2012, except as identified below. These condensed consolidated financial statements do not include all of the information required for full annual financial statements.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on May 21, 2013.

2. New Accounting Standards and Accounting standards issued but not yet applied

On January 1, 2013 the Company adopted new standards with respect to consolidated (IFRS 10), joint arrangements (IFRS 11), disclosure of interests in other entities (IFRS 12), fair value measurements (IFRS 13) and amendments to financial instrument disclosures (IFRS 7). The adoption of these standards had no impact on the amounts recorded in the condensed consolidated interim financial statements as at January 1, 2013 or on the comparative periods.

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, 2015, 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.

3. Property and equipment

	Oil and Natural Gas Interests	*Well and plant equipment*	*Other Assets*	*Total*
Cost				
Balance at December 31, 2011	$ 107,553,041	$ 25,192,024	$ 1,127,950	$ 133,873,015
Cash Additions	21,464,682	2,812,328	171,521	24,448,531
Dispositions	(4,001,480)	–	–	(4,001,480)
Capitalized stock based compensation and decommissioning liability	534,510	–	–	534,510
Balance at December 31, 2012	125,550,753	28,004,352	1,299,471	154,854,576
Cash Additions/Transfers	**9,130,823**	**1,879,815**	**251,954**	**11,262,592**
Decommissioning Liability	**219,697**	–	–	**219,697**
Balance at March 31, 2013	**$ 134,901,273**	**$ 29,884,167**	**$ 1,551,425**	**$ 166,336,865**

3. Property and equipment

Depletion, depreciation and impairment				
Balance at December 31, 2011	$ 12,891,345	$ 1,475,500	$ 131,951	$ 14,498,796
Depletion and depreciation	12,506,000	1,722,900	249,076	14,477,976
Impairment loss	4,035,426	–	–	4,035,426
Balance at December 31, 2012	29,432,771	3,198,400	381,027	33,012,198
Depletion and depreciation	**2,570,800**	**339,200**	**58,665**	**2,968,665**
Balance at March 31, 2013	**$ 32,003,571**	**$ 3,537,600**	**$ 439,692**	**$ 35,980,863**
Net Book Amount				
At December 31, 2012	$ 96,117,982	$ 24,805,952	$ 918,444	$ 121,842,378
At March 31, 2013	**$ 102,897,702**	**$ 26,346,567**	**$ 1,111,733**	**$ 130,356,002**

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. At March 31, 2013 all of the Company's properties are pledged as security for the bank loans.

During the three months ended March 31, 2013, the Company capitalized $219,697 (December 31, 2012 – $306,333) related to the decommissioning liability of property and equipment and $nil (December 31, 2012 – $228,176) of share-based compensation. The Company also capitalized $141,981 (December 31, 2012 – $463,894) of general and administrative costs as well as $193,888 (December 31, 2012 - $717,536) 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.

During the three months ended March 31, 2013 the compressor classified as a current asset held for sale was put into use at the newly constructed gas processing facility in the Ferrier area. The $463,100 was transferred into P&E.

4. Bank debt

As at March 31, 2013, the $40,755,835 (December 31, 2012 – $32,138,763) reported amount of bank debt with a Canadian chartered bank was comprised of $16,150,000 (December 31, 2012 – $21,950,000) drawn on the revolving operating demand loan, $19,985,714 (December 31, 2012 – $9,992,093) of guaranteed notes and $4,620,121 (December 31, 2012 – $196,658) of bank overdraft. The Company is subject to a financial covenant requiring a working capital ratio of 1 : 1, which the Company was in compliance with at March 31, 2013.

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 March 31, 2013, the maximum amount available under the revolving operating demand loan was $42,000,000 (December 31, 2012 – $42,000,000) at an interest rate of bank prime plus 1.5% per annum on the operating demand load, payable monthly, and a credit spread of 2.5% on the guaranteed notes. On April 15, 2013 the revolving operating demand loan was increased to $45 million with a further increase to $50 million based on budgeted production levels in September 2013. The next scheduled review is May 31, 2014.

During the three month ended March 31, 2013, the weighted average effective interest rate for the bank debt was approximately 4.02% (December 31, 2012 - 4.50 %).

5. 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:

		March 31, 2013		*December 31, 2012*
Balance, beginning of period	$	**5,297,166**	$	4,898,222
Liabilities incurred		**193,496**		283,823
Effect of change in discount rate		**26,201**		72,816
Accretion		**53,320**		92,611
Change in assumptions		**–**		(55,305)
Balance, end of period	$	**5,570,183**	$	5,297,166

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

		March 31, 2013		*December 31, 2012*
Undiscounted cash flows	$	**7,209,598**	$	6,905,036
Discount rate		**1.56% -1.76%**		1.51% - 3.35%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**8.4 years**		8.7 years

6. 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.

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

	March 31, 2013		*December 31, 2012*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**11,840,000**	**$0.59**	11,353,800	$0.65
Granted	**–**	**–**	3,155,000	0.42
Exercised	**–**	**–**	–	–
Forfeited	**(380,000)**	**0.50**	(2,500,800)	0.65
Expired	**(90,000)**	**0.50**	(168,000)	1.00
Closing	**11,370,000**	**$0.59**	11,840,000	$0.59

6. Share-based payments (continued)

The following provides a summary of the stock option plan as at March 31, 2013:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
\$ 0.25 – \$ 0.50	4,845,000	2.99	\$ 0.45	4,845,000
\$ 0.51 – \$ 0.75	5,330,000	2.73	0.66	5,330,000
\$ 0.76 – \$ 1.00	1,195,000	2.65	0.86	1,195,000
	11,370,000	2.90	\$ 0.59	11,370,000

7. Change in non-cash working capital

	2013	2012
Accounts receivable	$ **(4,340,897)**	$ (2,237,391)
Prepaid expenses and asset held for sale	**415,721**	(673,138)
Accounts payable and accrued liabilities	**1,302,242**	(6,547,186)
	$ **(2,622,934)**	$ (9,457,715)

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

Operating	$ **(361,304)**	$ (3,209,178)
Financing	**–**	279,500
Investing	**(2,261,630)**	(6,528,037)
	$ **(2,622,934)**	$ (9,457,715)

8. Related party disclosure

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

Name	*Country of Incorporation*	*% equity interest* 2013	2012
Yangarra Resources Corp.	Canada	100%	100%

Balances between Yangarra Resources Ltd. 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.

8. Related party disclosure (continued)

During the three months ended March 31, 2013 and 2012, the Company was charged or invoiced the following amounts by certain of its officers and directors and by companies controlled by certain of the Company's officers and directors:

		2013		2012
Administration and consulting fees	$	**50,602**	$	47,048
Production and capital expenditures		**87,286**		35,966
	$	**137,888**	$	83,014

Included in accounts payable and accrued liabilities at March 31, 2013 is $16,347 (December 31, 2012 – $11,221) 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 includes a mortgage for $355,582 (December 31, 2012 - $361,411) held in the name of an officer of the Company. The property against which the mortgage is secured is owned by the Company through a trust agreement and is used as a field office. All mortgage payments are made by the Company.

9. Financial instruments and financial risk management

The Company's financial instruments include accounts receivable, bank debt, accounts payable and accrued liabilities, other long term liabilities 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 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 commodity contracts is measured at level 2.

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.

9. Financial instruments and financial risk management (continued)

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at March 31, 2013, the maximum credit exposure is the carrying amount of the accounts receivable of $12,738,939 (December 31, 2012 – $8,398,042).

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

Oil and natural gas marketers	$	2,766,805
Joint venture partners		8,388,050
Other		1,584,084
	$	12,738,939

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. To mitigate the risk associated with of dealing with a smaller marketer the Company has entered into an arrangement with Computershare to allow them to retain ownership of the product. All of the revenue accruals and receivables from petroleum and natural gas marketers were received in April and May 2013.

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 three months ended March 31, 2013. The Company would only choose to write-off a receivable balance after all reasonable avenues of collection had been exhausted.

As at March 31, 2013, the Company considers its receivables to be aged as follows:

Not past due	$	7,101,718
Past due by less than 90 days		4,096,122
Past due by more than 90 days		1,541,099
	$	12,738,939

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.

9. Financial instruments and financial risk management (continued)

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 other long-term liabilities, which have expected maturities of less than one year resulting in their current classification on the statement of financial position.

As at March 31, 2013	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
A/P and accrued liabilities	16,093,118	16,093,118	16,093,118	–	–	–
Bank Debt (1)	40,755,835	40,755,835	–	40,755,835	–	–
Other long-term liabilities	785,285	785,285	–	539,707	245,578	–
Commodity Contracts	77,187	77,187	–	77,187	–	–
Estimated Interest Payments	–	2,079,467	1,819,903	259,564	–	–
	57,711,425	59,846,405	17,913,021	41,632,293	245,578	–

(1) Assumes the credit facilities are not renewed May 2014

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 March 31, 2013, if interest rates had been 1% lower with all other variables held constant, income for the period would have been $421,205 (December 31, 2012 - $287,000) 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 March 31, 2013.

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 March 31, 2013.

9. Financial instruments and financial risk management (continued)

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 March 31, 2013, the Company was committed to the following commodity price risk contracts

Contracts	Fair Value
2013 Oil	
200 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.00 CAD/bbl	(20,805)
100 bbl/d from January 1 to December 31, 2013 at a fixed price of $97.50 CAD/bbl	(25,620)
200 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.30 USD/bbl	118,497
100 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.00 USD/bbl	49,935
100 bbl/d from January 1 to December 31, 2013 at a fixed price of $104.80 CAD/bbl	196,561
Sold calls on 200 bbl/d d from January 1 to December 31, 2013 at $110 USD/bbl	(32,035)
2014 Oil	
100 bbl/d from January 1 to December 31, 2014 at a fixed price of $98.30 CAD/bbl	107,394
100 bbl/d from January 1 to December 31, 2014 at a fixed price of $100.00 CAD/bbl	168,390
100 bbl/d from January 1 to December 31, 2014 at a fixed price of $101.05 CAD/bbl	206,063
100 bbl/d from January 1 to December 31, 2014 at a fixed price of $91.40 CAD/bbl	(140,176)
100 bbl/d from January 1 to December 31, 2014 at a fixed price of $91.35 CAD/bbl	(141,970)
200 bbl/d from January 1 to December 31, 2014 at a fixed price of $92.00 CAD/bbl	(53,559)
Sold Swaption on 200 bbl/d @ $100.00 WTI/USD for January – December 2014	(223,329)
2013 AECO	
2,000 GJ/d at $3.51/GJ for January – December 2013	43,572
1,000 GJ/d at $3.35/GJ for January – December 2013	(26,911)
500 GJ/d at $3.42/GJ for January – December 2013	(2,803)
500 GJ/d at $3.42/GJ for January – December 2013	(10,577)
Total	**212,627**

The following table summarizes the fair value and the change in fair value for three months ended March 31, 2013:

	2013	2012
Commodity contract (liability) asset, beginning of period	**$ 2,398,111**	$ (1,491,875)
Unrealized change in fair value	**(2,185,484)**	(1,819,208)
Commodity contract (liability) asset, end of period	**$ 212,627**	$ (3,311,083)

9. Financial instruments and financial risk management (continued)

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at March 31, 2013 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. 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	**(3,605,083)**	**3,605,083**
Natural Gas	**(437,467)**	**437,467**

10. 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 may 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.