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, 2012 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.

The MD&A has been prepared using information that is current to May 21, 2013.

The financial information presented herein has been prepared on the basis of International Accounting Standard 34 ("Interim Financial Reporting"). 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.*

Special Note Regarding Non-IFRS Measures *This MD&A contains the terms "funds flow from (used in) operations" and "funds flow from (used in) operations per share", which should not be considered an alternative to or more meaningful than cash from (used in) operating activities as determined in accordance with IFRS. These terms do not have any standardized meaning as prescribed by IFRS. 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. 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 earnings 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:

	2013 Q1	2012 Q1
Cash from operating activities	$ 4,452,879	$ 1,937,376
Changes in non-cash working capital	361,304	3,209,178
Funds flow from operations	$ 4,814,183	$ 5,146,554

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 loss netbacks. Operating netback is calculated as the average sales price of its commodities 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 as well as realized gains on financial instruments. 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 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.*

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.

First Quarter Highlights

- Production was 1,809 boe/d (47% oil and NGL's) with production negatively impacted by 200 boe/d shut-in due to the drilling of new wells on existing pad sites.
- Oil and gas sales including royalty income was $7.7 million with funds flow from operations of $4.8 million ($0.04 per share - basic).
- Operating costs for the first quarter, including $0.96/boe of transportation costs, were $9.00/boe
- The Q1 2013 netback of $34.34 per boe is a 16% increase from the $29.66 per boe reported in the first quarter or 2012. Realized prices were $42.68/boe up 28% from $33.30/boe in the first quarter of 2012 (realized natural gas prices increased by 63%).
- Capital expenditures of $11 million focused on drilling and infrastructure in Central Alberta
- As at March 31, 2013, the Company had a bank debt and working capital deficit of $42 million compared to $34 million at December 31, 2012.
- Yangarra constructed a gas processing facility (100% working interest) in the quarter with the facility online April 10, 2013 which brought on eight previously standing wells.

Financial Information

	2013 Q1	2012 Q1
Statements of Comprehensive Income (Loss)		
Petroleum & natural gas sales	$ 6,518,381	$ 6,907,412
Net income (loss) for the period (before tax)	$ (393,286)	$ (983,334)
Net income (loss) for the period	$ (259,424)	$ (1,790,789)
Net income (loss) per share - basic and diluted	$ (0.00)	$ (0.02)
Statements of Cash Flow		
Funds flow from (used in) operating activities	$ 4,814,183	$ 5,146,554
Funds flow from (used in) operating activities per share - basic and diluted	$ 0.04	$ 0.04
Cash from (used in) operating activities	$ 4,452,879	$ 1,937,376
Statements of Financial Position		
Property and equipment	$ 130,356,002	$ 122,891,333
Total assets	$ 148,761,517	$ 147,718,686
Working Capital Deficit	$ 42,469,266	$ 34,241,989
Non-Current Liabilities	$ 12,482,223	$ 9,752,766
Shareholders equity	$ 79,430,341	$ 77,613,288
Weighted average number of shares - basic	121,711,723	117,494,735
Weighted average number of shares diluted	121,711,723	118,962,415

Business Environment

	2013 Q1	2012 Q1
West Texas Intermediate ("WTI") (US$/bbl)	$ 94.36	$ 103.03
Edmonton (C$/bbl)	$ 87.43	$ 92.23
AECO gas (Cdn$/GJ)	$ 2.92	$ 2.52
U.S./Canadian Dollar Exchange	$ 0.992	$ 0.999

Crude oil prices decreased in the three months ended March 31, 2013, with the West Texas Intermediate ("WTI") reference price averaging US$94.36/bbl compared with US$103.03 per barrel in 2012. 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.

Edmonton par differentials to WTI decreased in the three month ended March 31, 2013 when compared to the same period in 2012, moving from an $10.80/bbl differential in 2012 to $6.93/bbl in 2013. The closest reference price point for Yangarra's oil is Edmonton par and therefore the narrowing differential has had a significant impact on the Company realized pricing. AECO natural gas prices increased for the three months ended March 31, 2013 increased by 16% to $2.92 per GJ from $2.52 per GJ in 2012.

Results of Operations

	2013 Q1	2012 Q1
Daily production volumes		
Natural gas (mcf/d)	5,090	6,018
Oil (bbl/d)	502	438
NGL's (bbl/d)	291	347
Royalty income		
Natural gas (mcf/d)	709	1,481
Oil (bbl/d)	2	12
NGL's (bbl/d)	48	91
Combined (boe/d 6:1)	1,809	2,139
Product pricing (includes royalty income & realized gains/losses on commodity contracts)		
Oil ($/bbl)	$ 86.80	$ 89.86
NGL ($/bbl)	52.62	63.87
Gas ($/mcf)	3.41	2.09
Combined ($/boe)	$ 44.95	$ 37.61
Revenue		
Petroleum & natural gas sales - Gross	$ 6,518,381	$ 6,907,412
Royalty income	369,338	839,177
Commodity contract settlement	430,418	(425,781)
Total sales	7,318,137	7,320,808
Royalty expense	(261,092)	(446,817)
Petroleum & natural gas sales - Net	$ 7,057,045	$ 6,873,991
Change in fair value of contracts	$ (2,185,484)	$ (1,819,208)
Total Revenue - Net	$ 4,871,561	$ 5,054,783

Total sales in Q1 2013 were $7.3 million compared to $7.3 million in the same period 2012, the sales are attributable to:

- a 20% increase in average product prices; and
- a 15 % decrease in production (on a boe basis).

The decrease in 2013 can be attributed to approximately 200 boe/d shut in due to the drilling of new wells on existing pad sites. Yangarra's new Ferrier gas processing facility (100% working interest), constructed under budget and ahead of schedule, was put into service April 10, 2013.

The overall average price earned by the Company was higher when compared to 2012 due to higher natural gas reference pricing partially offset by lower liquids prices caused by lower WTI prices.

The oil and NGL's split during the first quarter was 47% versus 42% in the first quarter of 2012. The increase in the oil and NGL weighting is due to the focus on oil weighted Cardium wells.

As a means of managing commodity price volatility and its impact on cash flows, Yangarra enters into various financial commodity agreements. Unsettled derivative financial contracts are measured at the date of the financial statements based on the fair value of the contracts. Changes in fair value result from volatility in forward curves of commodity prices and changes in the balance of unsettled contracts between periods. The changes in fair value are recognized in revenue as unrealized commodity contract gains and losses. Realized commodity contract gains and losses are recognized in revenue when derivative financial contracts are settled.

At March 31, 2013, Yangarra has contracted 700 bbl/day of expected 2013 oil production using WTI fixed price contracts at an average price of $98.99 per bbl and 700 bbl/day of expected 2014 oil production using WTI fixed price contracts at an average price of $95.16 per bbl. In addition, Yangarra has contracted approximately 4,000 GJ/day of expected 2013 natural gas production using AECO fixed price contracts at an average price of $3.45 per GJ. The Company's commodity risk program helps sustain Cash Flow during periods of lower prices. For additional information, see the Financial Instruments and Financial Risks Management section of this MD&A.

Royalty Income

	2013 Q1	2012 Q1
Royalty Income	$ 369,338	$ 839,177

Royalty income decreased in the first quarter of 2013 as no additional wells were drilled in the area covered by the 15% sliding scale royalty. There are currently a total of 12 wells generating the 15% royalty income.

Royalty Expense

	2013 Q1	2012 Q1
Royalty Expense	$ 261,092	$ 446,817
Per boe	$ 1.60	$ 2.30
As a % of sales	4%	6%

Royalties decreased to $261,092 for the three months ended March 31, 2013 or 4% as a percentage of sales. The decrease results from lower production during 2013. 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

	2013 Q1	2012 Q1
Production costs	$ 1,309,798	$ 952,673
Per boe	$ 8.04	$ 4.89
Transportation costs	$ 155,673	$ 147,372
Per boe	$ 0.96	$ 0.76
Combined ($/boe)	$ 9.00	$ 5.65

Production and transportation costs increased in the first quarter of 2013 to $1,309,798 on a dollar basis and increased by 59% on a per boe basis when compared to the same period in 2012. While costs increased slightly, production volumes decreased in the period as the Company had wells shut in due to the drilling of new wells on existing pad sites and waiting for completion of the new processing facility. This resulted in higher than expected per boe operating costs. Once the shut-in production is brought back online the Company expects to return to average costs of $8.00/boe

Depletion, depreciation and impairment and accretion

	2013 Q1	Q1
Depletion and depreciation	$ 2,968,665	$ 4,056,492
Per boe	$ 18.23	$ 20.84
Accretion	$ 53,320	$ 23,188

Depletion and depreciation decreased in the first quarter 2013 compared to the first quarter of 2012 due to decreases in production I the first quarter of 2013. On a per boe basis the depletion remained relatively constant as the capital program resulted in equivalent additions to the reserve base.

General and administrative expenses ("G&A")

	2013 Q1	2012 Q1
Gross G&A expenses	$ 717,190	$ 600,021
G&A recoveries	(304,340)	(229,690)
Net G&A expenses	$ 412,850	$ 370,331
Per boe	$ 2.54	$ 1.90

On a net basis, general and administrative expenses increased by 11% in 2013 due to one-time charges for severance packages to departing employees. The Company expects G&A to return to regular levels in the next quarter.

Other expenses

	2013 Q1	2012 Q1
Interest and financing fees	$ 364,541	$ 257,061
Stock-based compensation	$ -	$ 231,000

Interest and financing fees for the three months ended March 31, 2013 is for interest on the revolving operating demand loan for which the average amount drawn in 2013 was $36 million.

Deferred Taxes

		2013 Q1		2012 Q1
Deferred income tax expense	$	(133,862)	$	807,455

Yangarra does not have current income taxes payable and does not expect to pay current income taxes in 2013 as the Company had estimated tax pools of $104 million available at March 31, 2013.

Commodity price risk contracts

		2013 Q1		2012 Q1
Realized gain on contract settlement	$	430,418	$	(425,781)
Change in fair value of commodity contracts		(2,185,484)		(1,819,208)
	$	(1,755,066)	$	(2,244,989)

As at March 31, 2013, the Company was committed to the following commodity price risk contracts for the sale of oil:

2013 Contracts:

- 200 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.00 CAD/bbl;
- 100 bbl/d from January 1 to December 31, 2013 at a fixed price of $97.50 CAD/bbl;
- 200 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.30 USD/bbl;
- 100 bbl/d from January 1 to December 31, 2013 at a fixed price of $98.00 USD/bbl;
- 100 bbl/d from January 1 to December 31, 2013 at a fixed price of $104.80 CAD/bbl and;
- Sold calls on 200 bbl/d d from January 1 to December 31, 2013 at $110 USD/bbl.

2014 Contracts:

- 100 bbl/d from January 1 to December 31, 2014 at a fixed price of $98.30 CAD/bbl;
- 100 bbl/d from January 1 to December 31, 2014 at a fixed price of $100.00 CAD/bbl;
- 100 bbl/d from January 1 to December 31, 2014 at a fixed price of $101.05 CAD/bbl;
- 100 bbl/d from January 1 to December 31, 2014 at a fixed price of $91.40 CAD/bbl;
- 100 bbl/d from January 1 to December 31, 2014 at a fixed price of $91.35 CAD/bbl
- 200 bbl/d from January 1 to December 31, 2014 at a fixed price of $92.00 CAD/bbl; and
- Sold Swaption on 200 bbl/d @ $100.00 WTI/USD for January – December 2014.

As at March 31, 2013, the Company was committed to the following commodity price risk contracts on the AECO basis:

- 2,000 GJ/d at $3.51/GJ for January – December 2013;
- 1,000 GJ/d at $3.35/GJ for January – December 2013;
- 500 GJ/d at $3.42/GJ for January – December 2013; and
- 500 GJ/d at $3.42/GJ for January – December 2013.

The fair value on the contracts was in a gain position of $212,627 as at March 31, 2013 (December 31, 2012 – a gain position of $2,398,111).

The following table summarizes the sensitivity of the fair value of the Company's commodity price contracts 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

Company Netbacks ($/boe)

		2013 Q1		2012 Q1
Sales Price	$	42.68	$	33.30
Royalty income		2.27		4.31
Royalty expense		(1.60)		(2.30)
Production costs		(8.04)		(4.89)
Transportation costs		(0.96)		(0.76)
Operating netback	**$**	**34.34**	$	29.66
G&A and other (excludes non-cash items)		(2.54)		(1.90)
Finance expenses		(2.24)		(1.32)
Cash flow netback		**29.57**		26.44
Depletion and depreciation		(18.23)		(20.84)
Accretion		(0.33)		(0.12)
Stock-based compensation		-		(1.19)
Unrealized gain (loss) on financial instruments		(13.42)		(9.35)
Deferred income tax		0.82		(4.15)
Net Income (loss) netback	**$**	**(1.59)**	$	(9.20)

The first quarter 2013 operating netback of $34.34 per boe is a 16% increase from the $29.66 per boe reported in the first quarter of 2012. The improvements in netbacks were due to a higher reference price and a narrowing in the WTI to Edmonton par differential which was partially offset by higher operating costs in the quarter.

Liquidity and Capital Resources

The following table summarizes the change in working capital during the three months ended March 31, 2013 and year ended December 31, 2012:

	2013	2012
Working capital (deficit) - beginning of period (1)	$ (36,301,842)	$ (34,028,162)
Funds flow from operating activities	4,814,183	14,588,405
Purchase of property and equipment	(11,262,592)	(24,448,531)
Sale of property and equipment	-	4,650,000
Issuance of shares	-	2,552,333
Bank Debt	(8,828)	384,113
Working capital (deficit) - end of period (1)	$ (42,759,079)	$ (36,301,842)
Credit facility limit	$ 45,000,000	$ 42,000,000

(1) Excludes non-cash change in fair value of commodity contracts

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 %).

Capital Spending

Capital spending is summarized as follows:

	2013 Q1	2012 Q1
Land and lease rentals	$ 1,060,280	$ 147,489
Drilling and completion	8,036,865	6,621,898
Geological and geophysical	33,678	154,180
Equipment	1,879,815	651,963
Other Asset Additions	251,954	8,998
	$ 11,262,592	$ 7,584,528

The Company drilled and completed 4 gross (2.6 net) horizontal wells during the first quarter of 2013. The Company also completed 2 gross (0.6 net) that were drilling during the 2012 drilling program. In addition, the Company was partially complete construction of the processing facility in the Ferrier area as at March 31, 2013.

Outlook

The $25 million 2013 capital budget will focus on development of Yangarra's Cardium light oil play with a 4 year inventory identified. The budget is expected to increase the Company's annual production by 25% to 2,400 boe/d with funds flow from operations estimated at $24 million ($0.20/share) and 2013 debt to cash flow ratio of 1.5. The budget assumes an average price of US$85/bbl of WTI crude oil and an average price of $3.00/mcf of AECO natural gas.

Decommissioning Liabilities

As at March 31, 2013, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $7,209,598 for which $5,570,183 has been recorded using a discount rate of 1.56% - 1.76%, an inflation rate of 2% and an estimated weighted average timing of cash flows of 8.4 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 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 Q1	2012 Q1
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.

Share Capital

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

	Common Shares	Warrants	Stock Options
Balance - December 31, 2012	**121,711,723**	**1,420,000**	**11,535,000**
Grant of options	-	-	-
Forfeiture of options	-	-	(380,000)
Expiry of options	-	-	(90,000)
Balance - March 31, 2013	**121,711,723**	**1,420,000**	**11,065,000**
Forfeiture of options			(305,000)
Balance - Date of MD&A	**121,711,723**	**1,420,000**	**10,760,000**

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

Commitments

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

2013	$	183,559
2014	$	241,277
2015	$	241,277

Financial Instruments and Financial Risk Management

The Company's financial instruments include accounts receivable, accounts payable and accrued liabilities, bank debt, other long term liability and commodity contracts. The carrying values of accounts receivable, accounts payable and accrued 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 commodity contracts are classified as 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.

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 year 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.

To facilitate the capital expenditure program, the Company has a credit facility agreement, as disclosed in note 4 of the condensed consolidated interim financial statements, 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 and bank debt, which have expected maturities of less than one year resulting in their current classification on the statement of financial position.

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 year 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.

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 Company's commodity contracts are discussed in the "commodity price risk contract" section of the MD&A.

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:

	March 31, 2013	*December 31, 2012*
Shareholders' equity	$ 79,430,341	$ 79,689,765

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 March 31, 2013, the Company's capital structure was not subject to external restrictions.

Selected Historical Financial Information

	2013 Q1($)	2012 Q4($)	2012 Q3($)	2012 Q2($)
Petroleum and natural gas sales	**6,518,381**	4,842,343	4,311,738	5,265,664
Net petroleum and natural gas revenue	**6,626,627**	5,055,666	4,311,406	5,627,535
Net income (loss)	**(259,424)**	340,623	(2,073,174)	3,305,628
Net income (loss) per share – basic	0.00	0.00	(0.02)	0.03
Net income (loss) per share – diluted	0.00	0.00	(0.02)	0.03
Funds flow from operations	**4,814,183**	3,168,328	2,780,520	3,493,003
Funds flow from operations per share – basic	0.04	0.03	0.02	0.03
Funds flow from operations per share –diluted	0.04	0.03	0.02	0.03
Net capital expenditures	**11,262,592**	4,537,364	4,679,623	3,006,024

	2012 Q1($)	2011 Q4($)	2011 Q3($)	2011 Q2($)
Petroleum and natural gas sales	6,907,412	7,555,427	5,378,932	4,283,356
Net petroleum and natural gas revenue	7,299,772	7,327,783	5,306,646	4,262,657
Net loss	(1,790,789)	(2,155,583)	4,106,091	1,665,821
Net loss per share – basic	(0.02)	(0.02)	0.04	0.02
Net loss per share – diluted	(0.02)	(0.02)	0.03	0.01
Funds flow from operations	5,146,554	5,686,411	4,967,853	3,151,665
Funds flow from operations per share – basic	0.04	0.05	0.04	0.03
Funds flow from operations per share –diluted	0.04	0.05	0.04	0.03
Net capital expenditures	7,575,520	19,735,557	19,005,315	7,160,655

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.

Business Risks and Uncertainties

Refer to the December 31, 2012 MD&A for a complete listing of Business Risks and Uncertainties.

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

The Company's certifying officers will file a Venture Issuer Basic Certificate with respect to the information contained in its financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Critical Accounting Estimates

Refer to the December 31, 2012 MD&A for a complete listing of critical accounting estimates.

Accounting standards newly adopted

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.

Accounting standards issued but not yet applied

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC"). The standard impacted that are applicable to the Company are as follows:

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.