



Yangarra Resources Ltd.
Condensed Consolidated Interim Financial Statements
September 30, 2013 and 2012

(Unaudited)



Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Financial Position

As at:
(unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current		
Accounts receivable (note 9)	\$ 13,280,832	\$ 8,398,042
Prepaid expenses and deposits	1,534,513	1,766,655
Assets held for sale	–	463,100
Commodity contract (note 9c iii)	–	2,059,853
Total current assets	14,815,345	12,687,650
Non-current		
Property and equipment (note 3)	135,892,343	121,842,378
Exploration and evaluation assets	4,025,828	4,025,828
Commodity contract (note 9c iii)	–	338,258
Interest rate contracts (note 9c i)	39,887	–
Total assets	\$ 154,773,403	\$ 138,894,114
Liabilities		
Current		
Bank debt (note 4)	\$ 44,202,319	\$ 32,138,763
Accounts payable and accrued liabilities	13,207,568	14,790,876
Commodity contract (note 9c iii)	1,370,123	–
Total current liabilities	58,780,010	46,929,639
Non-current		
Other long-term liabilities	767,354	794,114
Decommissioning liability (note 5)	5,342,359	5,297,166
Commodity contract (note 9c iii)	943,087	–
Deferred tax liability	6,918,380	6,183,430
Total liabilities	72,751,190	59,204,349
Shareholders' Equity		
Share capital	94,780,129	94,717,629
Warrants	241,826	241,826
Contributed surplus	10,028,770	9,593,670
Deficit	(23,028,512)	(24,863,360)
Total shareholders' equity	82,022,213	79,689,765
Total liabilities and shareholders' equity	\$ 154,773,403	\$ 138,894,114

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

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Income (loss) and Comprehensive Income (loss)
For the three and nine months ended September 30, 2013 and 2012
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Revenue				
Petroleum and natural gas sales	\$ 9,372,931	\$ 4,311,738	\$ 23,638,701	\$ 16,484,814
Royalty income	195,468	323,947	931,415	1,808,126
Royalties	(701,597)	(324,279)	(1,239,554)	(1,054,227)
	8,866,802	4,311,406	23,330,562	17,238,713
Commodity price risk contracts <i>(note 9c iii)</i>				
Commodity contract settlement	(326,435)	574,219	909,693	372,278
Change in fair value of commodity contracts	(2,411,102)	(2,071,172)	(4,711,321)	4,099,253
	6,129,265	2,814,453	19,528,934	21,710,244
Expenses				
Production	1,122,452	995,004	3,497,260	3,262,317
Transportation	302,408	132,603	692,521	436,511
General and administrative	361,813	485,606	1,132,132	1,415,458
Finance <i>(note 10)</i>	508,082	513,876	1,313,883	1,147,143
Share-based compensation <i>(note 6)</i>	79,200	143,600	289,600	499,724
Depletion, depreciation and impairment <i>(note 3)</i>	3,715,664	3,581,413	10,033,740	12,518,151
	6,089,619	5,852,102	16,959,136	19,279,304
Income (loss) before tax	39,646	(3,037,649)	2,569,798	2,430,940
Deferred tax	28,316	(964,475)	734,950	2,989,275
Net income (loss) and comprehensive income (loss) for the period attributable to common shareholders	\$ 11,330	\$ (2,073,174)	\$ 1,834,848	\$ (558,335)
Net income per share <i>(note 11)</i>				
Basic & Diluted	\$ 0.00	\$ (0.02)	0.02	\$ (0.00)
Weighted average number of shares <i>(note 11)</i>				
Basic	121,718,245	121,711,152	121,713,921	120,311,011
Diluted	121,987,009	121,711,152	121,716,486	120,343,321

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Changes in Equity
For the nine months ended September 30, 2013 and 2012
(unaudited)

	Nine months ended September 30,	
	2013	2012
Share Capital		
Balance, beginning of period	\$ 94,717,629	\$ 90,895,319
Exercise of options	62,500	–
Exercise of warrants	–	3,822,310
Balance, end of period	94,780,129	94,717,629
Warrants		
Balance, beginning of period	241,826	2,116,564
Exercised	–	(1,269,977)
Expired	–	(604,761)
Balance, end of period	241,826	241,826
Contributed Surplus		
Balance, beginning of period	9,593,670	8,261,009
Share-based compensation related to:		
Options granted in current year	435,100	727,900
Expired warrants	–	604,761
Balance, end of period	10,028,770	9,593,670
Deficit		
Balance, beginning of period	(24,863,360)	(24,645,648)
Net income (loss)	1,834,848	(558,335)
Balance, end of period	(23,028,512)	(25,203,983)
Total Equity	\$ 82,022,213	\$ 79,349,142

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Cash Flows
For the three and nine months ended September 30, 2013 and 2012
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Operating				
Net income (loss) for the period	\$ 11,330	\$ (2,073,174)	\$ 1,834,848	\$ (558,335)
Add back non-cash items:				
Change in fair value of commodity contracts	2,411,102	2,071,172	4,711,321	(4,099,253)
Change in fair value of interest rate contracts	101,618	–	(39,887)	–
Share-based compensation (note 6)	79,200	143,600	289,600	499,724
Depletion, depreciation and impairment (note 3)	3,715,664	3,581,413	10,033,740	12,518,151
Accretion Expense (note 5)	30,977	21,984	108,506	70,515
Deferred tax	28,316	(964,475)	734,950	2,989,275
	6,378,207	2,780,520	17,673,078	11,420,077
Change in non-cash working capital (note 7)	(2,694,655)	3,122,226	(1,353,133)	1,433,007
Net cash flow from operating activities	3,683,552	5,902,746	16,319,945	12,853,084
Financing				
Issue of equity instruments, net of costs	62,500	–	62,500	2,552,333
Bank debt advance (repayment) (note 4)	2,803,769	(2,924,300)	12,063,556	9,441,248
Other debt repayment	(9,012)	(8,648)	(26,760)	(36,851)
Change in non-cash working capital (note 7)	–	–	–	279,500
Net cash flow from financing activities	2,857,257	(2,932,948)	12,099,296	12,236,230
Investing				
Expenditures on property and equipment	(8,567,226)	(4,765,244)	(23,538,418)	(15,357,681)
Change in non-cash working capital (note 7)	2,026,417	1,795,446	(4,880,823)	(9,731,633)
Net cash flow used in investing activities	(6,540,809)	(2,969,798)	(28,419,241)	(25,089,314)
Change in cash	–	–	–	–
Cash, beginning of the period	–	–	–	–
Cash, end of the period	\$ –	\$ –	\$ –	\$ –
Supplemental cash flow information				
Interest paid	\$ 369,424	\$ 491,892	\$ 1,319,668	\$ 1,076,628

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2013 and 2012

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 November 19, 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, but did result in some additional disclosures.

3. Property and equipment

	<i>Oil and Natural Gas Interests</i>	<i>Well and plant equipment</i>	<i>Other Assets</i>	<i>Total</i>
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	17,679,626	5,641,331	217,461	23,538,418
Transfers	–	463,100	–	463,100
Capitalized stock based compensation and decommissioning liability	145,500	–	–	145,500
	(63,313)	–	–	(63,313)
Balance at September 30, 2013	\$ 143,312,566	34,108,783	1,516,932	178,938,281

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2013 and 2012

3. Property and equipment (continued)

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	8,595,500	1,250,400	187,840	10,033,740
Balance at September 30, 2013	\$ 38,028,271	4,448,800	568,867	43,045,938

Net Book Amount

At December 31, 2012	\$ 96,117,982	\$ 24,805,952	\$ 918,444	\$ 121,842,378
At September 30, 2013	\$ 105,284,296	\$ 29,659,983	\$ 948,065	\$ 135,892,343

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 September 30, 2013 all of the Company's properties are subject to security for the bank loans.

During the nine months ended September 30, 2013, the Company capitalized \$(63,313) (December 31, 2012 – \$306,333) related to the decommissioning liability of property and equipment and \$145,500 (December 31, 2012 – \$228,176) of share-based compensation. The Company also capitalized \$571,403 (December 31, 2012 – \$463,894) of general and administrative costs as well as \$478,584 (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 nine months ended September 30, 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 September 30, 2013, the \$44,202,319 (December 31, 2012 – \$32,138,763) reported amount of bank debt with a Canadian chartered bank was comprised of \$10,050,000 (December 31, 2012 – \$21,950,000) drawn on the revolving operating demand loan, \$29,925,033 (December 31, 2012 – \$9,992,093) of guaranteed notes and \$4,227,286 (December 31, 2012 – \$196,658) of outstanding cheques. The Company is subject to a financial covenant requiring a working capital ratio of 1 : 1, which the Company was in compliance with at September 30, 2013. The facility is secured by a general security agreement.

As at September 30, 2013, the maximum amount available under the revolving operating demand loan was \$45,000,000 (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. The next scheduled review is May 31, 2014.

During the three months ended September 30, 2013 the Company entered into a subordinated term loan facility of up to \$20,000,000 with Alberta Treasury Branches (“ATB”). The subordinated term loan has a two year committed term (subject to an extension for an additional year upon mutual consent) is available in three tranches (\$7,800,000 on or before December 31, 2013, \$6,420,000 on or before May 31, 2014 and \$5,780,000 on or before July 31, 2014) at a floating rate (including all fees and closing costs) of currently less than 10% per annum. Full payment of the principal is due on maturity with reserve-based and financial covenants. Subsequent to September 30, 2013 the Company took down \$7,800,000 of the subordinated term loan, leaving \$12,200,000 undrawn. This facility is secured with a pledge of a general debenture under a general security agreement.

During the nine months ended September 30, 2013, the weighted average effective interest rate for the bank debt was approximately 4.16% (December 31, 2012 - 4.50 %).

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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:

	<i>September 30, 2013</i>	<i>December 31, 2012</i>
Balance, beginning of period	\$ 5,297,166	\$ 4,898,222
Liabilities incurred	421,732	283,822
Effect of change in discount rate	(485,045)	77,816
Accretion	108,506	92,611
Change in assumptions	–	(55,305)
Balance, end of period	<u>\$ 5,342,359</u>	<u>\$ 5,297,166</u>

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

	<i>September 30, 2013</i>	<i>December 31, 2012</i>
Undiscounted cash flows	\$ 7,646,972	\$ 6,905,036
Discount rate	1.56% - 2.54%	1.51% - 3.35%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	8.1 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, 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:

	<i>September 30, 2013</i>		<i>December 31, 2012</i>	
	<i>Options</i>	<i>Weighted – average exercise price</i>	<i>Options</i>	<i>Weighted – average exercise price</i>
Opening	11,840,000	\$0.59	11,353,800	\$0.65
Granted	2,540,000	0.30	3,155,000	0.42
Forfeited	(2,215,000)	0.58	(2,500,800)	0.65
Exercised	(200,000)	0.31		
Expired	(380,000)	0.50	(168,000)	1.00
Closing	<u>11,585,000</u>	<u>\$0.54</u>	<u>11,840,000</u>	<u>\$0.59</u>

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6. Share-based payments (continued)

The following provides a summary of the stock option plan as at September 30, 2013:

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 0.25 – \$ 0.50	5,990,000	3.51	\$ 0.39	5,990,000
\$ 0.51 – \$ 0.75	4,550,000	2.23	0.66	4,550,000
\$ 0.76 – \$ 1.00	1,045,000	2.15	0.86	1,045,000
	11,585,000	2.88	\$ 0.54	11,585,000

During the nine months ended September 30, 2013, the Company granted options to purchase 2,540,000 common shares, with the options vesting immediately. The fair value of the options was estimated at \$435,100 (\$0.17 per option) using the Black-Scholes pricing model.

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

	<i>2013</i>	<i>2012</i>
Weighted average fair value per option	\$0.17	\$0.27
Risk-free interest rate	1.24% - 1.86%	1.49% - 1.64%
Expected volatility	64% - 65%	62%
Expected life	5 years	5 years
Forfeiture rate	0%	0%

7. Change in non-cash working capital

	<i>Three months ended September 30,</i>		<i>Nine months ended September 30,</i>	
	2013	2012	2013	2012
Accounts receivable	\$ (5,713,311)	\$ 2,804,666	\$ (4,882,790)	\$ 9,418,068
Prepaid expenses and deposits	(231,461)	604,316	232,143	(990,964)
Accounts payable and accrued liabilities	5,276,534	1,508,690	(1,583,309)	(16,446,230)
	\$ (668,238)	\$ 4,917,672	\$ (6,233,956)	\$ (8,019,126)

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

Operating	\$ (2,694,655)	\$ 3,122,226	\$ (1,353,133)	\$ 1,433,007
Financing	—	—	—	279,500
Investing	2,026,417	1,795,446	(4,880,823)	(9,731,633)
	\$ (668,238)	\$ 4,917,672	\$ (6,233,956)	\$ (8,019,126)

Yangarra Resources Ltd.
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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.

During the nine months ended September 30, 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:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Administration and consulting fees	\$ 88,500	\$ 47,457	\$ 222,035	\$ 141,963
Production and capital expenditures	52,033	27,726	175,952	80,077
	\$ 140,533	\$ 75,194	\$ 397,987	\$ 222,040

Included in accounts payable and accrued liabilities at September 30, 2013 is \$13,943 (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 include a mortgage for \$337,651 (December 31, 2012 - \$361,411) held in the name of an officer of the Company for a property that is used as a field office. The Company is the beneficial owner through a trust agreement of the property against which the mortgage is secured. All mortgage payments are made by the Company.

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, interest rate contracts and commodity contracts. The carrying values of accounts receivable, accounts payable and accrued liabilities, other long term liabilities and bank debt approximate their fair values due to their relatively short periods to maturity.

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

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

The fair value of the interest rate contracts and the commodity contracts is measured at level 2.

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
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9. Financial instruments and financial risk management (continued)

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, 2013, the maximum credit exposure is the carrying amount of the accounts receivable of \$13,280,832 (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	\$ 2,741,977
Joint venture partners	8,014,677
Other	<u>2,524,178</u>
	<u>\$ 13,280,832</u>

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 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 nine months ended September 30, 2013.

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9. Financial instruments and financial risk management (continued)

As at September 30, 2013, the Company considers its receivables to be aged as follows:

Not past due	\$ 4,097,785
Past due by less than 90 days	5,118,912
Past due by more than 90 days	4,064,135
	\$ 13,280,832

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, 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 September 30, 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	13,207,568	13,207,568	13,207,568	–	–	–
Bank Debt ⁽¹⁾	44,202,319	44,202,319	44,202,319	–	–	–
Other long-term liabilities	767,354	767,354	–	507,920	259,434	–
Commodity Contracts	2,313,210	2,313,210	1,370,123	802,409	140,678	–
Estimated Interest Payments ⁽¹⁾	–	1,160,311	1,160,311	–	–	–
	60,490,451	61,650,762	59,940,321	1,310,329	400,112	–

(1) Assumes the revolving credit facility is not renewed May 2014

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9. Financial instruments and financial risk management (continued)

c. Market risk

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

i. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate and to mitigate this risk, the Company has entered into interest rate contracts. For the nine months ended September 30, 2013, if interest rates had been 1% lower with all other variables held constant, income for the period would have been \$265,585 (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 the following interest rate contracts in place at September 30, 2013:

Contracts	Fair Value
Pay a floating rate to receive a 2.35% (plus a 2.50% credit spread) fixed rate on \$10 million (June 2014-June 2018)	\$ (9,776)
Pay a floating rate to receive a 2.15% (plus a 2.50% credit spread) fixed rate on \$10 million (May 2014-May 2018)	\$ 49,663
	\$ 39,887

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, 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.

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9. Financial instruments and financial risk management (continued)

As at September 30, 2013, the Company was committed to the following commodity price risk contracts:

Contracts	Fair Value
<u>2013 Oil</u>	
200 bbl/d from October 1 to December 31, 2013 at a fixed price of \$98.00 CAD/bbl	\$ (195,861)
100 bbl/d from October 1 to December 31, 2013 at a fixed price of \$97.50 CAD/bbl	\$ (104,017)
200 bbl/d from October 1 to December 31, 2013 at a fixed price of \$98.30 USD/bbl	\$ (110,881)
100 bbl/d from October 1 to December 31, 2013 at a fixed price of \$98.00 USD/bbl	\$ (59,210)
100 bbl/d from October 1 to December 31, 2013 at a fixed price of \$104.80 CAD/bbl	\$ (15,154)
200 bbl/d from October 1 to December 31, 2013 at a fixed price of \$105.20 CAD/bbl	\$ (20,570)
Sold calls on 200 bbl/d d from July 1 to December 31, 2013 at \$110 USD/bbl	\$ (7,160)
<u>2014 Oil</u>	
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$98.30 CAD/bbl	\$ (23,978)
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$100.00 CAD/bbl	\$ 37,399
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$91.40 CAD/bbl	\$ (273,096)
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$91.35 CAD/bbl	\$ (274,901)
200 bbl/d from January 1 to December 31, 2014 at a fixed price of \$92.00 USD/bbl	\$ (249,004)
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$90.00 USD/bbl	\$ (199,510)
200 bbl/d from January 1 to December 31, 2014 at a fixed price of \$93.52 CAD/bbl	\$ (393,110)
100 bbl/d from January 1 to December 31, 2014 at a fixed price of \$98.20 CAD/bbl	\$ (27,588)
Sold Swaption on 200 bbl/d @ \$100.00 WTI/USD for January – December 2014	\$ (117,708)
<u>2015 Oil</u>	
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$86.05 USD/bbl	\$ (91,642)
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$91.20 CDN/bbl	\$ (57,507)
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$90.37 CDN/bbl	\$ (174,008)
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$90.10 CDN/bbl	\$ (193,199)
100 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.25 CDN/bbl	\$ (20,191)
200 bbl/d from January 1 to December 31, 2015 at a fixed price of \$92.45 CDN/bbl	\$ (26,166)
<u>2013 AECO</u>	
2,000 GJ/d at \$3.51/GJ for July – December 2013	\$ 137,247
1,000 GJ/d at \$3.35/GJ for July – December 2013	\$ 49,147
500 GJ/d at \$3.42/GJ for July– December 2013	\$ 28,834
500 GJ/d at \$3.42/GJ for July – December 2013	\$ 28,834
500 GJ/d at \$3.60/GJ for July – December 2013	\$ 39,790
Total	\$ (2,313,210)

Yangarra Resources Ltd.
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9. Financial instruments and financial risk management (continued)

The following table summarizes the fair value and the change in fair value for nine months ended September 30, 2013:

	Nine months ended September 30, 2013	Year ended December 31, 2012
Commodity contract (liability) asset, beginning of period	\$ 2,398,111	\$ (1,491,875)
Unrealized change in fair value	(4,711,321)	(1,819,208)
Commodity contract (liability) asset, end of period	\$ (2,313,210)	\$ (3,311,083)

The following table summarizes the sensitivity of the fair value of the Company's commodity derivative positions as at September 30, 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	(7,237,076)	7,237,076
Natural Gas	(115,092)	115,092

10. Finance Expenses

During the three and nine months ended September 30, 2013 and 2012, the following items were included in the finance expense on the Condensed Consolidated Interim Statements of Income and Comprehensive Income:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Interest	\$ 375,486	\$ 491,892	\$ 1,245,264	\$ 1,076,628
Change in fair value of interest rate contracts	101,619	-	(39,887)	-
Accretion	30,977	21,984	108,506	70,515
	\$ 508,082	\$ 513,876	\$ 1,313,883	\$ 1,147,143

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11. Net income (loss) per common share

Basic net income (loss) per share was calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Net income (loss) for the period	\$ 11,330	\$ (2,073,174)	\$ 1,834,848	\$ (558,335)
Weighted average number of shares (basic)				
Issued common shares at beginning of period	121,711,723	121,711,723	121,711,723	116,607,057
Options exercised	6,522		2,198	
Warrants exercised	–	–	–	3,703,944
Weighted average number of common shares - basic	121,718,245	121,711,723	121,713,921	120,311,001

Diluted net income (loss) per share was calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	121,718,245	121,711,152	121,713,921	120,311,001
Effect of outstanding options	268,764	–	2,565	32,320
Weighted average number of common shares - diluted	121,987,009	121,711,152	121,716,486	120,343,321

12. Contingency

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

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