Yangarra Resources Ltd.

Interim Consolidated Financial Statements

March 31, 2009 and 2008

(Unaudited – Prepared by Management)

Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited interim consolidated financial statements as at and for the three months ended March 31, 2009 and 2008.

	March 31 2009	December 31 2008
Assets		
Current		
Accounts receivable	$ **1,481,945**	$ 1,710,780
Prepaid expenses and deposits	**451,545**	437,923
Commodity price risk contracts *(note 12(c)(iii))*	**101,296**	–
	2,034,786	2,148,703
Investment *(note 3)*	**17,447**	10,468
Property and equipment *(note 4)*	**41,174,777**	41,922,138
	$ **43,227,010**	$ 44,081,309
Liabilities		
Current		
Bank debt *(note 5)*	$ **9,079,666**	$ 8,853,990
Credit facility *(note 6)*	**4,421,676**	4,665,000
Accounts payable and accrued liabilities	**1,923,371**	2,228,920
	15,424,713	15,747,910
Asset retirement obligation *(note 7)*	**2,160,478**	2,124,242
Future income tax liability	**1,744,857**	1,757,145
	19,330,048	19,629,297
Shareholders' Equity		
Share capital *(note 8)*	**33,966,201**	34,116,201
Contributed surplus	**2,551,397**	2,551,397
Deficit	**(12,620,636)**	(12,215,586)
	23,896,962	24,452,012
	$ **43,227,010**	$ 44,081,309

Future operations and basis of presentation *(note 1)*
Commitments *(note 8)*

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

Yangarra Resources Ltd.
Interim Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the three months ended March 31
(unaudited)

		2009		2008
Revenue				
Petroleum and natural gas sales	$	**1,025,969**	$	2,104,060
Royalties		**(63,731)**		(317,688)
Royalty recoveries *(note 9)*		**175,636**		–
		1,137,874		1,786,372
Unrealized gain (loss) on commodity price risk contracts *(note 12(c)(iii))*		**101,296**		(513,802)
		1,239,170		1,272,570
Expenses				
Production		**302,517**		314,242
Transportation		**29,750**		44,615
General and administrative		**147,830**		223,418
Interest and financing fees		**251,780**		307,711
Stock-based compensation		**–**		187,589
Depletion and depreciation		**1,045,374**		1,170,730
Accretion		**36,236**		30,457
Unrealized (gain) loss on investment *(note 3)*		**(6,979)**		39,082
		1,806,508		2,317,844
Loss before income taxes		**(567,338)**		(1,045,274)
Income taxes				
Future income tax reduction		**(162,288)**		–
Net loss and comprehensive loss for the period		**(405,050)**		(1,045,274)
Deficit, beginning of period		**(12,215,586)**		(10,390,506)
Deficit, end of period	$	**(12,620,636)**	$	(11,435,780)
Net loss per share – basic and diluted	$	**(0.01)**	$	(0.02)
Weighted average number of shares – basic and diluted		**75,561,912**		63,396,167

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

		2009		2008
Operating				
Net loss for the period	$	**(405,050)**	$	(1,045,274)
Add back (deduct) non-cash items				
Unrealized (gain) loss on commodity price risk contracts		**(101,296)**		513,802
Interest and financing fees		**26,676**		47,718
Stock-based compensation		**–**		187,589
Depletion and depreciation		**1,045,374**		1,170,730
Accretion		**36,236**		30,457
Unrealized (gain) loss on investment		**(6,979)**		39,082
Future income tax reduction		**(162,288)**		–
		432,673		944,104
Change in non-cash working capital *(note 10)*		**(18,131)**		(111,978)
		414,542		832,126
Financing				
Bank debt proceeds, net		**225,676**		864,852
Financing fees		**(270,000)**		(45,000)
Related party advance		**–**		250,000
		(44,324)		1,069,852
Investing				
Expenditures on property and equipment		**(298,013)**		(1,067,265)
Proceeds on disposition of property and equipment		**–**		50,000
Change in non-cash working capital *(note 10)*		**(72,205)**		(884,713)
		(370,218)		(1,901,978)
Change in cash and cash equivalents during the period		**–**		–
Cash and cash equivalents, beginning of period		**–**		–
Cash and cash equivalents, end of period	$	**–**	$	–

Supplemental cash flow information

Interest paid	$	**233,515**	$	257,417

1. Future operations and basis of presentation

Yangarra Resources Ltd. (the "Company") is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. These unaudited interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Yangarra Resources Corp. ("YRC") after the elimination of intercompany transactions and balances.

These unaudited interim consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at March 31, 2009, the Company had a working capital deficiency of $13,389,927 (December 31, 2008 – $13,599,207) and an accumulated deficit of $12,620,636 (December 31, 2008 – $12,215,586). The Company's bank debt (note 5) and credit facility (note 6) are currently under review by the lenders. The outcome of the review process is not yet known. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, negotiate favorable terms with its lenders and obtain capital financing from investors sufficient to meet current and future obligations.

These unaudited interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and on a basis consistent with the audited December 31, 2008 consolidated financial statements except certain disclosures have been condensed or omitted. Accordingly, these unaudited interim consolidated financial statements should be read in conjunction with the notes contained in the Company's audited December 31, 2008 consolidated financial statements. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ from those estimates.

The operating results for the three months ended March 31, 2009 may not be indicative of the results for the year ended December 31, 2009.

2. Changes in accounting policies

On January 1, 2009, the Company adopted the Canadian Institute of Chartered Accountants Handbook *Section 3064 Goodwill and Intangible Assets* which replaces the previous goodwill and intangible asset standard and revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard had no impact on the Company's unaudited interim consolidated financial statements.

3. Investment

The Company holds a minority equity position in a public company. As at March 31, 2009, the fair value of the Company's investment was $17,447 (December 31, 2008 – $10,468). The change in fair value at each balance sheet date has been reported as an unrealized gain or loss on investment in the consolidated statement of operations. Subsequent to March 31, 2009, the Company sold the investment for proceeds of $33,000.

4. Property and equipment

March 31, 2009		*Cost*		*Accumulated depletion and depreciation*		*Net book value*
Petroleum and natural gas properties	$	65,459,986	$	24,377,491	$	41,082,495
Office equipment		279,281		186,999		92,282
	$	65,739,267	$	24,564,490	$	41,174,777

December 31, 2008		*Cost*		*Accumulated depletion and depreciation*		*Net book value*
Petroleum and natural gas properties	$	65,161,973	$	23,337,991	$	41,823,982
Office equipment		279,281		181,125		98,156
	$	65,441,254	$	23,519,116	$	41,922,138

At March 31, 2009, the Company excluded $1,631,399 (December 31, 2008 – $1,773,042) of resource properties relating to unproved properties from the depletion calculation. Unproved properties have been separately evaluated by management for impairment. In addition, $7,590,600 (December 31, 2008 – $7,886,400) of future development costs were included in the depletion calculation.

During the three months ended March 31, 2009, the Company capitalized nil (three months ended March 31, 2008 – $72,619 comprised of stock-based compensation of $54,464 and $18,155 of related future income taxes) for options granted to field consultants. The Company also capitalized $11,763 (three months ended March 31, 2008 – nil) of general and administrative costs as well as related costs of the Company's working interest in operated capital expenditure programs on which operator's fees have been charged in accordance with standard industry operating agreements.

5. Bank debt

As at March 31, 2009, the $9,079,666 (December 31, 2008 – $8,853,990) reported amount of bank debt was comprised of $8,950,000 (December 31, 2008 – $8,150,000) drawn on the revolving operating demand loan and $129,666 (December 31, 2008 – $703,990) of bank overdraft.

Pursuant to the terms of the bank debt, the Company is subject to a financial covenant with respect to working capital, which the Company was in compliance with at March 31, 2009.

The bank debt agreement is currently under review by the lender, the outcome of which is not yet known.

6. Credit facility

	March 31 2009	*December 31 2008*
Principal amount of credit facility	$ 4,500,000	$ 4,500,000
Unamortized portion of transaction costs	(78,324)	(105,000)
	4,421,676	4,395,000
Commitment fee for 2009 facility	–	90,000
4% deferred fee due on maturity of 2008 facility	–	180,000
	$ 4,421,676	$ 4,665,000

Pursuant to the terms of the credit facility, the Company is subject to financial covenants for working capital, debt to equity and debt to trailing cash flow. As at March 31, 2009, the Company was in compliance with working capital and debt to equity covenants and received an acknowledgement from the lender with respect to the breach of the debt to trailing cash flow covenant.

The credit facility is currently under review by the lender, the outcome of which is not yet known.

7. Asset retirement obligation

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

Asset retirement obligation, December 31, 2008	$ 2,124,242
Accretion	36,236
Asset retirement obligation, March 31, 2009	$ 2,160,478

The following significant assumptions were used to estimate the asset retirement obligation:

Undiscounted cash flows	$ 4,450,264
Discount rate	7% - 12%
Inflation rate	2%
Weighted average expected timing of cash flows	11.3 years

8. Share capital

a) Common shares issued

	Number of shares	*Amount*
Balance, December 31, 2008	75,561,912	$ 34,116,201
Tax effect of flow-through shares	–	(150,000)
Balance, December 31, 2008	75,561,912	$ 33,966,201

In December 2008, the Company issued 6,000,000 common shares on a flow-through basis at $0.10 per share for total proceeds of $600,000. The $150,000 related tax benefits of the flow-through share proceeds were renounced to investors in February 2009 with an effective date of December 31, 2008. The Company has until December 31, 2009 to incur the qualifying flow-through expenditures, all of which remained unspent at March 31, 2009.

8. Share capital (continued)

b) Stock options

As at March 31, 2009 and December 31, 2008, the Company had 6,267,025 stock options outstanding. The following table summarizes information about stock options outstanding as at March 31, 2009:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.10 – $ 0.35	4,444,000	3.61	$ 0.19	4,444,000
$ 0.45 – $ 0.55	1,259,025	1.33	0.51	1,259,025
$ 0.65 – $ 0.74	502,250	0.99	0.72	502,250
$ 0.82	61,750	0.61	0.82	61,750
	6,267,025	2.91	$ 0.31	6,267,025

9. Royalty recoveries

During the three months ended March 31, 2009, the Company recognized a recovery in the amount of $175,636 related freehold and gross overriding royalties calculated and paid in previous years.

10. Change in non-cash working capital

	Three months ended March 31 *2009*	*2008*
Accounts receivable	$ 228,835	$ (328,701)
Prepaid expenses and deposits	(13,622)	29,724
Accounts payable and accrued liabilities	(305,549)	(697,714)
	$ (90,336)	$ (996,691)

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

	Three months ended March 31 *2009*	*2008*
Operating	$ (18,131)	$ (111,978)
Investing	(72,205)	(884,713)
	$ (90,336)	$ (996,691)

11. Related party transactions

Except as disclosed elsewhere in these financial statements, the Company had the following related party transactions:

a) During the three months ended March 31, 2009 and 2008, 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 March 31	
	2009	*2008*
Administration and consulting fees	$ 21,118	$ 39,384
Production and capital expenditures	$ 37,088	$ 51,661

b) During the three months ended March 31, 2009, the Company was charged $1,144 (three months ended March 31, 2008 – nil) by a law firm in which a director of the Company is a partner.

Included in accounts payable and accrued liabilities at March 31, 2009 is $4,464 (December 31, 2008 – $24,076) 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.

12. Financial instruments and financial risk management

The Company's financial instruments include accounts receivable, investment, accounts payable and accrued liabilities, bank debt, credit facility, and commodity price risk contracts (note 12(c)(iii)). The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities, bank debt, and credit facility approximate their fair values due to their relatively short periods to maturity. The investment and commodity price risk contracts have been marked-to-mark at the balance sheet date.

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, 2009, the maximum credit exposure is the carrying amount of the accounts receivable and accruals of $1,481,945 (December 31, 2008 – $1,710,780).

12. Financial instruments and financial risk management (continued)

a) Credit risk (continued)

As at March 31, 2009, the Company's receivables consisted of $1,197,990 from joint venture partners and other trade receivables and $283,955 of revenue receivable from a petroleum and natural gas marketer. 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 $283,955 of revenue accruals and receivables from petroleum and natural gas marketers was received in April and May 2009. 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. As at March 31, 2009, the largest amount owing from one partner is $606,464.

The Company did not provide for any doubtful accounts nor was it required to write-off any receivables during the period ended March 31, 2009. The Company would only choose to write-off a receivable balance (as opposed to providing an allowance) after all reasonable avenues of collection had been exhausted.

As at March 31, 2009, the Company considers its receivables to be aged as follows:

Not past due	$	635,195
Past due by less than 90 days		10,667
Past due by more than 90 days		836,083
	$	1,481,945

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 revolving reserve-based bank facility, which is reviewed quarterly by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, bank debt and the credit facility, all of which have expected maturities of less than one year resulting in their current classification on the balance sheet.

12. 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. For the three months ended March 31, 2009, if interest rates had been 1% lower with all other variables held constant, earnings for the period would have been $21,082 (three months ended March 31, 2008 – $18,997) higher, respectively, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amounts. The Company had no interest rate swap or financial contracts in place at March 31, 2009.

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, 2009.

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.

In February and March 2009, the Company committed to the following commodity price risk contracts for the sale of natural gas:

- 1,500 GJ per day from April 1 to December 31, 2009 at a fixed price of $5.69 per GJ;
- 500 GJ per day from January 1 to December 31, 2010 at strike price of $6.25 per GJ;
- 500 GJ per day from January 1 to December 31, 2010 at strike price of $6.50 per GJ; and
- 500 GJ per day from January 1 to December 31, 2010 at strike price of $6.70 per GJ.

The mark-to-market value of the unfulfilled portion of the above contracts at March 31, 2009 is an asset of $101,296 based on a remaining term of April 1, 2009 to December 31, 2010.

13. Capital management

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:

	March 31 2009	*December 31 2008*
Working capital deficit	$ (13,389,927)	$ (13,599,207)
Shareholders' equity	23,896,962	24,452,012
	$ 10,507,035	$ 10,852,805

The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs.

In order to maintain or adjust the capital structure, the Company considers its forecasted funds from operations while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms.

The Company's capital structure is not subject to external restrictions; however, the Company's bank facility is determined by the lender and based on the lender's borrowing base model which is based on the Company's petroleum and natural gas reserves.

There has been no change in the Company's approach to capital management during the period ended March 31, 2009. The Company has not paid or declared any dividends since the date of incorporation, nor are any contemplated in the foreseeable future.