Yangarra Resources Ltd.

Condensed Consolidated Financial Statements

March 31, 2015 and 2014

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Financial Position
As at:
(unaudited)

		March 31, 2015		December 31, 2014
Assets				
Current				
Accounts receivable *(note 13)*	$	**13,472,560**	$	13,609,036
Prepaid expenses and deposits		**3,372,421**		2,767,170
Commodity contracts *(note 13c iii)*		**4,305,831**		8,494,039
Total current assets		**21,150,812**		24,870,245
Non-current				
Property and equipment *(note 3)*		**224,745,569**		218,154,343
Exploration and evaluation assets *(note 4)*		**7,466,465**		7,466,465
Total assets	$	**253,362,846**	$	250,491,053
Liabilities				
Current				
Bank debt *(note 5)*	$	**62,327,646**	$	55,602,093
Accounts payable and accrued liabilities		**14,142,802**		20,541,046
Interest rate contracts *(note 13)*		**189,635**		126,944
Total current liabilities		**76,660,083**		76,270,083
Non-current				
Other long-term liabilities		**711,289**		720,874
Interest rate contract *(note 13)*		**622,364**		312,842
Decommissioning liability *(note 6)*		**8,881,654**		8,250,475
Deferred tax liability		**17,520,777**		17,098,582
Total liabilities		**104,396,167**		102,652,856
Shareholders' Equity				
Share capital *(note 7)*		**134,406,725**		134,406,725
Contributed surplus		**11,520,892**		11,337,527
Retained Earnings		**3,039,062**		2,093,945
Total shareholders' equity		**148,966,679**		147,838,197
Total liabilities and shareholders' equity	$	**253,362,846**	$	250,491,053

Contingency (note 16), Commitments (note 17), Subsequent Events (Note 5 & 18)

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Income and Comprehensive Income
For the three months ended March 31:
(unaudited)

		2015		2014
Revenue				
Petroleum and natural gas sales	$	**7,153,174**	$	15,694,979
Royalty income		**62,850**		313,417
Royalties		**(399,144)**		(937,556)
		6,816,880		15,070,840
Commodity price risk contracts *(note 13c iii)*				
Commodity contract settlement		**5,457,741**		(1,723,339)
Change in fair value of commodity contracts		**(4,188,208)**		(4,403,102)
		8,086,413		8,944,399
Expenses				
Production		**1,506,375**		1,633,931
Transportation		**305,521**		333,211
General and administrative		**512,539**		326,679
Finance *(note 15)*		**974,819**		879,224
Share-based compensation *(note 8)*		**114,303**		410,000
Depletion, depreciation and impairment *(note 3)*		**3,305,544**		4,159,286
		6,719,101		7,742,331
Income before tax		**1,367,312**		1,202,068
Deferred tax		**422,195**		482,618
Net income and total comprehensive income	$	**945,117**	$	719,450
Income per share ***(note 10)***				
Basic	$	**0.02**	$	0.01
Diluted	$	**0.02**	$	0.01
Weighted average number of shares ***(note 10)***				
Basic		**57,755,804**		49,136,780
Diluted		**58,015,914**		50,108,392

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

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Changes in Equity
For the three months ended March 31:
(unaudited)

	2015	2014
Share Capital		
Balance, beginning of period	$ **134,406,725**	$ 107,590,652
Exercise of options	–	297,500
Balance, end of period	**134,406,725**	107,888,152
Warrants		
Balance, beginning of period	–	241,826
Balance, end of period	–	241,826
Contributed Surplus		
Balance, beginning of period	**11,337,527**	10,028,770
Share-based compensation related to:		
Stock Options	**183,365**	424,642
Balance, end of period	**11,520,892**	10,453,412
Retained Earnings (Deficit)		
Balance, beginning of period	**2,093,945**	(22,277,661)
Net income	**945,117**	719,450
Balance, end of period	**3,039,062**	(21,558,211)
Total Equity	$ **148,966,679**	$ 97,025,179

		2015		2014
Operating				
Net income for the period	$	**945,117**	$	719,450
Add back non-cash items:				
Change in fair value of commodity contracts		**4,188,208**		4,403,102
Change in fair value of interest rate contracts		**372,212**		244,170
Share-based compensation *(note 8)*		**114,303**		410,000
Depletion, depreciation and impairment *(note 3)*		**3,305,544**		4,159,286
Accretion expense *(note 6)*		**43,775**		41,066
Deferred tax		**422,195**		482,618
Funds flow from operations		**9,391,354**		10,459,692
Change in non-cash working capital *(note 11)*		**(3,360,432)**		(4,450,913)
Net cash from operating activities		**6,030,922**		6,008,779
Financing				
Issue of equity instruments, net of costs		–		297,500
Bank debt advance (repayment) *(note 5)*		**6,725,553**		11,546,601
Subordinated debt advance (repayment) *(note 5)*		–		3,513
Other long-term liabilities repayment		**(9,586)**		(9,199)
Change in non-cash working capital *(note 11)*		–		–
Net cash from financing activities		**6,715,967**		11,838,415
Investing				
Expenditures on property and equipment		**(9,240,302)**		(21,989,208)
Expenditures on exploration and evaluation assets		–		–
Change in non-cash working capital *(note 11)*		**(3,506,587)**		4,142,014
Net cash used in investing activities		**(12,746,889)**		(17,847,194)
Change in cash and cash equivalents		–		–
Cash, beginning of the period		–		–
Cash, end of the period	$	–	$	–
Supplemental cash flow information				
Interest paid	$	**494,375**	$	635,067

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, 2014. These condensed consolidated interim 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 Board of Directors on May 14, 2015.

2. New Accounting Standards

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by Yangarra on January 1, 2018 and the Company is currently evaluating the impact of the standard on Yangarra's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by Yangarra on January 1, 2018 and the Company is currently evaluating the impact of the standard on Yangarra's financial statements.

3. Property and equipment

	Oil and Natural Gas Interests	*Well and plant equipment*	*Other Assets*	*Total*
Cost or Deemed Cost				
Balance at December 31, 2013	$ 162,394,567	$ 36,062,746	$ 1,617,704	$ 200,075,017
Cash Additions	70,554,366	7,569,877	1,465	78,125,708
Transfers from E&E	701,810	–	–	701,810
Capitalized share based compensation	332,246	–	–	332,246
Decommissioning liability	2,659,205	–	–	2,659,205
Balance at December 31, 2014	236,642,194	43,632,623	1,619,169	281,893,986
Cash Additions	**6,974,613**	**2,261,369**	**4,320**	**9,240,302**
Capitalized share based compensation	**69,063**	**–**	**–**	**69,063**
Decommissioning liability	**587,405**	**–**	**–**	**587,405**
Balance at March 31, 2015	$ **244,273,275**	**$ 45,893,992**	**$ 1,623,489**	**$ 291,790,756**

3. Property and equipment (continued)

Depletion, depreciation and impairment

		Oil and Natural Gas Interests		*Well and plant equipment*		*Other Assets*		*Total*
Balance at December 31, 2013	$	41,622,171	$	4,861,400	$	620,430	$	47,104,001
Depletion and depreciation		14,695,800		1,735,400		204,442		16,635,642
Balance at December 31, 2014		56,317,971		6,596,800		824,872		63,739,643
Depletion and depreciation		**3,041,000**		**225,700**		**38,844**		**3,305,544**
Balance at March 31, 2015	$	**59,358,971**		**6,822,500**		**863,716**		**67,045,187**
At December 31, 2014	$	180,324,223	$	37,035,823	$	794,297	$	218,154,343
At March 31, 2015	**$**	**184,914,305**	**$**	**39,071,492**	**$**	**759,773**	**$**	**224,745,569**

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in depletion and depreciation in the statement of income and comprehensive income. At March 31, 2015 all of the Company's properties are pledged as security for the bank loans.

During the three months ended March 31, 2015, the Company capitalized $587,405 (Year ended December 31, 2014 – $2,659,205) related to the decommissioning liability of property and equipment and $69,063 (Year ended December 31, 2014 – $332,246) of share-based compensation. The Company also capitalized $122,814 (Year ended December 31, 2014 - $1,316,433) of recoveries related to the Company's working interest in operated capital expenditure programs on which overhead has been charged in accordance with standard industry operating agreements. During the three months ended March 31, 2015, the Company capitalized $219,881 (Year ended December 31, 2014 – $987,850) of salaries and consulting expenses directly to geological, drilling and completions projects as the individuals worked in the field directly on the operations.

The Company performed an impairment assessment of its property and equipment on a CGU basis and determined that there were no impairment triggers as at March 31, 2015.

4. Exploration and evaluation assets

Cost or Deemed Cost		
Balance at December 31, 2013		10,852,621
Additions		1,680,941
Transfers to Developed		(701,810)
Balance at December 31, 2014	$	11,831,752
Additions		–
Transfers to developed		–
Balance at March 31, 2015	$	**11,831,752**
Depletion, depreciation and impairment losses		
Balance at December 31 2014 and March 31, 2015	$	**4,365,287**
Net book value		
At December 31, 2014 and March 31, 2015	$	**7,466,465**

Exploration and evaluation ("E&E") assets consist of the Company's undeveloped land which is pending the determination of proven or probable reserves. Additions represent the Company's share of costs incurred on E&E assets during the period.

5. Bank debt and Subordinated Debt

As at March 31, 2015, the $62,327,646 (December 31, 2014 – $55,602,093) reported amount of bank debt with Alberta Treasury Branches ("ATB") was comprised of $7,450,000 (December 31, 2014 – $29,150,000) drawn on the revolving operating demand loan, $54,877,646 (December 31, 2014 – $24,940,715) of guaranteed notes and $nil (December 31, 2014 – $1,511,378) of outstanding cheques. The Company is subject to a financial covenant requiring an adjusted working capital ratio above 1 : 1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility, excluding unrealized commodity contracts and flow-through share premium liability). The Company was in compliance with this covenant as at March 31, 2015. The facility is secured by a general security agreement.

As at March 31, 2015, the maximum amount available under the revolving operating demand loan was $70,000,000 (December 31, 2014 – $70,000,000) at an interest rate of bank prime plus 0.75% per annum on the operating demand loan, payable monthly, or a credit spread of 2.0% on guaranteed notes. A decrease in the borrowing base could result in a reduction to the credit facility, which may require repayment to the lenders. During the period, the weighted average effective interest rate for the bank debt was approximately 3.1% (2014 – 4.1%).

Subsequent to the three months ended March 31, 2015 the Company entered into amended and restated credit facility agreement with ATB the maximum amount available under the revolving operating demand is now $80,000,000.

5. Bank debt and Subordinated debt (continued)

Subsequent to March 31, 2015 the Company amended the subordinated term loan facility with ATB. The amount available under the facility is now $10 million. The Company must present a drilling schedule to ATB prior to December 31, 2015 to access the funds and once drawn the funds are available until April 17, 2017. All other terms remain the same.

The Company is subject to financial covenants on the subordinated term facility requiring an adjusted working capital ratio greater than 1 : 1 (calculation consistent with the calculation disclosed above) and a Debt to EBITDA ratio below 4 : 1 (debt is defined as all obligations, liabilities and indebtedness on the statement of financial position less asset retirement obligation, future income taxes, flow-through share premium liability and commodity\interest contracts and EBITDA is defined as net income plus interest expense and other financing costs, depletion and depreciation and income taxes). In addition the Company is required to comply with a PV-10 proved developed producing ("PDP") to debt ratio of not less than 0.92 : 1 on specified dates and a PV-10 total proved to debt ratio of not less than 1.5 : 1 on specified dates. This facility is secured with a pledge of a general demand debenture and a general security agreement.

6. Decommissioning liability

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

	March 31, 2015	*December 31, 2014*
Balance, beginning of period	$ **8,250,475**	$ 5,497,222
Liabilities incurred	**159,971**	1,458,866
Decommissioning costs incurred	–	(76,361)
Effect of change in discount rate	**427,434**	757,927
Accretion	**43,775**	170,409
Change in assumptions	–	442,412
Balance, end of period	$ **8,881,654**	$ 8,250,475

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

	March 31, 2015	*December 31, 2014*
Undiscounted cash flows	$ **12,415,636**	$ 11,922,672
Discount rate	**1.04% - 1.99%**	1.46% - 2.33%
Inflation rate	**2%**	2%
Weighted average expected timing of cash flows	**15 years**	15 years

7. Share capital

a. Authorized

Unlimited number of common shares, without nominal or par value
Unlimited number of preferred shares, without nominal or par value

b. Common shares issued

	Number of shares		*Amount*
Balance, December 31, 2013	49,039,002	$	107,590,652
Equity financing *(i)*	8,333,417		27,500,275
Share issue costs (net of $407,735 in tax) *(iii)*	–		(1,223,203)
Exercise of options *(ii)*	383,335		539,001
Issued on consolidation *(iii)*	50		–
Balance, December 31, 2014 & March 31, 2015	**57,755,804**	**$**	**134,406,725**

i) On May 15, 2014 the Company closed a "bought deal" financing, completed by way of a short form prospectus. 8,333,417 common shares were issued at a price of $3.30 per common share for gross proceeds of $27,500,275.

ii) In 2014, the Company issued 383,335 common shares on the exercise of options at an average of $1.41 per share for cash proceeds of $539,001.

iii) In May 2014, the Company consolidated its outstanding common shares, stock options and warrants on a 1 for 3 basis. As a result, comparative figures have been adjusted to reflect this consolidation.

8. Share-based payments

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with, and seek to maximize the value of, the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

During the three months ended March 31, 2015, the Company granted options to purchase 245,000 common shares, the options will vest equally over three years with the first tranche vesting one year after the grant date. The fair value of the options was estimated at $131,900 ($0.54 per option) using the Black-Scholes pricing model.

8. Share-based payments (continued)

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

	March 31, 2015		*December 31, 2014*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**4,113,370**	**$1.96**	3,545,001	$1.59
Granted	**245,000**	**1.00**	1,291,677	2.36
Exercised	–	–	(383,335)	1.41
Expired	–	–	(340,002)	1.50
Share Consolidation	–	–	29	–
Closing	**4,358,370**	**$1.85**	4,113,370	$1.90

The following provides a summary of the stock option plan as at March 31, 2015:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	788,339	3.59	$ 0.93	543,339
$ 1.01 – $ 1.50	696,678	2.42	1.18	696,678
$ 1.51 – $ 2.00	941,670	1.15	1.81	830,559
$ 2.01 – $ 2.50	858,338	2.10	2.24	858,338
$ 2.51 – $ 3.00	1,073,345	3.12	2.69	590,006
	4,358,370	2.47	$ 1.85	3,518,920

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

	2015	*2014*
Weighted average exercise per option	**$1.00**	$2.49
Risk-free interest rate	**0.61%**	1.61% - 1.72%
Expected volatility	**65%**	63%
Expected life	**5 years**	5 years
Forfeiture rate	**5%**	5%
Weighted average fair value per option	**$0.54**	$1.32

9. Warrants

The following table summarizes information about warrants outstanding as at:

	March 31, 2015			*December 31, 2014*		
	Number of warrants	***Exercise price***	***Fair value ascribed***	*Number of warrants*	*Exercise price*	*Fair value ascribed*
Opening	–	–	–	473,334	$1.50	$241,826
Exercised	–	–	–	–	–	–
Expired	–	–	–	(473,334)	$1.50	($241,826)
Closing	–	–	–	–	–	–

On December 31, 2014, all remaining warrants expired.

10. Net income per common share

Basic earnings per share was calculated as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Net income for the period	$ **945,117**	$ 719,450
Weighted average number of shares (basic)		
Issued common shares at beginning of period	**57,755,804**	49,039,002
Stock options exercised	**–**	97,778
Weighted average number of common shares - basic	**57,755,804**	49,136,780

Diluted earnings per share was calculated as follows:

	Three months ended March 31, 2015	Three months ended March 31, 2014
Weighted average number of shares (basic)	**57,755,804**	49,136,780
Effect of outstanding options	**260,110**	836,374
Effect of outstanding warrants	**–**	135,238
Weighted average number of common shares - diluted	**58,015,914**	50,108,392

The average market value of the Company’s shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. Excluded from diluted earnings per share is the effect of 3,073,356 options (2014 – 2,717,500 options) as they are out of the money.

11. Change in non-cash working capital

	2015	2014
Accounts receivable	$ **136,476**	$ (7,599,760)
Prepaid expenses and deposits	**(605,251)**	(14,727)
Accounts payable and accrued liabilities	**(6,398,244)**	7,305,588
	$ **(6,867,019)**	$ (308,899)

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

	2015	2014
Operating	$ **(3,360,432)**	$ (4,450,913)
Financing	–	–
Investing	**(3,506,587)**	4,142,014
	$ **(6,867,019)**	$ (308,899)

12. Related party disclosure

The consolidated financial statements include the financial statements of the Company and the subsidiary listed below:

		% equity interest	
Name	*Country of Incorporation*	*2015*	*2014*
Yangarra Resources Corp.	Canada	100%	100%

Balances between the Company 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 three months ended March 31, 2015 and 2014, 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,	
	2015	2014
Administration and consulting fees	$ **45,802**	$ 99,000
Production and capital expenditures	**11,146**	6,250
	$ **56,948**	$ 105,250

12. Related party disclosure (continued)

Included in accounts payable and accrued liabilities at March 31, 2015 is $8,159 (December 31, 2014 is $6,478) 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 $281,585 (December 31, 2014 - $291,172) 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.

13. 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 classified at level 2. The fair value is calculated using the forward price curves as at March 31, 2015 for the period the contract is outstanding.

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, 2015, the maximum credit exposure is the carrying amount of the accounts receivable of $13,472,560 (December 31, 2014 – $13,609,036) and $4,305,831 of commodity contracts (December 31, 2014 – $8,494,039).

13. Financial instruments and financial risk management (continued)

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

Oil and natural gas marketers	$	1,701,642
Joint venture partners		9,475,243
Realized Commodity Contracts		561,145
Other		1,734,530
	$	13,472,560

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 (Computershare). 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 April 2015.

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, 2015.

As at March 31, 2015, the Company considers its receivables to be aged as follows:

Not past due	$	5,339,363
Past due by less than 90 days		3,464,624
Past due by more than 90 days		4,668,573
	$	13,472,560

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.

13. Financial instruments and financial risk management (continued)

To facilitate the capital expenditure program, the Company has a credit facility agreement 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, interest rate contracts and bank debt, which are classified as current or non-current on the statement of financial position based on their maturity dates.

The Company intends to fund the 2015 budget with cash flow from operations and the availability on the revolving operating demand loan. The Company has no drilling commitments for the year ending 2015.

As at March 31, 2015	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
A/P and accrued liabilities	14,142,802	14,142,802	14,142,802	-	-	-
Bank debt [(1)]	62,327,646	62,327,646	62,327,646	-	-	-
Other long-term liabilities	711,289	711,289	-	59,638	651,651	-
Interest rate contract	811,999	811,999	189,635	252,846	369,518	-
Estimated interest payments [(1)]	-	341,071	341,071	-	-	-
	77,993,736	78,334,807	77,001,154	312,484	1,021,169	-

(1) Assumes the revolving credit facility is not renewed May 2015

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 three months ended March 31, 2015, if interest rates (not including the effect of the interest rate contract) had been 1% lower with all other variables held constant, income for the period would have been $139,136 (March 31, 2014 - $102,970) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

13. Financial instruments and financial risk management (continued)

The Company had the following interest rate contracts in place at March 31, 2015:

Contracts		Fair Value
Pay a floating rate to receive a 2.35% (plus a 2.50% credit spread) fixed rate on $10 million (January 2015 - June 2018)	**$**	**(441,470)**
Pay a floating rate to receive a 2.15% (plus a 2.50% credit spread) fixed rate on $10 million (January 2015 - May 2018)	**$**	**(370,529)**
	$	**(811,999)**

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, 2015.

iii. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above.

As at March 31, 2015, the Company was committed to the following commodity price risk contracts:

Contracts		Fair Value
2015 Oil		
100 bbl/d from January 1 to December 31, 2015 at a fixed price of $86.05 USD/bbl	$	1,316,812
200 bbl/d from January 1 to December 31, 2015 at a fixed price of $100.00 CDN/bbl	$	2,064,702
500 bbl/d March 1 to December 31, 2015 in a costless collar with a $65.00 CDN/bbl floor and a $73.50 CDN/bbl ceiling	$	312,438
800 bbl/d May 1 to December 31, 2015 Edmonton par differential swap at $6.75 US/bbl	$	(294,056)
2015 Gas		
2,000 GJ/d from January 1 to December 31, 2015 at a fixed price of $4.11/GJ	$	905,935
Total	$	4,305,831

13. Financial instruments and financial risk management (continued)

In January 2015, the Company monetized the following 2015 commodity contracts.

Contracts		Settlement
100 bbl/d from January 1 to December 31, 2015 at a fixed price of $91.20 CDN/bbl	$	987,900
100 bbl/d from January 1 to December 31, 2015 at a fixed price of $92.25 CDN/bbl	$	1,024,814
200 bbl/d from January 1 to December 31, 2015 at a fixed price of $92.45 CDN/bbl	$	2,003,938
Total	$	4,016,652

The following table summarizes the fair value and the change in fair value for three months ended March 31, 2015:

		2015		2014
Commodity contract (liability) asset, beginning of period	$	**8,494,039**	$	(4,530,496)
Unrealized change in fair value		**(4,188,208)**		(4,403,102)
Commodity contract (liability) asset, end of period		**4,305,831**	$	(8,933,598)

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at March 31, 2015 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 ($0.29/mcf for natural gas and $5.79/bbl for oil). 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	(1,619,488)	848,000
Natural Gas	(209,510)	209,510

14. Capital disclosures

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debt:

		March 31, 2015		*December 31, 2014*
Shareholders' equity	$	**148,966,679**	$	147,838,197
Bank debt	$	**62,327,646**	$	55,602,093

14. Capital disclosures (continued)

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, 2015, the Company's capital structure was not subject to external restrictions. No changes have been made to the capital policy in 2015.

15. Finance Expenses

During the three months ended March 31, 2015 and 2014, the following items were included in the finance expense on the Consolidated Statements of Income:

	Three months ended March 31,	
	2015	2014
Interest	$ **558,832**	$ 593,988
Change in fair value of interest rate contracts	**372,212**	244,170
Accretion *(note 6)*	**43,775**	41,066
	$ **974,819**	$ 879,224

16. 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.

17. Commitments

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

2015	$	180,958
2016	$	241,277
2017	$	241,277

18. Subsequent Events

Subsequent to March 31, 2015 the Company announced it entered into an equity financing agreement, on a bought deal basis, to issue common shares and flow-through common shares for gross proceeds of approximately $20,002,390. The financing is expected to close on or about May 21, 2015 and is subject to final approval of the TSX, receipt of all necessary regulatory approvals and other customary conditions.