Yangarra Resources Ltd.
Condensed Consolidated Financial Statements
March 31, 2016 and 2015

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

		March 31, 2016 (unaudited)		December 31, 2015 (audited)
Assets				
Current				
Accounts receivable *(note 12)*	$	**7,482,839**	$	10,281,917
Prepaid expenses and deposits		**4,222,099**		3,285,317
Commodity contracts *(note 12c iii)*		**2,492,714**		2,506,072
Total current assets		**14,197,652**		16,073,306
Non-current				
Property and equipment *(note 2)*		**263,236,648**		243,709,385
Exploration and evaluation assets *(note 4)*		**6,762,465**		6,762,465
Total assets	$	**284,196,765**	$	266,545,156
Liabilities				
Current				
Bank debt *(note 5)*	$	**68,905,795**	$	62,131,258
Accounts payable and accrued liabilities		**5,249,679**		12,322,532
Commodity contracts *(note 12c iii)*		**74,357**		194,162
Interest rate contracts *(note 12 c i)*		**209,903**		273,448
Total current liabilities		**74,439,734**		74,921,400
Non-current				
Other long-term liabilities		**242,238**		252,228
Interest rate contract *(note 12 c i)*		**408,967**		399,574
Flow-through share premium obligation		**631,636**		631,636
Decommissioning liability *(note 6)*		**10,432,369**		9,191,316
Deferred tax liability		**24,607,412**		20,015,861
Total liabilities		**110,762,356**		105,412,015
Shareholders' Equity				
Share capital *(note 7)*		**151,345,752**		151,345,752
Contributed surplus		**12,897,428**		12,474,614
Retained Earnings (Deficit)		**9,191,229**		(2,687,225)
Total shareholders' equity		**173,434,409**		161,133,141
Total liabilities and shareholders' equity	$	**284,196,765**	$	266,545,156

Contingency (note 15), Commitments (note 16), Subsequent Event (Note 17)

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

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

		2016		2015
Revenue				
Petroleum and natural gas sales	$	**6,315,833**	$	7,153,174
Royalty income		**30,370**		62,850
Royalties		**(233,391)**		(399,144)
		6,112,812		6,816,880
Commodity price risk contracts *(note 12c iii)*				
Commodity contract settlement		**992,420**		5,457,741
Change in fair value of commodity contracts		**106,447**		(4,188,208)
		7,211,679		8,086,413
Expenses				
Production		**2,101,323**		1,506,375
Transportation		**466,914**		305,521
General and administrative		**582,497**		512,539
Finance *(note 14)*		**590,435**		974,819
Share-based compensation *(note 8)*		**322,840**		114,303
Depletion, depreciation *(note 2)*		**3,842,309**		3,305,544
Asset impairment *(note 2)*		**756,845**		–
		8,663,163		6,719,101
Other Income				
Gain on settlement of lawsuit *(note 3)*		**13,082,687**		–
Income before tax		**11,631,203**		1,367,312
Deferred tax (recovery) expense		**(247,251)**		422,195
Net income and total comprehensive income	$	**11,878,454**	$	945,117
Income per share *(note 9)*				
Basic	$	**0.18**	$	0.02
Diluted	$	**0.18**	$	0.02
Weighted average number of shares *(note 9)*				
Basic		**67,681,804**		57,755,804
Diluted		**67,681,804**		58,015,914

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

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

		2016		2015
Share Capital				
Balance, beginning of period	$	**151,345,752**	$	134,406,725
Exercise of options		–		–
Balance, end of period		**151,345,752**		134,406,725
Contributed Surplus				
Balance, beginning of period		**12,474,614**		11,337,527
Share-based compensation		**422,814**		183,365
Balance, end of period		**12,897,428**		11,520,892
Retained Earnings (Deficit)				
Balance, beginning of period		**(2,687,225)**		2,093,945
Net income		**11,878,454**		945,117
Balance, end of period		**9,191,229**		3,039,062
Total Shareholder' Equity	$	**173,434,409**	$	148,966,679

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

	2016	2015
Operating		
Net income for the period	$ **11,878,454**	$ 945,117
Add back non-cash items:		
Change in fair value of commodity contracts	**(106,447)**	4,188,208
Change in fair value of interest rate contracts	**(54,152)**	372,212
Share-based compensation *(note 8)*	**322,840**	114,303
Depletion, depreciation *(note 2)*	**3,842,309**	3,305,544
Asset impairment *(note 2)*	**756,845**	–
Accretion expense *(note 6)*	**49,218**	43,775
Gain on settlement of lawsuit *(note 3)*	**(13,082,687)**	–
Deferred tax	**(247,251)**	422,195
Change in non-cash working capital *(note 10)*	**(1,268,330)**	(3,360,432)
Net cash from operating activities	**2,090,799**	6,030,922
Financing		
Bank debt advance (repayment) *(note 5)*	**6,774,537**	6,725,553
Other long-term liabilities repayment	**(9,989)**	(9,586)
Change in non-cash working capital *(note 10)*	–	–
Net cash from financing activities	**6,764,548**	6,715,967
Investing		
Expenditures on property and equipment *(note 2)*	**(1,205,427)**	(9,240,302)
Property Acquisitions *(note 3)*	**(3,707,693)**	–
Change in non-cash working capital *(note 10)*	**(3,942,227)**	(3,506,587)
Net cash used in investing activities	**(8,855,347)**	(12,746,889)
Change in cash	–	–
Cash, beginning of the period	–	–
Cash, end of the period	$ –	$ –
Supplemental cash flow information		
Interest paid	$ **525,694**	$ 494,375

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

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 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.

Statement of compliance and authorization:

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 24 – *Interim Financial Reported* on a basis consistent with the accounting, estimation and valuation policies described in the Company's audited Consolidated Financial Statements as at and for the year ended December 31, 2015 (the "Annual Financial Statements"). These interim financial statements have been prepared on a historical cost basis, except for certain financial instruments. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reported Standards have been condensed or omitted. Certain comparative amounts have been reclassified to conform to the current year's presentation. These interim financial statements should be read in conjunction with the Annual Financial Statements.

The consolidated financial statements were authorized for issue by the Company's Board of Directors on May 12, 2016.

Changes in Accounting Standards

There were no new accounting standards adopted by the Company for the three months ended March 31, 2016. A description of accounting standards that will be effective in the future is included in the notes to the Company's audited Consolidated Financial Statements as at and for the year ended December 31. 2015.

2. Property and equipment

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Cost				
Balance at December 31, 2014	$ 236,642,194	$ 43,632,623	$ 1,619,169	$ 281,893,986
Cash additions	27,512,533	8,307,293	205,295	36,025,121
Capitalized share based compensation	312,328	–	–	312,328
Decommissioning liability	834,014	–	–	834,014
Balance at December 31, 2015	265,301,069	51,939,916	1,824,464	319,065,449
Cash additions	**1,019,502**	**113,388**	**72,537**	**1,205,427**
Property acquisition *(note 3)*	**22,323,000**	–	–	**22,323,000**
Capitalized share based compensation	**99,972**	–	–	**99,972**
Decommissioning liability	**498,017**	–	–	**498,017**
Balance at March 31, 2016	$ **289,241,560**	$ **52,053,304**	$ **1,897,001**	$ **343,191,865**

Depletion and depreciation

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Balance at December 31, 2014	$ 56,317,971	$ 6,596,800	$ 824,872	$ 63,739,643
Depletion and depreciation	10,660,400	770,500	185,521	11,616,421
Balance at December 31, 2015	66,978,371	7,367,300	1,010,393	75,356,064
Depletion and depreciation	**3,494,600**	**201,900**	**145,809**	**3,842,309**
Asset Impairment	**756,845**	–	–	**756,845**
Balance at March 31, 2016	**$ 71,229,816**	**$ 7,569,200**	**$ 1,156,202**	**$ 79,955,218**
At December 31, 2015	$ 198,322,698	$ 44,572,616	$ 814,071	$ 243,709,385
At March 31, 2016	**$ 218,011,744**	**$ 44,484,104**	**$ 740,799**	**$ 263,236,647**

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in the statement of income and comprehensive income. At March 31, 2016 all of the Company's properties are pledged as security for the bank loan.

During the three months ended March 31, 2016, the Company capitalized $231,846 (2015 – $587,405) related to the decommissioning liability of property and equipment and $99,972 (2015 – $69,063) of share-based compensation. The Company also capitalized $71,237 (2015 - $122,814) 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, 2016, the Company capitalized $80,621 (2015 – $219,881) 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 impaired the Jaslan CGU to zero during the three months ended March 31, 2016, management determined that as a result lower natural gas pricing in the quarter the area was no longer economic and therefore disassembled and transported the facility to another CGU.

3. Property acquisition

On January 1, 2016, Yangarra closed the acquisition of certain strategic light oil assets in Yangarra's Central Alberta core area. The property acquisition was accounted for as a business combination under IFRS 3. The acquisition included a cash component, forgiveness of accounts receivable balances and the settlement of a lawsuit between the two parties. The fair value of the petroleum and natural gas properties acquired was determined using the total proved ("1P") value as at January 1, 2016, discounted at 10%, prepared by an independent reserve evaluator. The amounts in the table below are preliminary and subject to adjustments.

Net Assets Acquired		
Petroleum and natural gas properties	$	**22,323,000**
Decommissioning liability		**(693,818)**
Deferred tax liability		**(4,838,802)**
	$	**16,790,380**
Consideration		
Cash	$	**1,400,000**
Working Capital		**2,307,693**
Gain on Settlement of Lawsuit		**13,082,687**
	$	**16,790,380**

4. Exploration and evaluation assets

Cost		
Balance at December 31, 2014	$	11,831,752
Additions		4,706,547
Balance at December 31, 2015 and March 31, 2016	$	**16,538,299**
Depletion, depreciation and impairment losses		
Balance at December 31, 2014	$	4,365,287
Impairment		5,410,547
Balance at December 31, 2015 and March 31, 2016	$	**9,775,834**
Net book value		
At December 31, 2014	$	7,466,465
At December 31, 2015 and March 31, 2016	$	**6,762,465**

Exploration and evaluation 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

As at March 31, 2016, the $68,905,795 (December 31, 2015 – $62,131,258) reported amount of bank debt with Alberta Treasury Branches ("ATB") was comprised of $19,100,000 (December 31, 2014 – $12,250,000) drawn on the revolving operating demand loan and $49,805,795 (December 31, 2015 – $49,881,258) of guaranteed notes. 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, 2016 and December 31, 2015. The facility is secured by a general security agreement.

As at March 31, 2016, the maximum amount available under the revolving operating demand loan was $80,000,000 (December 31, 2015 – $80,000,000) at an interest rate of bank prime plus 1.00% per annum on the operating demand loan, payable monthly, or a credit spread of 2.25% 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 three months ended March 31, 2016, the weighted average effective interest rate for the bank debt was approximately 3.3% (2015 – 3.1%).

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, 2016		*December 31, 2015*
Balance, beginning of period	$	**9,191,316**	$	8,250,475
Liabilities incurred		–		598,210
Property acquisition *(note 3)*		**693,818**		
Decommissioning costs incurred		–		(64,178)
Effect of change in discount rate		**498,017**		235,804
Accretion		**49,218**		171,005
Balance, end of period	$	**10,432,369**	$	9,191,316

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

		March 31, 2016		*December 31, 2015*
Undiscounted cash flows	$	**14,458,403**	$	13,193,357
Discount rate		**1.01% - 2.00%**		1.04% - 2.31%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**10 years**		10 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, 2014	57,755,804	$	134,406,725
Equity financing	3,333,500		6,000,300
CDE flow-through financing	1,010,500		2,000,790
CDE flow-through premium liability	–		(181,890)
CEE flow-through financing	5,582,000		12,001,300
CEE flow-through premium liability	–		(1,953,700)
Share issue costs (net of $342,149 in tax)	–		(927,773)
Balance, December 31, 2015 and March 31, 2016	**67,681,804**	**$**	**151,345,752**

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, 2016, the Company granted options to purchase 525,003 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 $209,201 ($0.40 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, 2016		*December 31, 2015*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**6,749,700**	**$1.59**	4,113,370	$1.90
Granted	**525,003**	**0.75**	3,646,173	1.35
Exercised	**–**	**–**	–	–
Expired	**(500,003)**	**2.22**	(728,388)	2.08
Forfeited	**(43,334)**	**1.05**	(281,455)	2.22
Closing	**6,731,366**	**$1.48**	6,749,700	$1.59

The following provides a summary of the stock option plan as at March, 2016:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	**2,360,008**	**4.07**	**$ 0.75**	**601,672**
$ 1.01 – $ 1.50	**680,010**	**1.43**	**1.18**	**680,010**
$ 1.51 – $ 2.00	**2,701,340**	**3.68**	**1.81**	**436,111**
$ 2.01 – $ 2.50	**341,668**	**2.85**	**2.27**	**341,668**
$ 2.51 – $ 3.00	**648,340**	**3.00**	**2.70**	**432,227**
	6,731,366	**3.48**	**$ 1.48**	**2,491,688**

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

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	1,865,005	4.07	$ 0.75	520,005
$ 1.01 – $ 1.50	680,010	1.68	1.18	680,010
$ 1.51 – $ 2.00	2,711,340	3.84	1.81	380,556
$ 2.01 – $ 2.50	841,671	1.37	2.24	841,671
$ 2.51 – $ 3.00	651,674	3.25	2.70	217,225
	6,749,700	3.32	$ 1.59	2,639,467

8. Share-based payments (continued)

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

	2016	*2015*
Weighted average exercise per option	**$0.75**	$1.35
Risk-free interest rate	**0.71%**	0.61% - 0.96%
Expected volatility	**68%**	64% - 66%
Expected life	**5 years**	5 years
Forfeiture rate	**5%**	5%
Weighted average fair value per option	**$0.40**	$0.63

9. Earnings per common share

Basic earnings per share was calculated as follows:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Net income for the period	$ **11,878,454**	$ 945,117
Weighted average number of shares (basic)		
Issued common shares at beginning of period	**67,681,804**	57,755,804
Stock options exercised	**–**	–
Weighted average number of common shares - basic	**67,681,804**	57,755,804

Diluted earnings per share was calculated as follows:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Weighted average number of shares (basic)	**67,681,804**	57,755,804
Effect of outstanding options	**–**	260,110
Weighted average number of common shares - diluted	**67,681,804**	58,015,914

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 6,731,366 (2015 - 66,668) options as they were out of the money.

10. Change in non-cash working capital

		Three months ended March 31, 2016		Three months ended March 31, 2015
Accounts receivable	$	**2,799,078**	$	136,476
Prepaid expenses, inventory and deposits		**(936,782)**		(605,251)
Accounts payable, accrued liabilities		**(7,072,853)**		(6,398,244)
	$	**(5,210,557)**	$	(6,867,019)

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

Operating	$	**(1,268,330)**	$	(3,360,432)
Financing		**–**		–
Investing		**(3,942,227)**		(3,506,587)
	$	**(5,210,557)**	$	(6,867,019)

11. Related party disclosure

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

Name	*Country of Incorporation*	*% equity interest* 2016	*% equity interest* 2015
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, 2016 and 2015, 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, 2016		Three months ended March 31, 2015
Administration and consulting fees	$	**114,945**	$	45,802
Production and capital expenditures		**17,196**		11,146
	$	**132,141**	$	56,948

Included in accounts payable and accrued liabilities at March 31, 2016 is $6,220 (December 31, 2015 - $6,207) 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 $242,237 (December 31, 2015 - $252,228) 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.

12. 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 cash, accounts receivable, accounts payable and accrued liabilities, other long term liabilities and bank debt approximate their fair values due to the nature of these assets/liabilities.

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, 2016 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, 2016, the maximum credit exposure is the carrying amount of the accounts receivable of $7,482,839 (December 31, 2015 – $10,281,917) and $2,492,714 of commodity contracts (December 31, 2015 – $2,311,910). The maximum exposure to credit risk for receivables as at March 31, 2016 and December 31, 2015 by type of customer was:

	March 31, 2016	December 31, 2015
Oil and natural gas marketers	$ 2,426,475	$ 1,978,912
Partners on joint operations	4,056,899	5,861,464
Realized commodity contracts	715,963	684,955
Other	283,502	1,756,586
	$ 7,482,839	$ 10,281,917

Receivables from petroleum and natural gas marketers are typically collected on the 25th day of the month following production. The Company has mitigated the credit risk associated with the oil and natural gas marketer through a security arrangement with 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 oil and natural gas marketers were received in April 2016.

12. Financial instruments and financial risk management (continued)

Joint venture receivables are typically collected within one to three months of the joint venture bill being issued to the partner. The Company mitigates the risk from joint venture receivables by obtaining partner approval of capital expenditures prior to starting a project. However, the receivables are from participants in the petroleum and natural gas sector, and collection is dependent on typical industry factors such as commodity price fluctuations, escalating costs and the risk of unsuccessful drilling. Further risk exists with joint venture partners as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from joint venture partners who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to joint venture partners from which it can net receivable balances.

The Company did not provide for any doubtful accounts nor was it required to write-off any accounts receivable during the three months ended March 31, 2016. 90% of the over 90 day receivables are made up of two industry partners. The Company has performed an analysis of each partner's financial situation and have determined they have the ability to pay. In addition the Company has the ability, with each of the partners, to withhold production to collect the outstanding balances.

As at March 31, 2016 and December 31, 2015, the Company considers its receivables to be aged as follows:

	March 31, 2016	December 31, 2015
Under 30 days	$ 3,428,034	$ 3,918,880
30 to 60 days	155,103	30,585
60 to 90 days	93,575	100,085
Over 90 days	3,806,127	6,232,367
	$ 7,482,839	$ 10,281,917

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 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 and availability on bank facilities. 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 2016 budget with cash flow from operations and the availability on the revolving operating demand loan.

12. Financial instruments and financial risk management (continued)

As at March 31, 2016	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
Accounts payable and accrued liabilities	5,249,679	5,249,679	5,249,679	-	-	-
Bank debt [1]	68,905,795	68,905,795	68,905,795	-	-	-
Other long-term liabilities	242,238	242,238	40,583	42,289	137,839	21,527
Commodity contracts	74,357	74,357	74,357	-	-	-
Interest rate contract	618,870	618,870	209,903	279,870	129,097	-
Estimated interest payments	-	2,411,703	2,411,703	-	-	-
Office and truck leases	-	849,653	148,798	198,397	502,457	-
	75,090,939	78,352,295	77,040,818	520,556	769,393	21,527

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, 2016, if interest rates (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 $161,867 (March 31, 2015 - $139,136) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

12. Financial instruments and financial risk management (continued)

The Company had the following interest rate contracts in place at March 31, 2016:

Contracts		Fair Value
Pay a 2.35% fixed rate (plus a 2.25% credit spread) on $10 million (April 2016 - June 2018)	$	(337,095)
Pay a 2.15% fixed rate (plus a 2.25% credit spread) on $10 million (April 2016 - May 2018)		(281,775)
	$	(618,870)

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, 2016.

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, 2016, the Company was committed to the following commodity price risk contracts:

Contracts		Fair Value
2016 Oil		
400 bbl/d January 1 to December 31, 2016 in a collar with a $73.45 CDN/bbl floor and a $85.00 CDN/bbl ceiling	$	2,454,457
200 bbl/d April – June 2016 at C$54.00 WTI/bbl		38,257
400 bbl/d January 1 to December 31, 2016 Edmonton par differential swap at $3.95 US/bbl		(74,357)
Total	$	2,418,357

12. Financial instruments and financial risk management (continued)

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at March 31, 2016 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 in commodity prices is a reasonable measure ($4.20/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	(931,014)	931,014

13. 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, 2016		*December 31, 2015*
Shareholders' equity	$	**173,434,409**	$	161,133,141
Bank debt	$	**68,905,795**	$	62,131,258

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, 2016, the Company's capital structure was subject to the banking covenants disclosed in note 5. No changes were made to the capital policy in 2016.

14. Finance expenses

During the three months ended March 31, 2016 and 2015, the following items were included in the finance expense on the consolidated statements of income and comprehensive income:

		Three months ended March 31, 2016		Three months ended March 31, 2015
Interest & Finance Fees	$	**525,694**	$	558,832
Realized losses on interest rate contracts		**69,675**		52,583
Change in fair value of interest rate contracts		**(54,152)**		319,629
Accretion *(note 6)*		**49,218**		43,775
	$	**590,435**	$	974,819

15. Contingency

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.

16. Commitments

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

2016	$	179,391
2017	$	240,686
2018	$	246,456
2019	$	193,319
2020	$	202,620
Thereafter	$	28,837

The Company has spent $8,200,372 of the 12,001,300 CEE flow through commitment and the Company has until the end of 2016 to spend the remaining balance.

17. Subsequent Events

Subsequent to March 31, 2016, Yangarra re-signed its credit facility agreement with Alberta Treasury Branches ("ATB") renewing the existing $80 million senior line. All other terms remained the same and the next review is scheduled for May 31, 2017.

Subsequent to March 31, 2016, Yangarra announced it has entered into an equity financing agreement, on a bought deal basis, with AltaCorp Capital Inc., as lead underwriter and including Acumen Capital Finance Partners Limited, Clarus Securities Inc., Dundee Capital Markets, Industrial Alliance Securities Inc., Paradigm Capital Inc. and Raymond James Ltd (collectively, the "Underwriters").

17. Subsequent Event (continued)

Under the terms of the agreement, Yangarra will issue 10,000,000 common shares ("Common Shares") at a price of $1.00 per Common Share for gross proceeds of $10,000,000. The Underwriters will also have the option, exercisable in whole or in part, to acquire up to an additional 1,500,000 Common Shares at a price of $1.00 per Common Share at any time from closing of the Offering and ending 30 days following the closing date for additional gross proceeds of up to $1,500,000.

The financing is expected to close on or about May 24, 2016 and is subject to approval of the TSX, receipt of all necessary regulatory approvals and other customary conditions.