Yangarra Resources Ltd.
Condensed Consolidated Financial Statements
March 31, 2017 and 2016

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

		March 31, 2017 (unaudited)		December 31, 2016
Assets				
Current				
Accounts receivable *(note 11)*	$	**14,712,822**	$	11,225,201
Prepaid expenses and deposits		**3,223,107**		3,364,770
Commodity contracts *(note 11c iii)*		**715,608**		–
Total current assets		**18,651,537**		14,589,971
Non-current				
Property and equipment *(note 2)*		**297,327,854**		277,693,631
Exploration and evaluation assets *(note 3)*		**6,762,465**		6,762,465
Total assets	$	**322,741,856**	$	299,046,067
Liabilities				
Current				
Bank debt *(note 4)*	$	**71,587,076**	$	65,140,999
Accounts payable and accrued liabilities *(note 11)*		**23,995,816**		14,454,777
Commodity contracts *(note 11c iii)*		**49,707**		934,561
Interest rate contracts *(note 11c i)*		**252,865**		244,851
Total current liabilities		**95,885,464**		80,775,188
Non-current				
Other long-term liabilities *(note 10)*		**201,555**		211,962
Commodity contracts *(note 11c iii)*		**62,894**		199,671
Interest rate contract *(note 11c i)*		**340,965**		363,727
Decommissioning liability *(note 5)*		**8,525,762**		8,096,560
Deferred tax liability		**27,410,189**		25,285,001
Total liabilities		**132,426,829**		114,932,109
Shareholders' Equity				
Share capital *(note 6b)*		**163,939,905**		163,052,797
Contributed surplus		**13,677,051**		13,579,635
Retained Earnings		**12,698,071**		7,481,526
Total shareholders' equity		**190,315,027**		184,113,958
Total liabilities and shareholders' equity	$	**322,741,856**	$	299,046,067

Contingency (note 14), Commitments (note 15)

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

	2017	2016
Revenue		
Petroleum and natural gas sales	$ **15,539,302**	$ 6,315,833
Royalty income	**10,086**	30,370
Royalties	**(1,231,175)**	(233,391)
	14,318,213	6,112,812
Commodity price risk contracts		
Realized gain on commodity contract settlement	**85,918**	992,420
Change in fair value of commodity contracts	**1,737,240**	106,447
	16,141,371	7,211,679
Expenses		
Production	**2,820,739**	2,101,323
Transportation	**378,095**	466,914
General and administrative	**204,669**	582,497
Finance *(note 13)*	**688,251**	590,435
Share-based compensation *(note 7)*	**331,142**	322,840
Depletion, depreciation and impairment *(note 2)*	**4,376,742**	3,842,309
Asset impairment *(note 2)*	–	756,845
	8,799,638	8,663,163
Other Income		
Gain on settlement of lawsuit	–	13,082,687
Income before tax	**7,341,733**	11,631,203
Deferred tax expense (recovery)	**2,125,188**	(247,251)
Net income and total comprehensive income	$ **5,216,545**	$ 11,878,454
Earnings per share *(note 8)*		
Basic	**0.07**	0.18
Diluted	**0.06**	0.18
Weighted average number of shares *(note 8)*		
Basic	**79,970,061**	67,681,804
Diluted	**82,872,845**	67,681,804

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)

	2017	2016
Share Capital		
Balance, beginning of period	$ **163,052,797**	$ 151,345,752
Exercise of options *(note 6)*	**522,307**	–
Contributed surplus transferred on exercise of stock options	**364,801**	–
Balance, end of period	**163,939,905**	151,345,752
Contributed Surplus		
Balance, beginning of period	**13,579,635**	12,474,614
Share-based compensation	**462,217**	422,814
Exercise of options	**(364,801)**	–
Balance, end of period	**13,677,051**	12,897,428
Retained Earnings (Deficit)		
Balance, beginning of period	**7,481,526**	(2,687,225)
Net income	**5,216,545**	11,878,454
Balance, end of period	**12,698,071**	9,191,229
Total Shareholder' Equity	$ **190,315,027**	$ 173,434,409

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

		2017		2016
Operating				
Net income for the period	$	**5,216,545**	$	11,878,454
Add back non-cash items:				
Change in fair value of commodity contracts		**(1,737,240)**		(106,447)
Change in fair value of interest rate contracts		**(14,748)**		(54,152)
Share-based compensation *(note 7)*		**331,142**		322,840
Depletion and depreciation *(note 2)*		**4,376,742**		3,842,309
Asset impairment *(note 2)*		–		756,845
Accretion *(note 5)*		**45,574**		49,218
Gain on settlement of lawsuit		–		(13,082,687)
Deferred tax (recovery) expense		**2,125,188**		(247,251)
Change in non-cash working capital *(note 9)*		**(1,732,791)**		(1,268,330)
Net cash flow from operating activities		**8,610,412**		2,090,799
Financing				
Issue of equity instruments, net of costs		**522,307**		
Bank debt advance *(note 4)*		**6,446,077**		6,774,537
Other long-term liabilities repayment		**(10,406)**		(9,989)
Net cash from financing activities		**6,957,978**		6,764,548
Investing				
Additions to property and equipment *(note 2)*		**(23,496,262)**		(1,205,427)
Property acquisitions *(note 2)*		–		(3,707,693)
Change in non-cash working capital *(note 9)*		**7,927,872**		(3,942,227)
Net cash flow used in investing activities		**(15,568,390)**		(8,855,347)
Change in cash and cash equivalents		–		–
Cash, beginning of the period		–		–
Cash, end of the period	$	–	$	–

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 34 – *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, 2016 (the "Annual Financial Statements"). These interim financial statements have been prepared on a historical cost basis, except for certain financial instruments. All financial information is reported in Canadian dollars, unless otherwise noted. 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. 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 11, 2017.

Changes in Accounting Standards

There were no new accounting standards adopted by the Company, that had a significant effect on the financial statements, for the three months ended March 31, 2017. A description of accounting standards that will be effective in the future is included in the notes to the Company's Annual Financial Statements.

2. Property and equipment

		Oil and Natural Gas Interests		*Well and Plant Equipment*		*Other Assets*		*Total*
Cost								
Balance at December 31, 2015	$	265,301,069	$	51,939,916	$	1,824,464	$	319,065,449
Cash additions		23,468,574		4,085,067		119,125		27,672,766
Property acquisition		22,323,000		–		–		22,323,000
Capitalized share-based compensation		334,533		–		–		334,533
Decommissioning liability		(1,362,468)		–		–		(1,362,468)
Balance at December 31, 2016		310,064,708		56,024,983		1,943,589		368,033,280
Cash additions		**20,579,092**		**2,910,272**		**6,898**		**23,496,262**
Capitalized share based compensation		**131,075**		–		–		**131,075**
Decommissioning liability		**383,628**		–		–		**383,628**
Balance at March 31, 2017	$	**331,158,503**	$	**58,935,255**	$	**1,950,487**	$	**392,044,245**

Depletion, depreciation and impairment

		Oil and Natural Gas Interests		*Well and Plant Equipment*		*Other Assets*		*Total*
Balance at December 31, 2015	$	66,978,371	$	7,367,300	$	1,010,393	$	75,356,064
Depletion and depreciation		13,212,900		716,400		297,440		14,226,740
Asset impairment		756,845		–		–		756,845
Balance at December 31, 2016		80,948,116		8,083,700		1,307,833		90,339,649
Depletion and depreciation		**4,100,200**		**228,000**		**48,542**		**4,376,742**
Balance at March 31, 2017	$	**85,048,316**	$	**8,311,700**	$	**1,356,375**	$	**94,716,391**
At December 31, 2016	$	229,116,592	$	47,941,283	$	635,756	$	277,693,631
At March 31, 2017	$	**246,110,187**	$	**50,623,555**	$	**594,112**	$	**297,327,854**

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in the consolidated statement of income and comprehensive income. At March 31, 2017 all of the Company's properties are pledged as security for the bank debt (see note 4).

During the three months ended March 31, 2017, the Company capitalized $383,628 (2016 – $231,846) related to the decommissioning liability of property and equipment and $131,075 (2016 – $99,972) of share-based compensation. The Company also capitalized $423,028 (2016 - $71,237) 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, 2017, the Company capitalized $101,187(2016 – $80,621) of salaries and consulting expenses directly related to geological, drilling and completions. There were no impairments in the three months ended March 31, 2017 (2016 - $756,845)

3. Exploration and evaluation assets

Cost		
Balance at December 31, 2015	$	16,538,299
Additions		–
Balance at December 31, 2016 and March 31, 2017	$	16,538,299
Impairment losses		
Balance at December 31, 2015	$	9,775,834
Impairment		–
Balance at December 31, 2016 and March 31, 2017	$	9,775,834
Net book value		
At December 31, 2016 and March 31, 2017	$	6,762,465

Exploration and evaluation ("E&E") assets consist of the Company's undeveloped land which is pending the determination of proven or probable reserves.

4. Bank debt

As at March 31, 2017, the $71,587,076 (December 31, 2016 – $65,140,999) reported amount of bank debt with Alberta Treasury Branches ("ATB") was comprised of $21,600,000 (December 31, 2016 – $15,153,835) drawn on the revolving operating demand loan and $49,987,076 (December 31, 2016 – 49,987,164) 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 obligation).

The Company was in compliance with this covenant as at March 31, 2017 and December 31, 2016. The facility is secured by a general security agreement over all assets of the Company.

As at March 31, 2017, the maximum amount available under the revolving operating demand loan was $80,000,000 (December 31, 2016 – $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 (based on company reserves values) could result in a reduction to the credit facility, which may require repayment to the lenders. During the three months ended March 31, 2017, the weighted average effective interest rate for the bank debt was approximately 3.4% (2016 – 3.3%).

5. Decommissioning liability

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

		March 31, 2017		*December 31, 2016*
Balance, beginning of period	$	**8,096,560**	$	9,191,316
Liabilities incurred		**383,194**		383,193
Property acquisition		–		693,818
Decommissioning costs incurred		–		(608,463)
Effect of change in estimates		**434**		(1,745,661)
Accretion		**45,574**		182,357
Balance, end of period	$	**8,525,762**	$	8,096,560

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

		March 31, 2017		*December 31, 2016*
Undiscounted cash flows	$	**10,578,827**	$	10,178,407
Discount rate		**1.31% - 2.31%**		0.76% - 2.31%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**10 years**		10 years

6. 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, 2015	67,681,804	$	151,345,752
Equity financing *(i)*	11,500,000		11,500,000
Share issue costs (net of $217,205 in tax)	–		(587,256)
Exercise of stock options	634,007		523,071
Contributed surplus transferred on exercise of stock options	–		271,230
Balance, December 31, 2016	79,815,811	$	163,052,797
Exercise of stock options	**399,169**		**522,307**
Contributed surplus transferred on exercise of stock options	**–**		**364,801**
Balance, March 31, 2017	**80,214,980**		**163,939,905**

i) On May 25, 2016 the Company closed a "bought deal" financing, completed by way of a short form prospectus. 11,500,000 common shares were issued at a price of $1.00 per common share for gross proceeds of $11,500,000.

7. Share-based compensation

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, 2017, the Company granted options to purchase 233,334 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 $346,655 ($1.56 per option) using the Black-Scholes pricing model.

7. Share-based compensation (continued)

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

	March 31, 2017		*December 31, 2016*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**7,888,198**	**$1.50**	6,749,700	$1.59
Granted	**233,334**	**2.77**	2,524,176	1.24
Exercised	**(399,169)**	**1.31**	(634,007)	0.83
Expired	**–**	**–**	(683,337)	2.14
Forfeited	**–**	**–**	(68,334)	0.94
Closing	**7,722,363**	**$1.55**	7,888,198	$1.50

The following provides a summary of the stock option plan as at March 31, 2017:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	**1,802,669**	**3.31**	**$ 0.74**	**675,676**
$ 1.01 – $ 1.50	**2,144,178**	**3.98**	**1.31**	**331,673**
$ 1.51 – $ 2.00	**2,560,508**	**3.21**	**1.81**	**905,725**
$ 2.01 – $ 2.50	**333,334**	**1.91**	**2.28**	**333,334**
$ 2.51 – $ 3.00	**881,674**	**2.76**	**2.72**	**648,340**
	7,722,363	**3.34**	**$ 1.55**	**2,894,748**

The following provides a summary of the stock option plan as at December 31, 2016:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	1,807,669	3.56	$ 0.74	435,009
$ 1.01 – $ 1.50	2,385,847	3.86	1.29	573,342
$ 1.51 – $ 2.00	2,713,008	3.27	1.80	1,001,002
$ 2.01 – $ 2.50	333,334	2.15	2.28	333,334
$ 2.51 – $ 3.00	648,340	2.25	2.70	432,227
	7,888,198	3.38	$ 1.50	2,774,914

7. Share-based compensation (continued)

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

	2017	*2016*
Weighted average exercise per option	**$2.77**	$1.24
Risk-free interest rate	**1.16%**	0.57% - 1.17%
Expected volatility	**68%**	68%
Expected life	**5 years**	5 years
Forfeiture rate	**5%**	5%
Weighted average fair value per option	**$1.56**	$0.66

8. Earnings (loss) per common share

		Three months ended March 31, 2017		Three months ended March 31, 2016
Net income (loss) for the period	$	**5,216,545**	$	11,878,454
Weighted average number of shares (basic)				
Issued common shares at beginning of year		**79,815,811**		67,681,804
Stock options exercised		**154,250**		–
Weighted average number of common shares - basic		**79,970,061**		67,681,804

Diluted earnings (loss) per share was calculated as follows:

Weighted average number of shares (diluted)		
Weighted average number of shares (basic)	**79,970,061**	67,681,804
Effect of outstanding options	**2,902,784**	–
Weighted average number of common shares - diluted	**82,872,845**	67,681,804

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. For the three months ended March 31, 2017, 881,674 (2016 – 6,731,366) options are excluded as they are out of the money based on an average share price of $2.43 (2016 – $0.59).

9. Change in non-cash working capital

		Three months ended March 31, 2017		Three months ended March 31, 2016
Accounts receivable	$	**(3,487,621)**	$	2,799,078
Prepaid expenses and deposits		**141,663**		(936,782)
Accounts payable and accrued liabilities		**9,541,039**		(7,072,853)
	$	**6,195,081**	$	(5,210,557)

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

Operating	$	**(1,732,791)**	$	(1,268,330)
Financing		**–**		–
Investing		**7,927,872**		(3,942,227)
	$	**6,195,081**	$	(5,210,557)

10. 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*	*2017*	*2016*
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, 2017 and 2016, 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, 2017		Three months ended March 31, 2016
Administration and consulting fees	$	**60,000**	$	114,945
Production and capital expenditures		**96,736**		17,196
	$	**156,736**	$	132,141

Included in accounts payable and accrued liabilities at March 31, 2017 is $14,813 (December 31, 2016 - $6,986) relating to the above transactions. These transactions were in the normal course of operations and were measured at fair value.

Other long-term liabilities include a mortgage for $201,555 (December 31, 2016 - $211,962) 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.

11. Financial instruments and financial risk management

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 of Directors 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 partners on joint operations 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, 2017, the maximum credit exposure is the carrying amount of the accounts receivable of $14,712,822 (December 31, 2016 – $11,225,201). The maximum exposure to credit risk for accounts receivable as at March 31, 2017 and December 31, 2016 by type of customer was:

		March 31, 2017	December 31, 2016
Natural gas and liquids marketers	$	**6,498,786**	3,479,225
Partners on joint operations		**7,069,686**	6,781,799
Realized commodity contracts		**133,579**	16,033
Other		**1,010,770**	948,144
	$	**14,712,822**	11,225,201

Receivables from natural gas and liquids marketers are typically collected on the 25th day of the month following production. The Company has mitigated the credit risk associated with the natural gas and liquids marketer through a security arrangement with Computershare. The Company historically has not experienced any significant collection issues with its natural gas and liquids marketers. All the revenue accruals and receivables from natural gas and liquids marketers were received in April 2017.

Receivables from partners on joint operations are typically collected within one to three months of the bill being issued to the partner. The Company mitigates the risk from receivables from partners on joint operations 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 partners on joint operations as disagreements occasionally arise which increases the potential for non-collection. For properties that are operated by the Company, production can be withheld from partners on joint operations who are in default of amounts owing. In addition, the Company often has offsetting amounts payable to partners on joint operations from which it can net receivable balances.

11. Financial instruments and financial risk management (continued)

As at March 31, 2017 and December 31, 2016, the Company considers its receivables to be aged as follows:

		March 31, 2017		December 31, 2016
Under 30 days	$	**8,055,722**	$	4,979,900
30 to 60 days		**205,057**		116,009
60 to 90 days		**7,063**		85,308
Over 90 days		**6,444,980**		6,043,984
	$	**14,712,822**	$	11,225,201

80% 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. Included in the over 90 day receivables are balances with a significant portion in dispute with two of the industry partners (see note 14). The Company did not provide for any doubtful accounts nor write-off any accounts receivable during the three months ended March 31, 2017.

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, commodity contracts, other long-term liabilities and bank debt, which are classified as current or non-current on the consolidated statement of financial position based on their maturity dates.

The Company intends to fund the 2017 budget with cash flow from operations and the availability of the revolving operating demand loan (see note 4).

11. Financial instruments and financial risk management (continued)

As at March 31, 2017, the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years	More than 5 years
Accounts payable and accrued liabilities	23,995,816	23,995,816	23,995,816	-	-	-
Bank debt	71,587,076	71,587,076	71,587,076	-	-	-
Other long-term liabilities	201,555	201,555	42,713	44,510	114,332	-
Commodity contracts	112,601	112,601	49,707	62,894	-	-
Interest rate contract	593,830	593,830	252,865	99,564	241,401	-
	96,490,878	96,490,878	95,928,177	206,968	355,733	-

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, 2017, 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 $160,607 (2016 - $161,867) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

The Company had the following interest rate contracts in place at March 31, 2017:

Contracts		**Fair Value**
Pay a floating rate to receive a 2.35% (plus a 2.50% credit spread) fixed rate on $10 million (April 2017-June 2018)	$	(170,053)
Pay a floating rate to receive a 2.15% (plus a 2.50% credit spread) fixed rate on $10 million (April 2017-May 2018)	$	(136,293)
Pay a floating rate to receive a 1.945% (plus a 2.50% credit spread) fixed rate on $10 million (June 2018-November 2023)	$	(142,795)
Pay a floating rate to receive a 1.935% (plus a 2.50% credit spread) fixed rate on $10 million (May 2018-November 2023)	$	(144,689)
	$	(593,830)

11. Financial instruments and financial risk management (continued)

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, 2017.

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, 2017, the Company was committed to the following commodity price risk contracts:

Contracts		**Fair Value**
Oil		
200 bbl/d April to December 2017 in a collar with a $65.00 CDN/bbl floor and a $75.00 CDN/bbl ceiling	$	48,841
100 bbl/d April 2017 to December 2017 at C$70.00 WTI/bbl	$	47,067
200 bbl/d April 2017 to June 2017 at C$71.00 WTI/bbl	$	81,400
200 bbl/d April 2017 to July 2017 at C$69.25 WTI/bbl	$	41,755
300 bbl/d April 2017 to June 2017 at C$67.00 WTI/bbl	$	(28,742)
Sold Call on 200 bbl/d January to December 2018 at US$70.00 WTI/bbl	$	(83,858)
Gas		
2,000 GJ/d from April to December 2017 at a fixed price of $3.12/GJ	$	281,811
2,000 GJ/d from April to December 2017 at a fixed price of $3.01/GJ	$	214,733
Total	$	603,007

The following table summarizes the sensitivity of the fair value of the Company's derivative positions as at March 31, 2017 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 ($6.81/bbl for oil, $0.28/mcf for natural gas). 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	(662,625)	662,625
Natural gas	(306,350)	306,350

12. 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, 2017		*December 31, 2016*
Shareholders' equity	$	**190,315,027**	$	184,113,958
Bank debt	$	**71,587,076**	$	65,140,999

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 debt available from the Company's lender, the level of bank debt 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, 2017, the Company's capital structure was subject to the banking covenants disclosed in note 4. No changes were made to the capital policy in 2017.

13. Finance expenses

During the three months ended March 31, 2017 and 2016, the following items were included in the finance expense on the consolidated statements of income and comprehensive income:

		Three months ended March 31, 2017		Three months ended March 31, 2016
Interest & finance costs	$	**575,660**	$	525,694
Realized loss on interest rate contracts		**81,765**		69,675
Change in fair value of interest rate contracts		**(14,748)**		(54,152)
Accretion *(note 5)*		**45,574**		49,218
	$	**688,251**	$	590,435

14. Contingency

In 2016, the Company served an industry partner with a Statement of Claim issued from The Court of Queen's Bench of Alberta, by which the Company claims production was misallocated on a number of wells the industry partner was operating. The industry partner has filed a Statement of Defense. The potential outcome of the lawsuit and claims are uncertain, 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.

15. Commitments

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

2017	$	348,126
2018	$	473,098
2019	$	411,884
2020	$	407,090
Thereafter	$	182,191