Yangarra Resources Ltd.
Condensed Consolidated Interim Financial Statements
June 30, 2019 and 2018

(in thousands, Canadian dollars, except per share amounts)

		June 30, 2019 (unaudited)		December 31, 2018
Assets				
Current				
Accounts receivable *(note 12a)*	$	**25,188**	$	26,203
Prepaid expenses and inventory		**2,541**		4,255
Interest rate contracts *(note 12c i)*		**–**		57
Commodity contracts *(note 12c iii)*		**655**		655
Total current assets		**28,384**		31,170
Non-current				
Property and equipment *(note 3)*		**515,730**		454,772
Exploration and evaluation assets *(note 4)*		**17,869**		15,806
Interest rate contracts *(note 12c i)*		**–**		226
Commodity contracts *(note 12c iii)*		**3**		–
Total assets	$	**561,986**	$	501,974
Liabilities				
Current				
Accounts payable and accrued liabilities *(note 12b)*	$	**28,013**	$	51,851
Commodity contracts *(note 12c iii)*		**214**		–
Interest rate contracts *(note 12c i)*		**50**		–
Foreign exchange contract *(note 12c ii)*		**5,152**		–
Current portion of decommissioning liability *(note 7)*		**–**		94
Current portion of lease obligations *(note 6)*		**1,627**		–
Total current liabilities		**35,056**		51,945
Non-current				
Bank debt *(note 5)*		**172,385**		134,489
Lease obligations *(Note 6)*		**4,476**		–
Other long-term liabilities *(note 12b)*		**102**		124
Commodity contracts *(note 12c iii)*		**214**		390
Interest rate contracts *(note 12c i)*		**173**		–
Decommissioning liability *(note 7)*		**14,093**		12,316
Deferred tax liability		**47,460**		47,374
Total liabilities		**273,959**		246,638
Shareholders' equity				
Share capital *(note 8b)*		**176,334**		176,286
Contributed surplus		**21,427**		18,517
Retained earnings		**90,266**		60,533
Total shareholders' equity		**288,027**		255,336
Total liabilities and shareholders' equity	$	**561,986**	$	501,974

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

Condensed Consolidated Interim Statements of Income and Comprehensive Income
For the three and six months ended June 30:
(in thousands, Canadian dollars, except per share amounts)

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2019	2018	**2019**	2018
Revenue				
Petroleum and natural gas sales *(note 15)*	$ **36,473**	$ 29,922	$ **76,380**	$ 59,672
Royalties	**(2,785)**	(2,684)	**(5,788)**	(5,486)
	33,688	27,238	**70,592**	54,186
Commodity price risk contracts *(note 12c iii)*				
Realized gain (loss) on commodity contract settlement	**260**	(3,569)	**430**	(5,091)
Change in fair value of commodity contracts	**380**	(6,111)	**(36)**	(9,133)
	34,328	17,558	**70,986**	39,962
Expenses				
Production	**6,523**	4,409	**12,841**	8,736
Transportation	**941**	906	**1,975**	2,018
General and administrative	**593**	388	**935**	770
Finance *(note 14)*	**1,826**	1,012	**4,009**	1,929
Share-based compensation *(note 9)*	**895**	1,345	**2,163**	2,165
Depletion, depreciation and impairment *(note 3)*	**10,117**	6,893	**19,244**	13,693
	20,895	14,953	**41,167**	29,311
Income before tax	**13,433**	2,605	**29,819**	10,651
Deferred tax (recovery) expense	**(4,786)**	959	**86**	3,347
Net income and total comprehensive income	$ **18,219**	$ 1,646	$ **29,733**	$ 7,304
Earnings per share *(note 10)*				
Basic	$ **0.21**	$ 0.02	$ **0.35**	$ 0.09
Diluted	$ **0.21**	$ 0.02	$ **0.34**	$ 0.08
Weighted average number of shares *(note 10)*				
Basic	**85,363**	85,020	**85,361**	83,959
Diluted	**86,680**	87,783	**86,728**	86,406

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

		2019 (unaudited)		2018 (unaudited)
Share Capital				
Balance, beginning of period	$	**176,286**	$	166,386
Exercise of options *(note 8)*		**31**		6,759
Contributed surplus transferred on exercise of stock options *(note 8)*		**17**		3,115
Balance, end of period		**176,334**		176,260
Contributed Surplus				
Balance, beginning of period		**18,517**		14,604
Share-based compensation *(note 9)*		**2,927**		2,971
Exercise of options *(note 8)*		**(17)**		(3,115)
Balance, end of period		**21,427**		14,460
Retained Earnings				
Balance, beginning of period		**60,533**		26,967
Net income		**29,733**		7,304
Balance, end of period		**90,266**		34,271
Total Shareholder' Equity	$	**288,027**	$	224,991

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

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Cash Flows
For the three and six months ended June 30:
(in thousands, Canadian dollars)

	Three months ended June 30, (unaudited)		Six months ended June 30, (unaudited)	
	2019	2018	**2019**	2018
Operating				
Net income for the period	$ **18,219**	$ 1,646	$ **29,733**	$ 7,304
Add back non-cash items:				
Change in fair value of commodity contracts	**(381)**	6,111	**35**	9,133
Change in fair value of interest rate contracts *(note 14)*	**147**	(65)	**506**	(225)
Change in fair value of foreign exchange contracts *(note 12c ii)*	**5,152**	–	**5,152**	–
Share-based compensation *(note 9)*	**895**	1,345	**2,163**	2,165
Depletion, depreciation and impairment *(note 3)*	**10,117**	6,893	**19,244**	13,693
Accretion *(note 14)*	**234**	55	**409**	102
Deferred tax (recovery) expense	**(4,786)**	62	**86**	123
Decommissioning costs incurred *(note 7)*	–	958	**(578)**	3,347
Change in non-cash working capital *(note 11)*	**(7,592)**	(716)	**(11,782)**	(4,365)
Net cash flow from operating activities	**22,005**	16,289	**44,968**	31,277
Financing				
Issue of equity instruments, net of costs *(note 8)*	–	3,451	**31**	6,759
Bank debt advance *(note 5)*	**1,872**	11,028	**37,771**	20,532
Lease obligation repayment *(note 6)*	**(315)**	–	**(558)**	–
Other long-term liabilities repayment	**(11)**	(11)	**(22)**	(22)
Net cash from financing activities	**1,546**	14,468	**37,222**	27,269
Investing				
Additions to property and equipment *(note 3)*	**(12,796)**	(26,010)	**(70,800)**	(57,322)
Additions to exploration and evaluation assets *(note 4)*	**(1,019)**	(1,472)	**(2,063)**	(6,520)
Change in non-cash working capital *(note 11)*	**(9,736)**	(3,275)	**(9,327)**	5,296
Net cash flow used in investing activities	**(23,551)**	(30,757)	**(82,190)**	(58,546)
Change in cash and cash equivalents	–	–	–	–
Cash, beginning of the period	–	–	–	–
Cash, end of the period	$ –	$ –	$ –	$ –

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

1. Basis of preparation 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., after the elimination of intercompany transactions and balances.

Statement of compliance and authorization:

These condensed consolidated interim 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, 2018 (the "Annual Consolidated Financial Statements") except as noted in note 2. These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments that are recorded at fair value. 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 condensed consolidated interim financial statements should be read in conjunction with the Annual Consolidated Financial Statements.

The condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on August 8, 2019.

2. Summary of significant accounting policies adopted

Yangarra adopted International Financial Reporting Standards, 16 – Leases ("IFRS 16") on January 1, 2019 using the modified retrospective approach. The modified retrospective approach does not require restatement of prior period financial information as it recognizes the cumulative effect as an adjustment to opening retained earnings and applies the standard prospectively.

On adoption of IFRS 16, Yangarra recognized lease obligations of $3,321 in relation to all lease arrangements measured at the present value of the remaining lease payments from commitments disclosed as at December 31, 2018, adjusted by commitments in relation to arrangements not containing leases, short-term and low-value leases, and discounted using the incremental borrowing rate. The associated right-of-use assets were measured at $3,321 with no impact on retained earnings. No impairments were recognized for the right-of-use assets upon adoption.

Upon the adoption of IFRS 16, the Company adopted the following significant accounting policy on leases:

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lease obligation is recognized at the commencement of the lease term at the present value of the lease payments that are not paid at that date discounted using the rate implicit in each lease or, if that cannot be readily determined, the incremental borrowing rate. At the commencement date, a corresponding right-of-use asset is recognized at the amount of the lease liability, adjusted for lease incentives received, retirement costs and initial direct costs. Depreciation is recognized on the right-of-use asset over the earlier of the useful life and term of the lease. Interest expense is recognized on the lease obligations using the effective interest rate method and payments are applied against the lease liability. Key areas where management has made judgments, estimates, and assumptions related to the application of IFRS 16 include:

- The incremental borrowing rates are based on judgments including economic environment, term, currency, and the underlying risk inherent to the asset. The carrying balance of the right-of-use assets, lease obligations, and the resulting interest expense and depreciation expense, may differ due to changes in the market conditions and lease term.
- Lease terms are based on assumptions regarding extension terms that allow for operational flexibility and future market conditions.

3. Property and equipment

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Cost				
Balance at December 31, 2018	$ 497,835	$ 99,216	$ 2,649	$ 599,700
Cash additions	**48,451**	**21,667**	**682**	**70,800**
IFRS 16 opening adjustment (note 2)	–	–	**3,321**	**3,321**
Capitalized share-based compensation (note 9)	**764**	–	–	**764**
Decommissioning liability (note 7)	**2,145**	–	–	**2,145**
Right-of-use asset *(note 6)*	–	–	**3,172**	**3,172**
Balance at June 30, 2019	**$ 549,195**	**$ 120,883**	**$ 9,824**	**$ 679,902**
Depletion, depreciation and impairment				
Balance at December 31, 2018	$ 131,963	$ 11,176	$ 1,789	$ 144,928
Depletion and depreciation	**17,079**	**1,501**	**65**	**18,645**
Right-of-use asset	–	–	**599**	**599**
Balance at June 30, 2019	**$ 149,042**	**$ 12,677**	**$ 2,453**	**$ 164,172**
At December 31, 2018	$ 365,872	$ 88,040	$ 860	$ 454,772
At June 30, 2019	**$ 400,153**	**$ 108,206**	**$ 7,371**	**$ 515,730**

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in the condensed consolidated interim statement of income and comprehensive income. At June 30, 2019, all of the Company's properties are pledged as security for the bank debt (see note 5). The calculation of depletion for the six months ended June 30, 2019 included estimated future development costs of $535 million (2018 – $517 million) associated with the development of the Company's proved plus probable reserves.

During the six months ended June 30, 2019, the Company capitalized $2,145 (2018 – $1,198) related to the decommissioning liability of property and equipment and $763 (2018 – $806) of share-based compensation. The Company also capitalized $970 (2018 - $770) 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 six months ended June 30, 2019, the Company capitalized $314 (2018 – $204) of salaries and consulting expenses directly related to geological, drilling and completions.

4. Exploration and evaluation assets

Cost		
Balance at December 31, 2018		25,581
Additions		2,063
Balance at June 30, 2019		**27,644**
Impairment losses		
Balance at June 30, 2019 & December 31, 2018	$	**9,775**
Net book value		
At December 31, 2018	$	15,806
At June 30, 2019	$	**17,869**

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

5. Bank debt

As at June 30, 2019, the maximum amount available under the syndicated credit facility was $225 million (December 31, 2018 – $175 million) comprised of a $200 million (December 31, 2018 – $160 million) extendible revolving term credit facility and a $25 million (2018 – $15 million) operating facility. The amount available under these facilities is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors as determined by the syndicate of lending institutions (the "Borrowing Base"). If the total advances made under the credit facilities are greater than the re-determined Borrowing Base, the Company has 60 days to repay any shortfall. The maturity date of the facility is May 29, 2021 (the "Maturity Date") and the next Borrowing Base review is scheduled for November 30, 2019. The Maturity Date may be extended for 364-day periods pursuant to delivery of a request for extension by the Company within certain time periods specified in the syndicated credit facility agreement.

As at June 30, 2019, the $172,385 (December 31, 2018 – $134,489) reported amount of bank debt was comprised of $10,306 (December 31, 2018 – $nil) drawn on the operating facility, $162,403 CDN ($124,000 USD) (December 31, 2018 – $134,507) drawn on the extendible revolving term credit facility in USD denominated LIBOR notes and net of unamortized transaction costs of $324 (December 31, 2018 – $98).

The Company is subject to a single 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 and excluding unrealized commodity contracts). The Company was in compliance with this covenant as at June 30, 2019 and December 31, 2018. The facility is secured by a general security agreement over all assets of the Company.

The total standby fees range, depending on the debt to EBITDA ratio, between 50 bps to 250 bps on bank prime borrowings and between 150 bps and 350 bps on bankers' acceptances. The undrawn portion of the credit facility is subject to a standby fee in the range of 33.75 bps to 78.75 bps. During the six months ended June 30, 2019, the weighted average effective interest rate for the bank debt was approximately 4.1% (2018 – 3.9%).

6. Lease obligations

The Company incurs lease payments related to the oil hauling fleet, operator/crew trucks and the head office. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased asset.

		June 30, 2019
Balance, January 1, 2019	$	**3,321**
Additions		**3,172**
Lease payments		**(743)**
Interest		**353**
Balance, end of period	$	**6,103**

$1,627 was classified as current as at June 30, 2019 (2018 - $ nil).

7. 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:

		June 30, 2019		*December 31, 2018*
Balance, beginning of period	$	**12,410**	$	10,076
Liabilities incurred		**1,143**		2,414
Decommissioning costs incurred		**(578)**		(333)
Effect of change in estimates		**1,002**		26
Accretion		**116**		227
Balance, end of period	$	**14,093**	$	12,410

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

		June 30, 2019		*December 31, 2018*
Undiscounted cash flows	$	**16,699**	$	15,255
Discount rate		**1.41% - 1.68%**		1.90% - 2.52%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**9.1 years**		9.60 years

The Medicine Hat area has been fully abandoned as at June 30, 2019 ($94 classified as current decommissioning liability in 2018)

8. Share capital

a. Authorized

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

8. Share capital (continued)

b. Common shares issued

	Number of shares		*Amount ($)*
Balance, December 31, 2017	81,379	$	166,386
Exercise of stock options	3,962		6,776
Contributed surplus transferred on exercise of stock options	–		3,124
Balance, December 31, 2018	85,341	$	176,286
Exercise of stock options	**22**		**31**
Contributed surplus transferred on exercise of stock options	**–**		**17**
Balance, June 30, 2019	**85,363**	**$**	**176,334**

9. 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 six months ended June 30, 2019, the Company granted options to purchase 240 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 $294 ($1.29 per option) using the Black-Scholes option pricing model.

During the three and six months ended June 30, 2019, the Company recognized $895 (2018 – $1,345) and $2,163 (2018 – $2,165), respectively, of share-based compensation on the condensed consolidated interim statement of income and comprehensive income. During the three and six months ended June 30, 2019, the Company capitalized $329 (2018 - $518) and $764 (2018 - $806), respectively, related to property and equipment

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

	June 30, 2019		*December 31, 2018*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**8,324**	**$4.38**	7,864	$1.85
Granted	**240**	**2.67**	4,675	5.32
Exercised	**(22)**	**(1.39)**	(3,962)	(1.71)
Forfeited	**(57)**	**(4.32)**	(253)	(4.16)
Closing	**8,485**	**$4.36**	8,324	$4.38

9. Share-based compensation (continued)

The following provides a summary of the stock option plan as at June 30, 2019:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.62 – $ 1.00	**530**	**1.51**	**$ 0.67**	**530**
$ 1.01 – $ 1.50	**1,179**	**2.38**	**1.32**	**596**
$ 1.51 – $ 2.00	**822**	**1.12**	**1.81**	**771**
$ 2.01 – $ 2.50	**100**	**4.98**	**2.18**	**–**
$ 2.51 – $ 3.00	**563**	**3.21**	**2.77**	**221**
$ 3.01 – $ 3.50	**602**	**3.07**	**3.28**	**234**
$ 3.51 – $ 4.00	**13**	**3.24**	**3.72**	**3**
$ 4.01 – $ 4.50	**313**	**3.98**	**4.21**	**34**
$ 4.51 – $ 5.00	**450**	**4.00**	**4.97**	**23**
$ 5.01 – $ 5.50	**2,023**	**3.57**	**5.14**	**675**
$ 5.51 – $ 6.00	**1,828**	**3.80**	**5.71**	**604**
$ 6.00 – $ 6.28	**62**	**3.87**	**6.15**	**21**
	8,485	**3.08**	**$ 4.36**	**3,712**

The following provides a summary of the stock option plan as at December 31, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.62 – $ 1.00	536	2.00	$ 0.67	370
$ 1.01 – $ 1.50	1,183	2.87	1.32	745
$ 1.51 – $ 2.00	834	1.63	1.81	783
$ 2.51 – $ 3.00	434	3.21	2.70	11
$ 3.01 – $ 3.50	607	3.57	3.28	204
$ 3.51 – $ 4.00	14	3.73	3.74	4
$ 4.01 – $ 4.50	333	4.49	4.21	31
$ 4.51 – $ 5.00	460	4.50	4.97	23
$ 5.01 – $ 5.50	2,028	4.07	5.14	–
$ 5.51 – $ 6.00	1,828	4.30	5.71	–
$ 6.00 – $ 6.28	67	4.36	6.15	–
	8,324	3.53	$ 4.38	2,171

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

	2019	*2018*
Weighted average exercise per option	**$2.63**	$5.32
Risk-free interest rate	**1.42% - 1.83%**	1.97% - 2.14%
Expected volatility	**63% - 64%**	62% - 63%
Weighted average expected life	**4 years**	4 years
Forfeiture rate	**5%**	5%
Weighted average fair value per option	**$1.29**	$2.48

10. Earnings per common share

Basic earnings per share was calculated as follows:	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Net income for the period	$ **18,219**	$ 1,646	$ **29,733**	$ 7,304
Weighted average number of shares (basic)				
Issued common shares at beginning of period	**85,363**	83,425	**85,341**	81,379
Effect of shares issued	–	1,595	**20**	2,580
Weighted average number of common shares - basic	**85,363**	85,020	**85,361**	83,959
Diluted earnings per share was calculated as follows:				
Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	**85,363**	85,020	**85,361**	83,959
Effect of outstanding options	**1,317**	2,763	**1,367**	2,447
Weighted average number of common shares - diluted	**86,680**	87,783	**86,728**	86,406

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 June 30, 2019, 5,438 (2018 – 1,662) options are excluded as they are out of the money based on an average share price of $ 2.76 (2018 – $5.72). For the six months ended June 30, 2019, 5,438 (2018 – 1,666) options are excluded as they are out of the money based on an average share price of $2.85 (2018 – $5.25).

11. Change in non-cash working capital

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Accounts receivable	$ **10,412**	$ 3,063	$ **1,015**	$ 922
Prepaid expenses and inventory	**(557)**	(530)	**1,714**	(838)
Accounts payable and accrued liabilities	**(27,183)**	(6,524)	**(23,838)**	847
	$ **(17,328)**	$ (3,991)	$ **(21,109)**	$ 931

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

Operating	$ **(7,592)**	$ (716)	$ **(11,782)**	$ (4,365)
Investing	**(9,736)**	(3,275)	**(9,327)**	5,296
	$ **(17,328)**	$ (3,991)	$ **(21,109)**	$ 931

12. 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 condensed consolidated interim 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 June 30, 2019, the maximum credit exposure is the carrying amount of the accounts receivable of $25,188 (December 31, 2018 – $26,203). The maximum exposure to credit risk for accounts receivable as at June 30, 2019 and December 31, 2018 by type of customer was:

	June 30, 2019	December 31, 2018
Natural gas and liquids marketers	$ **13,336**	$ 8,441
Partners on joint operations	**9,241**	11,170
Realized commodity contracts	**296**	2,156
Other	**2,315**	4,436
	$ **25,188**	$ 26,203

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. The majority of the revenue accruals and receivables from natural gas and liquids marketers were received in July 2019.

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.

12. Financial instruments and financial risk management (continued)

As at June 30, 2019 and December 31, 2018, the Company considers its receivables to be aged as follows:

	June 30, 2019	December 31, 2018
Under 30 days	$ **14,940**	$ 14,196
30 to 60 days	**96**	515
60 to 90 days	**396**	2,846
Over 90 days	**9,756**	8,646
	$ **25,188**	$ 26,203

58% (2018 – 86%) 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 16). The Company did not provide for any provision of expected credit losses during the six months ended June 30, 2019.

Risk management assets and liabilities consist of commodity contracts used to manage the Company's exposure to fluctuations in commodity prices. The Company manages the credit risk exposure related to risk management contracts by selecting investment grade counterparties and by not entering into contracts for trading or speculative purposes. During 2019 and 2018, the Company did not experience any collection issues with risk management contracts. The Company typically does not obtain or post collateral or security from its oil and natural gas marketers or financial institution counterparties. The carrying amounts of accounts receivable represent the maximum credit exposure.

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 condensed consolidated interim statement of financial position based on their maturity dates.

The Company has been funding the 2019 budget with cash flow from operations and the availability on the credit facility (see note 5).

12. Financial instruments and financial risk management (continued)

As at June 30, 2019, 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	$ 28,013	$ 28,013	$ 28,013	$ -	$ -	$ -
Bank debt	172,385	172,770	-	172,770	-	-
Lease liabilities	6,103	7,054	1,627	1,592	3,752	83
Other long-term liabilities	102	102	46	48	8	-
Commodity contracts	428	428	214	214	-	-
Interest rate contracts	223	223	50	173	-	-
Foreign exchange contracts	5,152	5,152	5,152	-	-	-
	$ 212,406	$ 213,742	$ 35,102	$ 174,797	$ 3,760	$ 83

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 six months ended June 30, 2019, if interest rates (including the effect of the interest rate contract) had been 1% lower with all other variables held constant, net income for the period would have been $734 (2018 - $457) 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 June 30, 2019:

Contracts	**Fair Value**
Pay a floating rate to receive a 1.945% (plus a 2.50% credit spread) fixed rate on $10 million (June 2018-November 2023)	**$ (113)**
Pay a floating rate to receive a 1.935% (plus a 2.50% credit spread) fixed rate on $10 million (May 2018-November 2023)	**(110)**
	$ (223)

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 syndicated loan position is denominated in US dollars, the following forward exchange rate contracts are in place at June 30, 2019 against the principal and interest payments on that position.

12. Financial instruments and financial risk management (continued)

Term	Position	Reference	Type	Price	Fair Value
June 5, 2019 – July 5, 2019	$62,242 USD	CAD	Forward	1.35075	$ **(2,573)**
June 5, 2019 – July 5, 2019	$62,229 USD	CAD	Forward	1.35075	**(2,579)**
Total					**$ (5,152)**

During the three and six months ended June 30, 2019 and 2018, the following items were included in the foreign exchange transactions on the condensed consolidated interim statements of income and comprehensive income:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Realized gain (loss) on foreign exchange contract settlement	$ **2,251**	$ –	$ **2,251**	$ –
Change in fair value of foreign exchange contracts	**(5,152)**	–	**(5,152)**	–
Foreign exchange revaluation of bank debt	**3,066**	–	**3,066**	–
	$ **165**	$ –	$ **165**	$ –

The sensitivity of the fair value of a 10 percent change in foreign exchange rates would have an immaterial impact the condensed consolidated interim statements of income and comprehensive income.

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 June 30, 2019, the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price	Fair Value
Oil						
2020	425 bbl/d	Jan to Dec	US$ WTI	Sold Call	USD$ 65.00/bbl	$ **(422)**
Propane						
2019	200 bbl/d	Jan to Dec	Conway - C3	Swap	CAD $41.75	**651**
2020	100 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD 0.02875/Gallon	**(6)**
2020	100 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD 0.02/Gallon	**7**
Total						**$ 230**

12. Financial instruments and financial risk management (continued)

No new commodity contracts were entered into after June 30, 2019.

As the Company had a limited number of derivatives in place as at June 30, 2019, the sensitivity of the fair value of a 10 percent volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the condensed consolidated interim statement of income and comprehensive income.

d. Fair value of financial instruments

The fair value of accounts receivable and accounts payable and accrued liabilities approximate their carrying amount due to the short-term nature of the instruments. The fair value of the Company's long-term debt approximates its carrying value as the interest rates charged on this debt are comparable to current market rates. The fair values of the Company's risk management contracts are determined by discounting the difference between the contracted prices and published forward price curves as at the balance sheet date, using the remaining contracted oil volumes and a risk-free interest rate (based on published government rates). The fair values of the Company's interest rate contracts are determined by discounting the difference between fixed rate payments from the contract and the variable payments as per published interest rates. The fair values of the Company's foreign exchange contracts are determined by discounting the difference between fixed exchange rate from the contract and the variable exchange rate as per published rates.

The following table summarizes the carrying value and fair value of the Company's risk management assets and liabilities.

		June 30, 2019		December 31, 2018	
	Measurement Level	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Financial assets at fair value through profit or loss:					
Risk management assets	2	**$ 658**	**$ 658**	$ 938	$ 938
Financial Liabilities					
Financial Liabilities at fair value through profit or loss:					
Risk management liabilities	2	**$ 5,803**	**$ 5,803**	$ 390	$ 390

The fair values of financial instruments have been determined by various valuation methods as defined below:

- Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and ,
- Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels in the fair value hierarchy for the six months ended June 30, 2019.

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:

		June 30, 2019		*December 31, 2018*
Shareholders' equity	$	**288,027**	$	255,336
Bank debt	$	**172,385**	$	134,489

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 June 30, 2019, the Company's capital structure was subject to the banking covenants disclosed in note 5. No changes were made to the capital policy in 2019.

14. Finance expenses

During the three and six months ended June 30, 2019 and 2018, the following items were included in the finance expense on the condensed consolidated interim statements of income and comprehensive income:

	Three months ended June 30,				Six months ended June 30,			
		2019		2018		**2019**		2018
Interest & finance costs	$	**1,507**	$	938	$	**3,087**	$	1,875
Interest on lease obligations		**105**		–		**185**		–
Realized loss on interest rate contracts		**(2)**		22		**(13)**		54
Change in fair value of interest rate contracts		**147**		(65)		**506**		(225)
Accretion of decommissioning liability *(note 7)*		**54**		55		**116**		102
Accretion of debt transaction costs		**62**		62		**125**		123
Accretion of lease obligations		**118**		–		**168**		–
Foreign exchange transactions		**(165)**		–		**(165)**		–
	$	**1,826**	$	1,012	$	**4,009**	$	1,929

15. Revenue

The Company derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Crude Oil	$ **28,196**	$ 23,506	$ **53,959**	$ 45,204
Natural Gas	**3,999**	1,933	**12,653**	5,625
Natural Gas Liquids	**4,278**	4,483	**9,768**	8,843
	$ **36,473**	$ 29,922	$ **76,380**	$ 59,672

At June 30, 2019, receivables from contracts with customers, which are included in trade accounts receivable, were $20.9 million ($19.1 million at June 30, 2018).

16. 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.