Yangarra Resources Ltd.

Condensed Consolidated Interim Financial Statements

September 30, 2018 and 2017

		September 30, 2018 (unaudited)		December 31, 2017 (audited)
Assets				
Current				
Cash and cash equivalents	$	**2,801,070**	$	–
Accounts receivable *(note 11a)*		**30,253,859**		26,413,976
Prepaid expenses and inventory		**4,759,374**		3,360,583
Interest rate contracts *(note 11c i)*		**131,257**		37,116
Commodity contracts *(note 11c iii)*		**38,208**		–
Total current assets		**37,983,768**		29,811,675
Non-current				
Property and equipment *(note 3)*		**426,744,949**		342,099,959
Exploration and evaluation assets *(note 4)*		**14,115,775**		6,032,865
Interest rate contracts *(note 11c i)*		**552,293**		286,914
Total assets	$	**479,396,785**	$	378,231,413
Liabilities				
Current				
Accounts payable and accrued liabilities *(note 11b)*	$	**54,055,285**	$	38,421,687
Commodity contracts *(note 11c iii)*		**7,032,468**		2,532,196
Interest rate contracts *(note 11c i)*		–		68,037
Current portion of decommissioning liability *(note 6)*		**424,485**		–
Total current liabilities		**61,512,238**		41,021,920
Non-current				
Bank debt *(note 5)*		**119,471,420**		84,886,124
Other long-term liabilities *(note 11b)*		**136,925**		169,799
Commodity contracts *(note 11c iii)*		**5,058,085**		975,665
Decommissioning liability *(note 6)*		**11,425,424**		10,076,055
Deferred tax liability		**41,846,740**		33,145,227
Total liabilities		**239,450,832**		170,274,790
Shareholders' Equity				
Share capital *(note 7b)*		**176,260,009**		166,386,242
Contributed surplus		**16,467,801**		14,603,528
Retained earnings		**47,218,143**		26,966,853
Total shareholders' equity		**239,945,953**		207,956,623
Total liabilities and shareholders' equity	$	**479,396,785**	$	378,231,413

Contingency (note 15), Commitments (note 16)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Revenue				
Petroleum and natural gas sales	$ **45,131,784**	$ 17,663,925	$ **104,803,971**	$ 52,740,708
Royalties	**(4,156,841)**	(1,344,746)	**(9,642,356)**	(4,063,292)
	40,974,943	16,319,179	**95,161,615**	48,677,416
Commodity price risk contracts *(note 11c iii)*				
Realized gain (loss) on commodity contract settlement	**(3,462,012)**	1,632,783	**(8,553,310)**	2,196,435
Change in fair value of commodity contracts	**588,526**	(1,324,066)	**(8,544,484)**	1,905,915
	38,101,457	16,627,896	**78,063,821**	52,779,766
Expenses				
Production	**5,015,914**	2,997,128	**13,751,013**	10,105,064
Transportation	**1,018,725**	803,930	**3,037,130**	1,559,096
General and administrative	**578,199**	410,372	**1,348,256**	1,093,507
Finance *(note 13)*	**1,294,517**	441,102	**3,223,704**	2,187,947
Share-based compensation *(note 8)*	**1,508,805**	394,209	**3,673,824**	1,095,220
Depletion, depreciation and impairment *(note 3)*	**10,383,711**	6,069,178	**24,077,091**	15,991,491
	19,799,871	11,115,919	**49,111,018**	32,032,325
Income before tax	**18,301,586**	5,511,977	**28,952,803**	20,747,441
Deferred tax expense	**5,354,853**	1,536,371	**8,701,513**	5,944,072
Net income and total comprehensive income	$ **12,946,733**	$ 3,975,606	$ **20,251,290**	$ 14,803,369
Earnings per share *(note 9)*				
Basic	$ **0.15**	$ 0.05	$ **0.24**	$ 0.18
Diluted	$ **0.15**	$ 0.05	$ **0.23**	$ 0.18
Weighted average number of shares *(note 9)*				
Basic	**85,330,893**	81,033,965	**84,421,121**	80,523,866
Diluted	**87,613,710**	84,772,793	**86,783,199**	83,692,914

Yangarra Resources Ltd.
Condensed Consolidated Interim Statements of Changes in Equity
For the nine months ended September 30,
(unaudited)

		2018		2017
Share Capital				
Balance, beginning of period	$	**166,386,242**	$	163,052,797
Exercise of options *(note 7)*		**6,758,792**		1,943,983
Contributed surplus transferred on exercise of stock options *(note 7)*		**3,114,975**		1,053,476
Balance, end of period		**176,260,009**		166,050,256
Contributed Surplus				
Balance, beginning of period		**14,603,528**		13,579,635
Share-based compensation *(note 8)*		**4,979,248**		1,576,492
Exercise of options		**(3,114,975)**		(1,053,476)
Balance, end of period		**16,467,801**		14,102,651
Retained Earnings				
Balance, beginning of period		**26,966,853**		7,481,526
Net income for the period		**20,251,290**		14,803,369
Balance, end of period		**47,218,143**		22,284,895
Total Shareholders' Equity	$	**239,945,953**	$	202,437,802

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Operating				
Net income for the period	$ **12,946,733**	$ 3,975,606	$ **20,251,290**	$ 14,803,369
Add back non-cash items:				
Change in fair value of commodity contracts	**(588,526)**	1,324,066	**8,544,484**	(1,905,915)
Change in fair value of interest rate contracts	**(202,691)**	(396,696)	**(427,557)**	(728,005)
Share-based compensation *(note 8)*	**1,508,805**	394,209	**3,673,824**	1,095,220
Depletion, depreciation and impairment *(note 3)*	**10,383,711**	6,069,178	**24,077,091**	15,991,491
Accretion of decommissioning liability *(note 6)*	**58,855**	45,415	**160,863**	138,790
Accretion of debt issue costs *(note 13)*	**62,549**	–	**185,443**	–
Deferred tax expense	**5,354,853**	1,536,371	**8,701,513**	5,944,072
Decommissioning costs incurred	–	(387,234)	–	(387,234)
Change in non-cash working capital *(note 10)*	**(2,985,350)**	820,481	**(7,350,765)**	(3,718,786)
Net cash flow from operating activities	**26,538,939**	13,381,396	**57,816,186**	31,233,002
Financing				
Exercise of stock options *(note 7)*	–	584,873	**6,758,792**	1,943,983
Bank debt advance *(note 5)*	**13,867,899**	(330,260)	**34,399,853**	13,418,193
Other long-term liabilities repayment	**(11,071)**	(10,623)	**(32,874)**	(31,541)
Net cash from financing activities	**13,856,828**	243,990	**41,125,771**	15,330,635
Investing				
Additions to property and equipment *(note 3)*	**(48,481,343)**	(20,910,525)	**(105,803,666)**	(52,307,819)
Purchase of exploration and evaluation assets *(note 4)*	**(1,562,879)**	–	**(8,082,910)**	–
Change in non-cash working capital *(note 10)*	**12,449,525**	7,285,139	**17,745,689**	5,744,182
Net cash flow used in investing activities	**(37,594,697)**	(13,625,386)	**(96,140,887)**	(46,563,637)
Change in cash and cash equivalents	**2,801,070**	–	**2,801,070**	–
Cash, beginning of the period	_	_	_	_
Cash, end of the period	$ **2,801,070**	$ –	$ **2,801,070**	$ –

1. Basis of preparation, adoption of IFRS and statement of compliance

Yangarra Resources Ltd. (the "Company") is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6.

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Yangarra Resources Corp. ("YRC"), after the elimination of intercompany transactions and balances.

Statement of compliance and authorization:

These condensed consolidated 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, 2017 (the "Annual Financial Statements"). These condensed consolidated 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 condensed consolidated interim financial statements should be read in conjunction with the Annual Consolidated Financial Statements.

The consolidated condensed consolidated interim financial statements were authorized for issue by the Company's Board of Directors on November 7, 2018.

2. Significant accounting policies

<u>IFRS 15 Revenue from Contracts with Customers ("IFRS 15")</u>

Effective January 1, 2018, the Company adopted IFRS 15 on a modified retrospective basis. The standard supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Company principally generates revenue from the sale of commodities, which include crude oil and natural gas. Revenue associated with the sale of commodities is recognized when control is transferred from the Company to its customers. The Company's commodity sale contracts represent a series of distinct transactions. The Company considers its performance obligations to be satisfied and control to be transferred when all the following conditions are satisfied:

- The Company has transferred title and physical possession of the commodity to the buyer;
- The Company has transferred significant risks and rewards of ownership of the commodity to the buyer; and,
- The Company has the present right to payment.

Revenue is measured based on the consideration specified in a contract with the customer. Payment terms for the Company's commodity sales contracts are on the 25th of the month following delivery. The Company does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust its revenue transactions for the time value of money. Revenue represents the Company's share of commodity sales net of royalty obligations to governments and other mineral interest owners.

The Company enters into contracts with customers that can have performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. The Company applies a practical expedient of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less, or for performance obligations where the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date.

2. Significant accounting policies (continued)

Contract modifications with the Company's customers could change the scope of the contract, the price of the contract, or both. A contract modification exists when the parties to the contract approve the modification either in writing, orally, or based on the parties' customary business practices. Contract modifications are accounted for either as a separate contract when there is an additional product at a stand-alone selling price, or as part of the existing contract, through either a cumulative catch-up adjustment or prospectively over the remaining term of the contract, depending on the nature of the modification and whether the remaining products are distinct.

In its modified retrospective adoption of IFRS 15, the Company applied a practical expedient that allows the Company to avoid re-considering the accounting for any sales contracts that were completed prior to January 1, 2018 and were previously accounted for under its previous revenue accounting policy.

The adoption of IFRS 15 did not result in any adjustments to the amounts recognized in the Company's consolidated financial statements for the year ended December 31, 2017. Additional disclosures regarding the Company's reported revenue from contracts with customers as required by IFRS 15 for the periods ended September 30, 2018 and 2017 are disclosed in Note 14.

Yangarra has applied the practical expedient to recognize revenue in the amount to which the Company has the right to invoice. As such, no disclosure is included relating to the amount of transaction price allocated to remaining performance obligations and when these amounts are expected to be recognized as revenue.

<u>IFRS 9 Financial Instruments ("IFRS 9")</u>

Effective January 1, 2018, the Company retrospectively adopted IFRS 9, as well as consequential amendments to IFRS 7 Financial Instruments: Disclosures. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The adoption of IFRS 9 did not result in any adjustments to the amounts recognized in the Company's condensed consolidated interim financial statements for the period ended September 30, 2018.

Classification and Measurement of Financial Instruments

The Company measures its financial assets and financial liabilities at fair value on initial recognition, which is typically the transaction price unless a financial instrument contains a significant financing component. Subsequent measurement is dependent on the financial instrument's classification which in the case of financial assets, is determined by the context of the Company's business model and the contractual cash flow characteristics of the financial asset. Financial assets are classified into two categories: (1) measured at amortized cost and (2) fair value through profit and loss ("FVTPL"). Financial liabilities are subsequently measured at amortized cost, other than financial liabilities that are measured at FVTPL or designated as FVTPL where any change in fair value resulting from an entity's own credit risk is recorded as other comprehensive income ("OCI"). The Company does not employ hedge accounting for its risk management contracts currently in place.

Amortized Cost

The Company classifies its accounts receivable, accounts payable and accrued liabilities, other long-term liabilities and bank debt as measured at amortized cost. The contractual cash flows received from the financial assets are solely payments of principal and interest and are held within a business model whose objective is to collect the contractual cash flows. These financial assets and financial liabilities are subsequently measured at amortized cost using the effective interest method.

2. Significant accounting policies (continued)

FVTPL

The Company classifies its risk management contracts as measured at FVTPL. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with changes in fair value charged immediately to the condensed consolidated interim statements of income and comprehensive income. The adoption of IFRS 9 has resulted in changes to the classification of some of the Company's financial assets but did not change the classification of the Company's financial liabilities. There is no difference in the measurement of these instruments under IFRS 9 due to the short-term and liquid nature of these financial assets. The following table summarizes the classification categories for the Company’s financial assets and liabilities by financial statement line item under the superseded IAS 39 standard and the newly adopted IFRS 9.

	IAS 39	IFRS 9
Financial Assets		
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts receivable	Loans and receivables (Amortized cost)	Amortized cost
Commodity contracts	Held-for-trading (“FVTPL”)	FVTPL
Interest rate contracts	Held-for-trading (“FVTPL”)	FVTPL
Financial Liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Commodity contracts	Held-for-trading (“FVTPL”)	FVTPL
Interest rate contracts	Held-for-trading (“FVTPL”)	FVTPL
Bank Debt	Amortized cost	Amortized cost
Other long-term liabilities	Amortized cost	Amortized cost

Impairment of Financial Assets

IFRS 9 also introduces a new model for the measurement of impairment of financial assets based on expected credit losses which replaces the incurred losses impairment model applied under IAS 39. Under this new model, the Company’s accounts receivable are considered collectible within one year or less; therefore, these financial assets are not considered to have a significant financing component and a lifetime expected credit loss (“ECL”) is measured at the date of initial recognition of the accounts receivable.

The Company’s accounts receivables are subject to the expected credit loss model under IFRS 9. For the trade and other receivables, the Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which requires the use of the lifetime expected loss provision for all trade receivables. In estimating the lifetime expected loss provision, the Company considered historical industry default rates as well as credit ratings of major customers. There were no material adjustments to the carrying value of any of the Company’s financial instruments following the adoption of IFRS 9. Additional disclosure related to the Company’s financial assets required by IFRS 9 is included in Note 11.

Standards Issued but not yet Effective

The Company has reviewed new and revised accounting pronouncements listed below that have been issued but are not yet effective. There are no other standards or interpretations issued, but not yet adopted, that are anticipated to have a material effect on the reported income or net assets of the Company.

IFRS 16 Leases (“IFRS 16”) IFRS 16 was issued in January 2016 and replaces IAS 17 Leases and related interpretations. The standard is required to be adopted either retrospectively or by recognizing the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 is effective for fiscal years beginning on or after January 1, 2019 with earlier adoption permitted if IFRS 15 Revenue from Contracts with Customers has also been adopted. Yangarra is currently evaluating the impact of the standard on the Company’s condensed consolidated interim financial statements.

3. Property and equipment

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Cost				
Balance at December 31, 2016	$ 310,064,708	$ 56,024,983	$ 1,943,589	$ 368,033,280
Cash additions	72,298,450	10,853,654	319,990	83,472,094
Capitalized share-based compensation	671,416	–	–	671,416
Decommissioning liability	1,381,208	–	–	1,381,208
Decommissioning costs incurred	95,433	–	–	95,433
Transfer from E&E	729,600	–	–	729,600
Balance at December 31, 2017	385,240,815	66,878,637	2,263,579	454,383,031
Cash additions	**85,286,609**	**20,346,403**	**170,654**	**105,803,666**
Capitalized share-based compensation (note 8)	**1,305,424**	–	–	**1,305,424**
Decommissioning liability (note 6)	**1,612,991**	–	–	**1,612,991**
Balance at September 30, 2018	**$ 473,445,839**	**$ 87,225,040**	**$ 2,434,233**	**$ 563,105,112**
Depletion, depreciation and impairment				
Balance at December 31, 2016	$ 80,948,116	$ 8,083,700	$ 1,307,833	$ 90,339,649
Depletion and depreciation	20,516,400	1,167,600	259,423	21,943,423
Balance at December 31, 2017	101,464,516	9,251,300	1,567,256	112,283,072
Depletion and depreciation	**21,787,200**	**1,349,000**	**135,109**	**23,271,309**
Asset impairment	**805,782**	–	–	**805,782**
Balance at September 30, 2018	**$ 124,057,498**	**$ 10,600,300**	**$ 1,702,365**	**$ 136,360,163**
At December 31, 2017	$ 283,776,299	$ 57,627,337	$ 696,323	$ 342,099,959
At September 30, 2018	**$ 349,388,341**	**$ 76,624,740**	**$ 731,868**	**$ 426,744,949**

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 September 30, 2018 all of the Company's properties are pledged as security for the bank debt (see note 5).

During the nine months ended September 30, 2018, the Company capitalized $1,612,991 (2017 – $573,598) related to the decommissioning liability of property and equipment and $1,305,424 (2017 – $481,272) of share-based compensation. The Company also capitalized $1,336,761 (2017 - $737,877) 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 nine months ended September 30, 2018, the Company capitalized $366,488 (2017 – $409,777) of salaries and consulting expenses directly related to geological, drilling and completions.

The impairment relates to the Medicine Hat area was which was written off during the three months ended September 30, 2018 as the area has been shut-in and will be abandoned within the next twelve months. There were no other indicators of impairment as at September 30, 2018.

4. Exploration and evaluation assets

Cost		
Balance at December 31, 2016	$	16,538,299
Transfer to Property and Equipment		(729,600)
Balance at December 31, 2017		15,808,699
Additions		**8,082,910**
Balance at September 30, 2018	$	**23,891,609**
Impairment losses		
Balance at December 31, 2016	$	9,775,834
Impairment		–
Balance at December 31, 2017 & September 30, 2018	$	**9,775,834**
Net book value		
At December 31, 2017	$	6,032,865
At September 30, 2018	$	**14,115,775**

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 September 30, 2018, the maximum amount available under the syndicated credit facility was $150 million (2017 – $100 million) comprised of a $140 million (2017 – $90 million) extendible revolving term credit facility and a $10 million (2017 – $10 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, 2020 (the "Maturity Date") and the next Borrowing Base review is scheduled for November 30, 2018. 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 September 30, 2018, the $ 119,471,420 (December 31, 2017 – $84,886,124) reported amount of bank debt was comprised of $ nil (December 31, 2017 – nil) drawn on the operating facility, $119,633,096 (December 31, 2017 – $84,821,111) drawn on the extendible revolving term credit facility in bankers' acceptance and net of unamortized transaction costs of $161,676 (December 31, 2017 – $347,119).

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, excluding unrealized commodity contracts and flow-through share premium obligation). The Company was in compliance with this covenant as at September 30, 2018 and December 31, 2017. 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 nine months ended September 30, 2018, the weighted average effective interest rate for the bank debt was approximately 3.87% (2017 – 3.92%).

Subsequent to September 30, 2018, the Borrowing Base review was completed and the maximum amount available under the syndicated credit facility was increased to $175 million all other terms remained the same.

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:

		September 30, 2018		*December 31, 2017*
Balance, beginning of period	$	**10,076,055**	$	8,096,560
Liabilities incurred		**1,934,972**		1,690,870
Decommissioning costs incurred		**-**		(95,433)
Effect of change in estimates		**(321,981)**		(214,229)
Accretion		**160,863**		598,287
Balance, end of period	$	**11,849,909**	$	10,076,055

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

		September 30, 2018		*December 31, 2017*
Undiscounted cash flows	$	**14,665,287**	$	12,175,616
Discount rate		**1.77% - 2.52%**		1.31% - 2.47%
Inflation rate		**2%**		2%
Weighted average expected timing of cash flows		**9.6 years**		10 years

The Medicine Hat area is classified as current as the area has been shut-in and will be abandoned within the next twelve months.

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, 2016	79,815,811	$	163,052,797
Exercise of stock options	1,562,679		2,179,593
Contributed surplus transferred on exercise of stock options	–		1,153,852
Balance, December 31, 2017	81,378,490	$	166,386,242
Exercise of stock options	**3,952,403**		**6,758,792**
Contributed surplus transferred on exercise of stock options	**–**		**3,114,975**
Balance, September 30, 2018	**85,330,893**	**$**	**176,260,009**

8. 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 nine months ended September 30, 2018, the Company granted options to purchase 4,570,180 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 $11,402,167 ($2.49 per option) using the Black-Scholes option pricing model.

During the three and nine months ended September 30, 2018, the Company recognized $1,508,805 (2017 – $394,209) and $3,673,824 (2017 – $1,095,220), respectively, of share-based compensation on the condensed consolidated interim statement of income. During the three and nine months ended September 30, 2018 the Company capitalized $498,975 (2017 - $202,575) and $1,305,424 (2017 - $481,272), respectively, related to property and equipment.

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

	September 30, 2018		*December 31, 2017*	
	Options	***Weighted – average exercise price***	*Options*	*Weighted – average exercise price*
Opening	**7,863,861**	**$1.85**	7,888,198	$1.50
Granted	**4,570,180**	**5.35**	1,558,342	2.60
Exercised	**(3,952,403)**	**1.56**	(1,562,679)	1.40
Forfeited	**(164,167)**	**4.10**	(20,000)	2.71
Closing	**8,317,471**	**$4.45**	7,863,861	$1.85

The following provides a summary of the stock option plan as at September 30, 2018:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.62 – $ 1.00	**536,333**	**2.25**	**$ 0.67**	**19,667**
$ 1.01 – $ 1.50	**1,196,667**	**3.12**	**1.32**	**94,445**
$ 1.51 – $ 2.00	**846,169**	**1.90**	**1.81**	**721,725**
$ 2.51 – $ 3.00	**433,783**	**3.47**	**2.70**	**10,557**
$ 3.01 – $ 3.50	**610,728**	**3.82**	**3.28**	**203,576**
$ 3.51 – $ 4.00	**17,778**	**3.99**	**3.79**	**3,334**
$ 4.01 – $ 4.50	**242,500**	**4.62**	**4.26**	–
$ 4.51 – $ 5.00	**490,000**	**4.76**	**4.97**	–
$ 5.01 – $ 5.50	**2,048,890**	**4.32**	**5.14**	–
$ 5.51 – $ 6.00	**1,827,956**	**4.55**	**5.71**	–
$ 6.00 – $ 6.28	**66,667**	**4.61**	**6.15**	–
	8,317,471	**3.79**	**$ 4.45**	**1,053,304**

8. Share-based compensation (continued)

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

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*
$ 0.50 – $ 1.00	1,481,555	2.72	$ 0.74	714,554
$ 1.01 – $ 1.50	1,747,227	3.87	1.32	1,035,557
$ 1.51 – $ 2.00	2,285,064	2.49	1.81	1,486,004
$ 2.01 – $ 2.50	166,667	1.15	2.28	166,667
$ 2.51 – $ 3.00	1,359,842	2.83	2.71	640,006
$ 3.01 – $ 3.50	613,228	4.57	3.28	–
$ 3.51 – $ 4.00	17,778	4.74	3.79	–
$ 4.01 – $ 4.50	117,500	4.92	4.22	–
$ 4.51 – $ 5.00	75,000	4.93	4.80	–
	7,863,861	3.10	$ 1.85	4,042,788

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

	2018	*2017*
Weighted average exercise per option	**$5.35**	$2.98
Risk-free interest rate	**1.97% - 2.34%**	0.91% - 1.80%
Expected volatility	**62% - 63%**	65% - 68%
Weighted average expected life	**4 years**	5 years
Forfeiture rate	**5%**	5%
Weighted average fair value per option	**$2.49**	$1.58

9. Earnings per common share

Basic earnings per share was calculated as follows:	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Net income for the period	$ **12,946,733**	$ 3,975,606	$ **20,251,290**	$ 14,803,369
Weighted average number of shares (basic)				
Issued common shares at beginning of period	**85,330,893**	79,815,811	**81,378,490**	79,815,811
Effect of shares issued	–	1,218,154	**3,042,631**	708,055
Weighted average number of common shares - basic	**85,330,893**	81,033,965	**84,421,121**	80,523,866
Diluted earnings per share was calculated as follows:				
Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	**85,330,893**	81,033,965	**84,421,121**	80,523,866
Effect of outstanding options	**2,282,817**	3,738,828	**2,362,078**	3,169,048
Weighted average number of common shares - diluted	**87,613,710**	84,772,793	**86,783,199**	83,692,914

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. For the three months ended September 30, 2018, 4,363,513 (2017 – 15,000) options are excluded as they are out of the money based on an average share price of $4.87 (2017 – $3.38). For the nine months ended September 30, 2018, 3,673,569 (2017 – 633,228) options are excluded as they are out of the money based on an average share price of $5.13 (2017 – $2.91).

10. Change in non-cash working capital

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Accounts receivable	$ **(4,761,652)**	$ (1,587,534)	$ **(3,839,883)**	$ (4,428,286)
Prepaid expenses and deposits	**(560,391)**	(457,033)	**(1,398,791)**	(138,122)
Accounts payable and accrued liabilities	**14,786,218**	10,150,187	**15,633,598**	6,591,804
	$ **9,464,175**	$ 8,105,620	$ **10,394,924**	$ 2,025,396

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

Operating	$ **(2,985,350)**	$ 820,481	$ **(7,350,765)**	$ (3,718,786)
Investing	**12,449,525**	7,285,139	**17,745,689**	5,744,182
	$ **9,464,175**	$ 8,105,620	$ **10,394,924**	$ 2,025,396

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 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 September 30, 2018, the maximum credit exposure is the carrying amount of the accounts receivable of $30,253,859 (December 31, 2017 – $26,413,976). The maximum exposure to credit risk for accounts receivable as at September 30, 2018 and December 31, 2017 by type of customer was:

	September 30, 2018	December 31, 2017
Natural gas and liquids marketers	$ **16,194,900**	$ 12,737,640
Partners on joint operations	**10,953,503**	11,159,533
Realized commodity contracts	–	67,093
Other	**3,105,456**	2,449,710
	$ **30,253,859**	$ 26,413,976

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 October 2018.

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 September 30, 2018 and December 31, 2017, the Company considers its receivables to be aged as follows:

		September 30, 2018		December 31, 2017
Under 30 days	$	**20,898,579**	$	17,449,229
30 to 60 days		**116,453**		2,003,025
60 to 90 days		**309,716**		168,871
Over 90 days		**8,929,111**		6,792,851
	$	**30,253,859**	$	26,413,976

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 15). The Company did not provide for any doubtful accounts nor write-off any accounts receivable during the nine months ended September 30, 2018.

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 2018 and 2017, 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 consolidated statement of financial position based on their maturity dates.

The Company has been funding the 2018 budget with cash flow from operations and the $30.4 million available on the credit facility (see note 5).

11. Financial instruments and financial risk management (continued)

As at September 30, 2018, 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
Accounts payable and accrued liabilities	$54,055,285	$54,055,285	$54,055,285	$ -	$ -
Bank debt	119,471,420	119,695,645	-	119,695,645	-
Other long-term liabilities	136,925	136,925	45,431	47,341	44,153
Commodity contracts	12,090,553	12,090,553	7,032,468	5,058,085	-
	$185,754,183	$185,978,408	$61,133,184	$124,801,071	$44,153

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 nine months ended September 30, 2018, 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 $756,114 (2017 - $531,478) 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 September 30, 2018:

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)	$	344,192
Pay a floating rate to receive a 1.935% (plus a 2.50% credit spread) fixed rate on $10 million (May 2018-November 2023)	$	339,358
	$	683,550

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 September 30, 2018.

11. Financial instruments and financial risk management (continued)

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 September 30, 2018, the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price		Fair Value
Oil							
2018	200 bbl/d	Jan to Dec	CDN$ WTI	Collar	CDN$ 62.50/bbl-75.90/bbl	$	(429,019)
2018	300 bbl/d	Jul to Dec	US$ WTI	Collar	US$ 55.00/bbl-64.40/bbl	$	(381,652)
2018	300 bbl/d	Jan to Dec	CDN$ WTI	Swap	CDN$ 71.60/bbl	$	(796,666)
2018	200 bbl/d	Jan to Dec	US$ WTI	Sold Call	US$ 70.00/bbl	$	(101,170)
2018	300 bbl/d	Mar to Dec	CDN$ WTI	Swap	CDN$ 78.20/bbl	$	(555,876)
2018	300 bbl/d	Apr to Dec	CDN$ WTI	Swap	CDN$ 80.15/bbl	$	(486,027)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Sold Call	CDN$ 75.17/bbl	$	(667,546)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Swap	CDN$ 75.40/bbl	$	(659,905)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Swap	CDN$ 75.40/bbl	$	(659,163)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Swap	CDN$ 76.00/bbl	$	(636,139)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Swap	CDN $81.05/bbl	$	(453,802)
2018	300 bbl/d	Jul to Dec	CDN$ WTI	Swap	CDN $89.85/bbl	$	(132,791)
2019	300 bbl/d	Jan to Jun	CDN$ WTI	Swap	CDN $84.75/bbl	$	(427,585)
2019	300 bbl/d	Jan to Jun	CDN$ WTI	Swap	CDN $85.45/bbl	$	(391,958)
2020	1,250 bbl/d	Jan to Dec	US$ WTI	Sold Call	USD$ 65.00/bbl	$	(5,005,044)
Propane							
2018	200 bbl/d	Jan to Dec	Conway - C3	Swap	USD $32.34	$	(94,047)
2019	200 bbl/d	Jan to Dec	Conway - C3	Swap	CAD $41.75	$	(212,163)
Natural Gas							
2018	200 bbl/d	Jul to Oct	CDN$ AECO	Swap	CDN $1.55/GJ	$	38,208
Total						**$**	**(12,052,345)**

No new contracts were entered into after September 30, 2018.

11. 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 September 30, 2018 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 ($7.53/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	$ (7,326,735)	$ 7,335,061

d. Fair value of financial instruments

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

		September 30, 2018		December 31, 2017	
	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	$ 721,758	$ 721,758	$ 324,030	$ 324,030
Financial Liabilities					
Financial Liabilities at fair value through profit or loss:					
Risk management liabilities	2	$ 12,090,553	$ 12,090,553	$ 3,575,898	$ 3,575,898

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).

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:

		September 30, 2018		*December 31, 2017*
Shareholders' equity	$	**239,945,953**	$	207,956,623
Bank debt	$	**119,471,420**	$	84,886,124

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 September 30, 2018, the Company's capital structure was subject to the banking covenants disclosed in note 5. No changes were made to the capital policy in 2018.

13. Finance expenses

During the three and nine months ended September 30, 2018 and 2017, the following items were included in the finance expense on the consolidated statements of income and comprehensive income:

	Three months ended September 30,				Nine months ended September 30,			
		2018		2017		**2018**		2017
Interest & finance costs	$	**1,366,745**	$	731,949	$	**3,241,407**	$	2,580,395
Realized loss on interest rate contracts		**9,058**		60,434		**63,548**		196,767
Change in fair value of interest rate contracts		**(202,690)**		(396,696)		**(427,557)**		(728,005)
Accretion of decommissioning liability *(note 6)*		**58,855**		45,415		**160,863**		138,790
Accretion of debt transaction costs		**62,549**		–		**185,443**		–
	$	**1,294,517**	$	441,102	$	**3,223,704**	$	2,187,947

14. 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 September 30,		Nine months ended September 30,	
	2018	2017	**2018**	2017
Crude Oil	$ **36,891,279**	$ 12,334,526	$ **82,095,313**	$ 35,969,588
Natural Gas	**2,904,635**	2,460,796	**8,529,591**	9,535,392
Natural Gas Liquids	**5,335,870**	2,868,603	**14,179,067**	7,235,728
	$ **45,131,784**	$ 17,663,925	$ **104,803,971**	$ 52,740,708

At September 30, 2018, receivables from contracts with customers, which are included in trade accounts receivable, were $23.4 million (2017 - $7 million).

15. 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.

16. Commitments

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

2018	$ 287,213
2019	$ 1,004,338
2020	$ 1,011,708
2021	$ 721,510
2022	$ 518,793
Thereafter	$ 168,044