Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the March 31, 2010 unaudited interim consolidated financial statements and the December 31, 2009 audited consolidated financial statements of Yangarra Resources Ltd. (the "Company"), together with the accompanying notes. The MD&A has been prepared using information that is current to ***May 27, 2010.***

The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.

BOE Presentation – *Production information is commonly reported in units of barrel of oil equivalent ("boe"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of boe may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.*

Special Note Regarding Non-GAAP Measures *– This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "****net petroleum and natural gas revenue****" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "****funds flow from operations****" (net loss for the period adjusted for non-cash items in the statement of operations) are not GAAP measures and do not have standardized meanings prescribed by GAAP.*

Forward-looking Statements – *Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive such events.*

Company Description and Outlook

Yangarra Resources Ltd. ("Yangarra" or the "Company") is involved in the production, exploration and development of resource properties in the Ferrier, Medicine Hat, Mega, Viking, Jaslan/Grasslands and Bigstone areas of Alberta and in Bayhurst, Saskatchewan.

On December 31, 2009, the Company acquired all of the issued and outstanding shares of Athabaska Energy Ltd. ("Athabaska"), a non-arm's length private corporation, in exchange for 50,000,004 common shares of the Company. On May 1, 2010, the Company and Athabaska were amalgamated and continue to carry on business under the name Yangarra Resources Ltd.

The comparative results included herein for the three months March 31, 2009 are those of Yangarra only.

With the recent industry interest in the Glauconite and Cardium pool development in central Alberta Yangarra's Ferrier/Willesden Green property has become very attractive. Following the Company's restructuring in late 2009 resulting in a much stronger balance sheet, Yangarra hired a Geological and Geophysical (G&G) group to pursue development of its central Alberta property.

The new G&G group has identified 18 horizontal Glauconite locations and 23 horizontal Cardium locations for development of the Ferrier/Willesden Green assets. In addition, the Company was able to purchase a 15% override that was held by a third party which covered most of the prospective acreage which has significantly improved the economics of the development of this play.

Yangarra also raised $6.0 million in a financing during the first quarter of 2010 as well as an additional $2.0 million during the second quarter of 2010. The raising of this equity allowed the Company to drill its first horizontal Glauconite well (100% working interest) during the first quarter and the well was flow tested during the second quarter at a combined rate of 1100 boe per day. Plans are underway to tie the well into Company-owned facilities with a projected on stream date of early July.

During the second quarter, Yangarra's partner commenced drilling of a horizontal Cardium location scheduled to be finished by May 31, in which the Company holds a 31.875% working interest and a 15% override. In addition, Yangarra has put its partners on notice to drill a second Cardium location (31.875% working interest and a 15% override) which the Company plans to commence drilling in early June.

Once these wells are on production and evaluated Yangarra plans to drill an additional 4 to 8 Glauconite and Cardium locations during the balance of 2010.

The unaudited interim consolidated financial statements were prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. As at March 31, 2010, the Company had a working capital deficiency of $5,498,563 (December 31, 2009 – $7,963,051) and an accumulated deficit of $20,054,198 (December 31, 2009 – $19,483,606). At the same time, the Company continues to generate positive cash flow from operations. The Company's ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds therefrom, negotiate favorable terms with its lenders and to continue to obtain capital financing from investors sufficient to meet current and future obligations.

Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. There can be no assurance that the steps management is taking will be successful and any adjustments necessary to the financial statements if the Company ceases to be a going concern could be material.

Summary Financial Information

	For the three months ended March 31		For the years ended December 31	
	2010	2009	2009	2008
Statement of Operations and Deficit				
Petroleum & natural gas sales	$ 1,009,188	$ 1,025,969	$ 3,579,738	$ 8,642,336
Net (loss) income for the period	$ (507,892)	$ (405,050)	$ (7,321,149)	$ (1,825,080)
Net (loss) income per share - basic	$ (0.00)	$ (0.01)	$ (0.09)	$ (0.03)
Weighted average number of shares - basic	199,384,474	75,561,912	78,313,321	67,499,983
Statement of Cash Flows				
Funds flow from operations	$ 410,168	$ 432,673	$ 106,856	$ 3,820,278
Balance Sheet				
Property and equipment	$ 41,618,103		$ 38,830,516	$ 41,922,138
Total assets	$ 42,383,490		$ 39,641,449	$ 44,081,309
Preferred shares (liability classification)	$ 1,000,000		$ 1,000,000	$ -

Results of Operations

Net petroleum and natural gas revenue

	Three months ended March 31	
	2010	2009
Net petroleum & natural gas revenue	$ 646,831	$ 629,971
Per boe	$ 20.06	$21.24
Net petroleum & natural gas revenue with royalty recovery	$ 646,831	$ 805,607
Per boe	$ 20.06	$27.16

The variances in net petroleum and natural gas revenue are explained by changes in the following components:

	Three months ended March 31	
	2010	2009
Total boe (boe 6:1)	32,245	29,662
Daily sales volumes (boe 6:1)	358	330
Petroleum & natural gas sales	$ 1,009,188	$ 1,025,969
Per boe	$ 31.30	$34.59
Royalties	$ 40,588	$ 63,731
Per boe	$ 1.26	$ 2.15
As a % of sales	4%	6%
Royalty recovery	$ -	$ 175,636
Production & transportation costs	$ 321,769	$ 332,267
Per boe	$ 9.98	$11.20

- The increase production can be attributed to new wells in Jaslan/Grasslands area drilled in the fourth quarter of 2009 by Athabaska and Yangarra, in which the consolidated company has a 100% working interest. The increases were offset by lower production from Ferrier due to the shut-in of several wells by the operator and Medicine Hat due to natural declines.
- The overall average price earned by the Company was lower in the first quarter of 2010 ($31.30 per boe) compared to the first quarter of 2009 ($34.59 per boe) as over 90% of the Company's production is natural gas. Average prices earned by the Company in the comparative periods were as follows:

	Three months ended March 31	
	2010	2009
Oil ($/bbl)	$ 78.39	$48.06
NGL ($/bbl)	$ 61.36	$40.73
Gas ($/mcf)	$ 4.65	$5.61

- Included in petroleum and natural gas revenue for the three months ended March 31, 2010 is $31,131 (2009 – nil) of realized gains on the fulfilled portion of commodity contracts in the period. Including the realized gains, the average gas price earned by the Company for the 2010 period increases to $4.85 per mcf. In 2009, commodity price risk contracts did not commence until April 1.
- The decrease in royalties in 2010 on both a boe and percentage basis relates to lower production and natural gas pricing, gas cost allowance adjustments. Ferrier and Medicine Hat properties are also at lower royalty rates due to lower production levels.
- During the first quarter of 2009, the Company recognized a recovery in the amount of $175,636 related freehold and gross overriding royalties calculated and paid in previous years.
- Production and transportation costs per boe for the three months ended March 31, 2010 are lower than those for 2009 due to a reduction in labour and trucking costs in the Medicine Hat area, the tie-in of wells in Medicine Hat, and lower fixed costs per boe in the Jaslan/Grasslands area due to higher production.

Depletion, depreciation and accretion

	Three months ended March 31	
	2010	2009
Depletion and depreciation	$ 1,017,707	$ 1,045,374
Per boe	$ 31.56	$35.24
Accretion	$ 42,385	$ 36,236

Depletion and depreciation per boe decreased in the first quarter of 2010 compared to the first quarter of 2009 due to: (1)an increase in the Company's proved reserves as stated in the December 31, 2009 reserve report; (2) the movement of reserves from the probable to proved category in the current period as a result of drilling activity and (3) the addition of proved reserves related to a gross overriding royalty acquired in March 2010.

Accretion expense increased in 2010 due to an increase in the undiscounted cash flows associated with the retirement of the Company's assets resulting from the increase in the number of properties and changes to certain reserve life and cost estimates.

Other expenses

	Three months ended March 31	
	2010	2009
General and administrative expenses	$ 223,379	$ 147,830
Interest and financing fees	$ 61,655	$ 251,780
Dividends on preferred shares	$ 12,329	$ -
Stock-based compensation	$ 21,700	$ -

General and administrative expenses were higher in the 2010 period due to an increase in professional fees related to the year end audit, consulting fees related to new consultants (as of the latter part of 2009), legal fees related to a dispute with a joint venture partner, filing fees related to the increase in the Company's share base and expenses related to the Special Meeting of shareholders held in March 2010.

Interest and financing fees for the three months ended March 31, 2010 is for interest on the revolving operating demand loan for which the average amount drawn during the period was $6,250,000 at an effective interest rate of 4.01%.

Interest and financing fees for the three months ended March 31, 2009 includes:

- $1,983 accrued for Part XII.6 interest on the unspent portion of flow-through expenditures incurred under the look-back rule and other minor amounts;
- $84,970 on the revolving operating demand loan for which the average amount drawn during the period was $8,550,000 at an effective interest rate of 4.03%;
- $5,000 of fees on the revolving operating demand loan; and
- $159,827 of interest and financing fees on the subordinated credit facility (settled in December 2009) based on the effective interest method.

Dividends on preferred shares for the three months ended March 31, 2010 is at 5% payable semi-annually in common shares of the Company on $1,000,000 of preferred shares issued in December 2009 in conjunction with the settlement of the subordinated credit facility.

In January 2010, the Company granted 500,000 stock options which vested immediately. The fair value of the options was estimated at $21,700 which was recognized as stock-based compensation expense ("SBC"). The Company did not grant any options in the 2009 comparative period.

Commodity price risk contracts

	Three months ended March 31 2010	2009
Commodity contract settlement	$ 73,500	$ -
Change in fair value of commodity contracts	113,361	101,296
	$ 186,861	$ 101,296

As at January 1, 2010, the Company was committed to the following commodity price risk contracts for the sale of natural gas:

- 1,000 GJ per day from January 1 to January 31, 2010 at a fixed price of $5.51 per GJ;
- 1,000 GJ per day from February 1 to February 28, 2010 at a fixed price of $5.53 per GJ; and
- 500 GJ per day from January 1 to December 31, 2010 at a fixed price of $5.68 per GJ.

In addition the Company sold calls which provided a ceiling for the price it received for natural gas as follows:

- 500 GJ per day from January 1 to December 31, 2010 at the ceiling price of $6.25 per GJ;
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.50 per GJ; and
- 500 GJ per day from March 1 to December 31, 2010 at the ceiling price of $6.70 per GJ.

In March 2010, the Company settled all outstanding commodity price risk contracts for proceeds of $73,500 and reported an unrealized gain of $113,361 related to the reversal of the mark-to-market liability recognized at December 31, 2009.

Included in petroleum and natural gas revenue for the three months ended March 31, 2010 is $31,131 of realized gains (2009 – nil) on the fulfilled portion of the commodity contracts.

Future income tax reduction

During the three months ended March 31, 2010, the Company recognized a $99,799 tax benefit in share capital for share issue costs incurred in the period. The Company did not recognize any other future taxes in the period.

During the comparative three months ended March 31, 2009, the Company recorded a reduction of future income taxes of $162,288 related to the reversal of temporary differences between the carrying value and tax basis of the Company's property and equipment.

Liquidity and Capital Resources

During the first quarter of 2010, the Company generated $410,168 of funds flow from operations compared to $432,673 in the 2009 comparative period. Funds flow from operations was lower for the 2010 period due primarily to the increase in general and administrative expenses offset by the reduction in interest and financing fees.

As at March 31, 2010, the maximum amount available under the revolving operating demand loan was $8,195,000 (December 31, 2009 – $8,300,000) after monthly reductions based on the Company's excess cash flow (as defined in the Loan Agreements) which commenced on January 31, 2010. The annual renewal date of the bank debt is set for May 31, 2010.

As at March 31, 2010, the $4,773,199 (December 31, 2009 – $8,195,069) reported amount of bank debt was comprised of $4,700,000 (December 31, 2009 – $7,800,000) drawn on the revolving operating demand loan and $73,199 (December 31, 2009 – $395,069) of bank overdraft.

The Company is subject to a financial covenant with respect to working capital, which the Company was in compliance with at March 31, 2010.

As at March 31, 2010, the Company had a working capital deficit of $5,498,563 compared to $7,963,051 at December 31, 2009. The improvement in the Company's working capital position is primarily due to $5,740,805 of net proceeds from a unit private placement completed in March 2010, $410,168 of funds flow from operations and the reversal of the $113,361 year end commodity price risk contract liability offset by $3,799,846 of expenditures on property and equipment.

Capital Spending

Capital spending is summarized as follows:

	Three months ended March 31 2010	2009
Land and lease rentals	$ 1,411,343	$ 47,429
Drilling and completion	1,997,955	166,114
Geological and geophysical	125,432	23,884
Equipment	265,116	60,586
	$ 3,799,846	$ 298,013

Asset Retirement Obligation

As at March 31, 2010, the undiscounted fair value of the asset retirement obligation associated with the Company's existing properties was estimated to be $4,295,892 for which $2,229,560 has been recorded using a discount rate of 7% - 10%, an inflation rate of 2% and an estimated weighted average timing of cash flows of 10.1 years.

Related Party Transactions

During the three months ended March 31, 2010 and 2009, the Company was charged or invoiced the following amounts by certain of its officers and directors and by companies controlled by certain of the Company's officers and directors:

		2010		*2009*
Administration and consulting fees	$	31,305	$	21,118
Production and capital expenditures	$	341,524	$	37,088

On March 17, 2010, the Company completed a private placement of 80,000,000 Units at $0.075 per Unit for gross proceeds of $6,000,000. Management and directors subscribed for 13,356,669 Units for gross proceeds of $1,001,750 or 16% of the financing.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Share Capital

Details of changes in the number of outstanding equity instruments are detailed in the following table:

	Common Shares	Preferred Shares	Warrants	Stock Options
Balance - December 31, 2009	**186,940,030**	**1,000,000**	**10,000,000**	**17,711,275**
Unit private placement	80,000,000	-	40,000,000	-
Exercise of warrants	1,400,000	-	(1,400,000)	-
Granted to director	-	-	-	500,000
Expired	-	-	-	(318,250)
Forfeited	-	-	-	(175,000)
Balance - March 31, 2010	**268,340,030**	**1,000,000**	**48,600,000**	**17,718,025**
Granted to field consultants April 26, 2010	-	-	-	1,000,000
1-for-5 consolidation April 28, 2010	(214,672,024)	(800,000)	(38,880,000)	(14,974,420)
Flow-through private placement May 2010	3,745,454	-	-	-
Balance - Date of MD&A	**57,413,460**	**200,000**	**9,720,000**	**3,743,605**

Subsequent Events

On April 28, 2010, the Company received TSX-V Exchange approval for the consolidation of the common shares of the Company on a five old for one new (5:1) basis. Effective April 30, 2010, the Company's stock commenced trading under the new symbol "YGR" on a five old for one new consolidated basis.

On May 1, 2010, the Company and Athabaska were amalgamated and continue to carry on business under the name Yangarra Resources Ltd.

On May 21, 2010, the Company completed a private placement of 3,745,454 flow-through common shares at $0.55 per share for gross proceeds of $2,060,000. An 8% cash commission was paid on the sale of the associated funds raised.

Contingency

In December 2009, the Company terminated the Standstill Agreement that it had with an industry partner regarding a joint producing property and served that industry partner with a Statement of Claim to the Court of Queen's Bench of Alberta, to which the Company claims breach of the agreements between the parties, gross negligence and default of operator. The Company seeks judgment for specified and such further damages to be determined by the court, as well as appointment as operator. The industry partner has filed a Statement of Defense and Counterclaim. The potential outcome of the lawsuit and claims are undetermined however they may be material. As the likely outcome of this litigation cannot be determined at this time, no provision has been made in the consolidated financial statements.

Commitments

During the three months ended March 31, 2010, the Company incurred all of the $500,000 of qualifying flow-through expenditures related to the private placement of Units completed in December 2009 that will be renounced effective December 31, 2010.

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

2010 (remainder)	$ 108,391
2011	141,236
2012	141,236
2013	83,833

Capital management

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:

	March 31 2010	*December 31 2009*
Working capital deficiency	$ (5,498,563)	$ (7,963,051)
Shareholders' equity	32,015,093	26,848,381
	$ 26,516,530	$ 18,885,330

The Company monitors capital based on annual funds from operations and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Company's 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 funds from operations while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank credit available from the Company's lender, the level of bank credit that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms.

At March 31, 2010, the Company's capital structure is subject to external restrictions as a result of the Loan Agreements with the Company's senior lender, which have a renewal date of May 31, 2010. As a result, the Company's approach to capital management has changed to ensure compliance with the Loan Agreements. The Company's bank facility is determined by the senior lender and based on the lender's borrowing base model and the Company's petroleum and natural gas reserves.

The Company has not paid or declared any dividends on common shares since the date of incorporation, nor are any contemplated in the foreseeable future.

Selected Historical Financial Information

2010	First Quarter
Petroleum and natural gas sales	$ 1,009,188
Net petroleum and natural gas revenue	$ 646,831
Net loss	$ (570,592)
Net loss per share	$ (0.00)
Funds flow from operations	$ 410,168
Net capital expenditures	$ 3,799,846

2009	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Petroleum and natural gas sales	$ 1,025,969	$ 909,592	$ 889,449	$ 754,728
Net petroleum and natural gas revenue	$ 629,971	$ 533,449	$ 430,962	$ (228,328)
Net loss	$ (405,050)	$ (757,791)	$ (4,308,038)	$ (1,797,141)
Net loss per share	$ (0.01)	$ (0.01)	$ (0.05)	$ (0.02)
Funds flow from operations	$ 432,673	$ 180,863	$ 133,901	$ (640,581)
Net capital expenditures	$ 298,013	$ 132,898	$ 524,935	$659,115

2008	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Petroleum and natural gas sales	$ 2,104,060	$ 2,661,004	$ 2,071,008	$ 1,806,264
Net petroleum and natural gas revenue	$ 1,427,515	$ 1,744,759	$ 1,287,609	$ 1,023,858
Net income (loss)	$ (1,045,274)	$ (1,076,877)	$ 871,862	$ (574,791)
Net income (loss) per share	$ (0.02)	$ (0.02)	$ 0.01	$ (0.01)
Funds flow from operations	$ 944,104	$ 1,214,745	$ 724,869	$ 936,560
Net capital expenditures	$ 1,017,265	$ 1,513,100	$ 1,443,728	$ 1,717,702

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact and credit risk of non-payment for sales contracts and joint venture partners.

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on specific core regions that have multi-zone potential where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner.

The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses. The Company's risk in regards to financial instruments is detailed in note 18 to the December 31, 2009 audited consolidated financial statements.

Disclosure Controls and Procedures

In connection with Exemption Orders issued in November 2007 by each of the securities commissions across Canada, the Company's certifying officers will file a Venture Issuer Basic Certificate with respect to the financial information contained in the unaudited interim financial statements and the audited annual financial statements and respective accompanying Management's Discussion and Analysis. The Venture Issuer Basic Certification includes a 'Notice to Reader' stating that the certifying officers do not make any representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting, as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Critical Accounting Estimates

The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of the Company's significant accounting policies is contained in Notes 2 and 3 to the audited consolidated financial statements for the year ended December 31, 2009. The Company's significant accounting policies are subject to estimates and key judgments about future events, many of which are beyond management's control.

The Company believes the following are the most critical accounting estimates used in the determination of its financial results:

Petroleum and natural gas properties – depletion and ceiling test

The Company follows the full cost method of accounting by initially capitalizing all costs related to the acquisition, development and exploration of petroleum and natural gas reserves. Costs capitalized include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties, costs of drilling productive and non-productive wells, together with overhead directly related to exploration and development activities and lease and well equipment. Costs capitalized are depleted using the unit-of-production method based on gross proved petroleum and natural gas reserves as determined by independent qualified reserve evaluators. Production and reserves of petroleum and natural gas are converted to common units of measure based on their relative energy content where one barrel of oil is equivalent to six thousand cubic feet of natural gas. The depletion base excludes the cost of significant unproved properties until it is determined whether proved reserves are attributable to the properties or impairment has occurred.

The Company performs a ceiling test the carrying amount of property and equipment is compared to the sum of the undiscounted cash flows expected to result from the future production of proved and probable reserves and the cost, less any impairment of unproved properties. Estimated cash flows are discounted at the Company's risk-free rate of interest using forecast prices and costs. The carrying amount of undeveloped properties and seismic excluded from the ceiling test are compared to independent evaluations of fair value. Any impairment is recorded as additional depletion expense.

Estimates are the basis for amounts recorded as depletion and the ceiling test. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

Asset retirement obligation

The Company recognizes the liability for the asset retirement obligation associated with the abandonment of petroleum and natural gas wells, related facilities, compressors and plants and the removal of equipment from leased acreage and returning such land to its original condition. The fair value the Company's asset retirement obligation is recorded in the period a well or related asset is drilled, constructed or acquired. Fair value is estimated using the present value of the estimated future cash outflows to abandon the assets at the Company's credit-adjusted risk-free interest rate based on the expected timing of such cash outflows. Future costs and their expected timing are estimates that are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

Income taxes

The Company records future tax assets and liabilities to account for the expected future tax consequences of events that have been recorded in its consolidated financial statements and its tax returns. These amounts are estimates and the actual tax consequences may differ from the estimates due to changing tax rates and regimes, as well as changing estimates of cash flows and capital expenditures in current and future periods. A valuation allowance is recorded to the extent that there is uncertainty regarding utilization of future tax assets.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations, often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual income tax liability and expense may differ from that estimated and recorded.

Stock-based compensation

Stock-based compensation expense is recorded in the statement of loss and deficit for all options granted based on the estimated fair value at the time of the grant and recognized as expense over the vesting period of the option. The fair value of options is estimated using the Black-Scholes pricing model based on estimates and assumptions for expected life of the options, expected volatility, risk-free interest rate and dividend yield. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates could be material in future periods.

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board (AcSB) published a new strategic plan that outlines the convergence of Canadian generally accepted accounting principles with IFRS over an expected five year transitional period. The changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles is interim and annual financial statements for fiscal years beginning on or after January 1, 2011 with the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

The Company has completed a high-level review and preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment has provided insight into what are anticipated to be the most significant areas of difference applicable to the Company. The next step is to perform an in-depth review of the significant areas of difference and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of its adoption of IFRS.

The following IFRS standards are considered most relevant to the Company's conversion process:

IFRS 1 - First-time Adoption of IFRS which generally requires that an entity apply all IFRS standards retrospectively, with specific mandatory exemptions, and a limited number of optional exemptions. A preliminary assessment of the available exemptions has been completed.

Elections made upon transition to IFRS can have a significant impact on the level of time and effort needed for the conversion to IFRS. The following optional exemptions appear to be the most applicable to the Company:

a) Fair value as deemed cost - This exemption provides the Company with the option to elect specific fair values as the deemed cost of any qualifying item of property, plant and equipment;

b) Deemed cost of full cost oil and gas assets - This exemption provides the Company with the option of measuring exploration and evaluation assets and assets in the D&P phases at the amount determined for the cost centre under Canadian GAAP. The cost of the D&P assets are allocated to the underlying assets on a pro rata basis using reserve volumes or reserve values as of the transition date;

c) Business combinations - This exemption provides the Company with the option of not applying IFRS 3 Business Combinations to business combinations that took place before the date of transition;

d) Share-based payments - This exemption provides the Company with the option of not applying IFRS 2 to equity-settled share-based payment transactions issued after November 7, 2002 and which have vested before the date of transition; and,

e) Decommissioning liabilities - If the exemption discussed under b) is utilized, the Company may then measure decommissioning, restoration and similar liabilities at the transition date in accordance with IAS 37 and recognize, directly in retained earnings, any difference between that amount and the Canadian GAAP carrying amount of the liabilities at the transition date.

In addition to these exemptions, IFRS 1 provides other exemptions that are available on transition to IFRS. These exemptions may become useful for the Company to consider in the future.

IFRS 2 – Share-based Payments requires the use of a forfeiture rate based on an estimate of the number of options expected to vest and requires that each tranche of options be treated as a separate arrangement as graded vesting is utilized.

IFRS 6 – Exploration and Evaluation of Mineral Resources ("E&E") requires that costs associated to the exploration for and evaluation of resources be recorded separately from the costs associated to the development of resources. Assets within this category are not depreciated and are tested for impairment when events suggest that the carrying amount may exceed the recoverable amount.

IAS 16 – Property, Plant and Equipment requires that assets be assigned to a cash generating unit and be depreciated over the useful life of each significant component. This requires a useful life assessment at a potentially lower level than under current Canadian GAAP and potential amendments to the accounting system to enable the tracking of costs at both a component and cash generating unit level.

IAS 36 – Impairment of Assets involves an impairment test at the cash generating unit level using either proven or proven and probable reserves whereby the recoverable amount, defined as the higher of the fair value less costs to sell or value in use, is compared to the carrying value of the assets. Impairments are likely to be triggered at an earlier date under IFRS as this test involves a one step approach utilizing discounted cashflows at a potentially lower asset group than currently required under Canadian GAAP.

IAS 37 - Provisions, Contingent Liabilities, and Contingent Assets will impact the calculation and presentation of the asset retirement obligation. This calculation will now include both legal and constructive obligations based on managements estimate and will be discounted based on the risk specific to the asset to be retired which is likely to be a lower discount rate.

There is also a potential Canadian GAAP – IFRS difference with respect to the treatment of flow-through shares which may impact the Company's financial statements with respect to future flow-through share issuances. As the International Accounting Standards Board is not expected to issue specific guidance on the accounting treatment of flow-through shares, the Company will be required to develop an appropriate accounting policy which may or may not be significantly different from current Canadian GAAP.

Based on the preliminary assessment of IFRS, the Company anticipates the conversion to IFRS will primarily impact the reported amount for property and equipment and asset retirement obligation. Financial statement disclosures will be greatly expanded.

The Company has received a formal diagnostic of Canadian GAAP and IFRS differences. The next steps for the Company are to complete a more detailed analysis of each of the specific areas identified in the diagnostic (i.e. preparing position papers, drafting consolidated financial statements, identifying the impact on systems and processes, etc) and conclude on any accounting and systems implications. Subsequent phases will propose detailed solutions for accounting policies and quantify the expected impact.