



Yangarra Resources Ltd.
Consolidated Financial Statements
December 31, 2018 and 2017

Management's Responsibility

To the Shareholders of Yangarra Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors exercises its responsibilities for financial controls through an Audit Committee. The Audit Committee is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

March 7, 2019

(signed) "James G. Evaskevich"

James G. Evaskevich
Chief Executive Officer

(signed) "James A. Glessing"

James A. Glessing
Chief Financial Officer

Independent Auditors Report

To the Shareholders of Yangarra Resources Ltd.

Opinion

We have audited the consolidated financial statements of Yangarra Resources Ltd. and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis ("MD&A").

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of the auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors Report

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Elena Ruttan.

Calgary, Alberta
March 7, 2019

MNP LLP
Chartered Professional Accountants

Yangarra Resources Ltd.
Consolidated Statements of Financial Position
(in thousands, Canadian dollars)

	December 31, 2018	December 31, 2017
Assets		
Current		
Accounts receivable (note 13a)	\$ 26,203	\$ 26,414
Prepaid expenses and inventory	4,255	3,361
Interest rate contracts (note 13c i)	57	37
Commodity contracts (note 13c iii)	655	–
Total current assets	31,170	29,812
Non-current		
Property and equipment (note 3)	454,772	342,101
Exploration and evaluation assets (note 4)	15,806	6,033
Interest rate contracts (note 13c i)	226	285
Total assets	\$ 501,974	\$ 378,231
Liabilities		
Current		
Accounts payable and accrued liabilities (note 13b)	\$ 51,851	\$ 38,422
Commodity contracts (note 13c iii)	–	2,532
Interest rate contracts (note 13c i)	–	68
Current portion of decommissioning liability (note 6)	94	–
Total current liabilities	51,945	41,022
Non-current		
Bank debt (note 5)	134,489	84,886
Other long-term liabilities (note 13b)	124	169
Commodity contracts (note 13c iii)	390	976
Decommissioning liability (note 6)	12,316	10,076
Deferred tax liability (note 11)	47,374	33,145
Total liabilities	246,638	170,274
Shareholders' Equity		
Share capital (note 7b)	176,286	166,386
Contributed surplus	18,517	14,604
Retained earnings	60,533	26,967
Total shareholders' equity	255,336	207,957
Total liabilities and shareholders' equity	\$ 501,974	\$ 378,231

Contingency (note 17), Commitments (note 18)

Yangarra Resources Ltd.
Consolidated Statements of Income and Comprehensive Income
For the years ended December 31:
(in thousands, Canadian dollars, except per share amounts)

	2018	2017
Revenue		
Petroleum and natural gas sales	\$ 134,978	\$ 77,913
Royalties	(13,405)	(6,412)
	121,573	71,501
Commodity price risk contracts (<i>note 13c iii</i>)		
Realized gain (loss) on commodity contract settlement	(7,449)	2,774
Change in fair value of commodity contracts	3,774	(2,374)
	117,898	71,901
Expenses		
Production	20,018	14,115
Transportation	4,512	2,160
General and administrative	2,482	1,987
Finance (<i>note 15</i>)	5,227	2,844
Share-based compensation (<i>note 8</i>)	5,219	1,506
Depletion, depreciation and impairment (<i>note 3</i>)	32,645	21,943
	70,103	44,555
Income before tax	47,795	27,346
Deferred tax expense (<i>note 11</i>)	14,229	7,861
Net income and total comprehensive income	\$ 33,566	\$ 19,485
Earnings per share (<i>note 9</i>)		
Basic	\$ 0.40	\$ 0.24
Diluted	\$ 0.39	\$ 0.23
Weighted average number of shares (<i>note 9</i>)		
Basic	84,653	80,720
Diluted	86,860	84,157

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

Yangarra Resources Ltd.
Consolidated Statements of Changes in Equity
For the years ended December 31:
(in thousands, Canadian dollars)

	2018	2017
Share Capital		
Balance, beginning of year	\$ 166,386	\$ 163,053
Exercise of options <i>(note 7)</i>	6,776	2,179
Contributed surplus transferred on exercise of stock options <i>(note 7)</i>	3,124	1,154
Balance, end of year	176,286	166,386
Contributed Surplus		
Balance, beginning of year	14,604	13,580
Share-based compensation <i>(note 8)</i>	7,037	2,178
Exercise of options <i>(note 7)</i>	(3,124)	(1,154)
Balance, end of year	18,517	14,604
Retained Earnings		
Balance, beginning of year	26,967	7,482
Net income	33,566	19,485
Balance, end of year	60,533	26,967
Total Shareholder' Equity	\$ 255,336	\$ 207,957

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

Yangarra Resources Ltd.
Consolidated Statements of Cash Flows
For the years ended December 31:
(in thousands, Canadian dollars)

	2018	2017
Operating		
Net income for the year	\$ 33,566	\$ 19,485
Add back non-cash items:		
Change in fair value of commodity contracts	(3,774)	2,374
Change in fair value of interest rate contracts (note 15)	(27)	(865)
Share-based compensation (note 8)	5,219	1,506
Depletion, depreciation and impairment (note 3)	32,645	21,943
Accretion (note 15)	476	598
Deferred tax expense (note 11)	14,229	7,860
Decommissioning costs incurred (note 6)	(333)	(95)
Change in non-cash working capital (note 10)	1,767	(1,032)
Net cash flow from operating activities	83,768	51,774
Financing		
Issue of equity instruments, net of costs (note 7)	6,776	2,180
Bank debt advance (note 5)	49,354	19,745
Other long-term liabilities repayment	(44)	(42)
Net cash from financing activities	56,086	21,883
Investing		
Additions to property and equipment (note 3)	(141,060)	(83,472)
Additions to exploration and evaluation assets (note 4)	(9,773)	–
Change in non-cash working capital (note 10)	10,979	9,815
Net cash flow used in investing activities	(139,854)	(73,657)
Change in cash and cash equivalents	–	–
Cash, beginning of the year	–	–
Cash, end of the year	\$ –	\$ –

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

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

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

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

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

Statement of compliance and authorization:

These consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary. The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 7, 2019.

2. Summary of significant accounting policies

a) Basis of measurement

The consolidated financial statements have been prepared under the historical cost method, except for certain instruments which are measured at fair value (note 13 d).

b) Inventory

Inventory is carried at the lower of cost and net realizable value on a weighted average cost basis. Inventory is primarily comprised of pipe, compressors and production equipment that will be utilized in future drilling activity. The cost of inventory includes all cost incurred in the normal course of business to bring each product to its present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less any expected selling costs. If the carrying amount exceeds net realizable value, a write-down is recognized. The write-down may be reversed in a subsequent period if circumstances which caused it no longer exist and the inventory is still on hand.

c) Property and equipment and exploration and evaluation assets

(i) Exploration and evaluation assets

Exploration and evaluation ("E&E") costs, including the costs of acquiring licenses and directly attributable general and administrative costs, initially are capitalized as either tangible or intangible E&E assets according to the nature of the assets acquired. The costs are accumulated pending determination of technical feasibility and commercial viability. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net income as exploration and evaluation expense. Assets classified as E&E are not depleted or depreciated.

The Company assesses the recoverability of the E&E assets, before and at the moment of reclassification, to property and equipment. E&E assets are assessed for impairment if (a) sufficient data exists to determine technical feasibility and commercial viability and (b) facts and circumstances suggest that the carrying amount exceeds the recoverable amount. The impairment of E&E assets, and any eventual reversal thereof, is recognized in profit or loss.

The technical feasibility and commercial viability of extracting a mineral resource is determinable when proved or probable reserves are determined to exist. A review of each license or field is carried out, at least annually, to ascertain whether proved or probable reserves have been discovered. Upon determination of proved or probable reserves, intangible E&E assets attributable to these reserves are first tested for impairment and then reclassified from E&E assets to property and equipment. The costs of undeveloped land that expires is recognized in profit or loss.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

c) Property and equipment and exploration and evaluation assets (continued)

(ii) Property and equipment

Property and equipment (“P&E”) is carried at cost, less accumulated depletion, depreciation and accumulated impairment losses. The cost includes directly attributable costs incurred for the drilling and completion of wells and the construction of production processing facilities, any costs directly attributable to bringing the asset into the location and condition necessary for its intended use, a discounted current estimate of the decommissioning costs and borrowing costs for qualifying assets.

Accumulated costs are depleted using the unit-of-production method. Depletion is calculated using the ratio of production in the year to the remaining total proved and probable reserves before royalties, taking into account future development costs necessary to bring those reserves into production. These estimates are evaluated and reported on by independent reserve engineers annually. Proven and probable reserves are estimated using independent reserve engineer reports. There should be a 50 percent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proved and probable and a 50 percent statistical probability that it will be less. The equivalent statistical probabilities for proved reserve components are 90 percent and 10 percent, respectively.

Where an item of P&E comprises major components with different useful lives, the components are accounted for as separate items of P&E. The expected useful lives of P&E, residual values and methods of depreciation are reviewed at each reporting period and, if necessary, changes are accounted for prospectively.

Changes in estimates such as quantities of proved and probable reserves that affect unit-of-production calculations are applied on a prospective basis.

An item of P&E is derecognized upon disposal or is impaired when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the net proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period incurred.

Other assets are recorded at cost less accumulated amortization, which is calculated using the declining balance method at rates of 20 percent to 30 percent per annum.

(iii) Impairment of non-financial assets

At each financial reporting date, the carrying amounts of P&E are reviewed to determine whether there is any indication that those assets are impaired. If such indication exists, an estimate of the recoverable amount of the asset is calculated.

Individual assets are grouped together for impairment assessment purposes into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash generating unit or CGU). The carrying amount of P&E assets within a CGU are compared to the recoverable amount of the CGU. Goodwill is allocated to CGUs that are expected to benefit from synergies of the combination. E&E assets are allocated to CGUs when they are assessed for impairment if indicators of impairment exist as well as upon their reclassification into P&E.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

c) Property and equipment and exploration and evaluation assets (continued)

(iii) Impairment of non-financial assets (continued)

A CGU's recoverable amount is the higher of its fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money to the Company and the risks specific to the asset. Fair value less cost to sell is derived by estimating the discounted after-tax future net cash flows less estimated cost to sell. Discounted future net cash flows are based on forecasted commodity prices and costs over the expected economic life of the reserves and discounted market-based rates to reflect a market participant's view of the risks associated with the assets.

Where the carrying amount of a CGU exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is charged to the statement of income and comprehensive income. A previously recognized impairment loss is reversed or partially reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The new carrying amount cannot exceed the carrying amount that would have been determined, net of depletion and depreciation, had no impairment loss been recognized for the asset in prior periods.

(iv) Decommissioning liability

The Company recognizes a decommissioning liability in the period it arose with a corresponding increase to the carrying amount of the related asset. Measurement occurs when a legal or constructive obligation arises. Provisions are measured at the present value of managements best estimate of the expenditures expected to be required to settle the obligation discounted using the risk-free rate, updated at each reporting date. The increase in the provision due to the passage of time (accretion) is recognized as a finance expense whereas increases or decreases due to changes in the estimated cost to decommission the asset are capitalized as P&E or E&E. Actual costs incurred upon settlement of the decommissioning liability reduce the liability to the extent the provision was established and differences between actual costs incurred and estimated costs will be recorded as a gain or loss. The related decommissioning asset is depreciated or depleted on the same basis as the P&E to which it relates.

d) Leases

Leases that transfer substantively all the benefits, risks and rewards of ownership to the Company are recorded as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased asset and the present value of the minimum lease payments with a corresponding increase to obligations under finance leases. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the obligation outstanding. The finance charge is included in the statement of comprehensive income over the lease period.

Leases that do not transfer the risks and rewards of ownership to the Company are classified as operating leases under which leasing costs are expensed in the period incurred.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

e) Joint operations

A portion of the Company's petroleum and natural gas exploration and production activities are conducted jointly with others, and, accordingly, these consolidated financial statements reflect only the Company's proportionate interest in such activities.

f) Taxes

Tax expense represents the sum of current tax expense and deferred tax expense. Current tax expense is based on the taxable profits for the year. Income tax expense is recognized in the statement of comprehensive income except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized based on differences in the financial statement carrying amount for assets and liabilities and the associated tax balance. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused tax credits carried forward and unused tax losses to the extent that it is probable that there will be taxable profits against which deductible temporary differences can be utilized. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable difference arising in the initial recognition of goodwill.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the tax benefit will be realized.

Deferred taxes are measured based on enacted or substantively enacted tax rates for the period in which the temporary differences are expected to be realized or settled and are presented as non-current.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and when the Company intends to settle its current tax assets and liabilities on a net basis.

g) Share-based compensation plans

Periodically, the Company will grant stock options in exchange for the provision of services from certain employees, directors, officers and consultants. The Company follows the fair value method of valuing stock option grants using the Black-Scholes pricing model. Share-based compensation expense is determined based on the estimated fair value of shares on the date of grant. Forfeitures are estimated at the grant date and are subsequently adjusted to reflect actual forfeitures. Volatility is calculated using a historical trading period for the Company's shares that matches the life of the stock options. The expense is recognized over the service period, with a corresponding increase to contributed surplus. The Company capitalizes the qualifying portion of the share-based compensation directly attributable to the development activities of exploration and evaluation and property and equipment assets with a corresponding decrease to share-based compensation expense. At the time the stock options are exercised, the issuance of common shares is recorded as an increase to share capital and a corresponding decrease to contributed surplus.

h) Per share amounts

Basic earnings per share ("EPS") is calculated by dividing the net income for the year attributable to equity owners of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments using the treasury stock method. The Company's potentially dilutive instruments are comprised of stock options granted.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

i) Provisions

Provisions and liabilities for legal and other contingent matters are recognized in the period when it becomes probable a future cash outflow resulting from past operations or events will occur and the amount of the cash outflow can be reasonably estimated. The timing of recognition and measurement of the provision requires the application of judgment to existing facts and circumstances, which can be subject to change, and the carrying amounts of provisions and liabilities are reviewed regularly and adjusted accordingly. The Company is required to both determine whether a loss is probable based on judgment and interpretation of laws and regulations and determine that the loss can be reasonably estimated. When a loss is recognized, it is charged to the statement of income and comprehensive income. The Company continually monitors known and potential contingent matters and makes appropriate provisions when warranted by the circumstances present.

j) Business combinations

Business combinations are accounted for using the acquisition method under IFRS 3 Business Combinations. management's determination of whether a transaction constitutes a business combination or an asset acquisition is based on the criteria in IFRS 3. The identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date. The decommissioning liability associated with the acquired property is subsequently re-measured at the end of the reporting period using a risk-free discount rate, with any changes recognized in decommissioning liability and property, plant and equipment ("PP&E") on the balance sheet. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments issued, and liabilities incurred or assumed at the acquisition date. The excess of the acquisition cost over the fair value of the net assets acquired is recognized as goodwill. If the cost of the acquisition is less than the fair value of the net assets acquired, a gain on business combination is recognized immediately in the statement of loss and comprehensive loss. A deferred tax asset or liability arising from the acquired net assets is also recognized in a business combination. Any resulting goodwill or a gain resulting from a bargain purchase is not considered to be taxable. Transaction costs associated with a business combination are expensed as incurred.

k) Significant accounting estimates judgments and estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgments in applying accounting policies

Business combinations

Determination of the fair value of acquired assets and liabilities in a business combination requires management to make assumptions and estimates about future events. The fair value of crude oil and natural gas interests is estimated with reference to the discounted cash flows expected to be derived from crude oil and natural gas production. These assumptions and estimates generally require judgment and include estimates of reserves acquired, liabilities assumed, forecast commodity prices, expected production volumes, future development and operating costs, income taxes, and discount rates. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to the net assets acquired, goodwill or gain on business combination.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

k) Significant accounting judgments and estimates (continued)

Cash-generating-units (“CGU”) determination

The Company’s assets are aggregated into cash-generating-units (“CGUs”) based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structure, similar exposure to market risk, shared infrastructure and geographical proximity. As at December 31, 2018 the Company has 1 (2017 – 2) CGU.

Impairment indicator assessment

The Company assesses its P&E and E&E assets for possible impairment if there are events or changes in circumstances that indicate the carrying values of the assets may not be recoverable. Such indicators include changes in the Company’s business plans, changes in commodity prices, evidence of physical damage, significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures and the Company’s market capitalization versus the net asset value.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The recognition of contingencies inherently involves the estimates of the outcome of future events.

Key sources of estimation uncertainty

Reserves

Reserves are used in the unit of production calculation for depletion and depreciation as well as impairment analysis. The quantity of reserves is subject to a number of estimates and projections including assessment of engineering data, projected future rates of production, commodity prices, regulatory changes, operating costs and sustaining capital expenditures. However, all reserve and associated financial information is evaluated and reported on by a firm of qualified independent reserve evaluators in accordance with the standards prescribed by applicable securities regulators. The calculation of future cash flows based on these reserves is dependent on a number of estimates including: production volumes, facility performance, commodity prices, and royalties, operating costs, sustaining capital and tax rates. The price used in the Company’s assessment of future cash flows is based on the Company’s independent evaluator’s estimate of future prices and evaluated for reasonability by the Company against other available information.

Decommissioning liabilities

The Company measures decommissioning liabilities at each financial statement date. The estimate is based on the Company’s share of costs to reclaim the assets and certain facilities. To determine the future value of the liability, estimates of the amount, timing and inflation of the associated abandonment costs are made. The present value of the cost is recorded as the decommissioning liability using a risk-free discount rate. Due to the long-term nature of current and future project developments, abandonment costs will be incurred many years in the future. Because of these factors, different estimates could be used for such abandonment costs and the associated timing. Assumptions of higher future abandonment costs, regulatory changes, higher inflation, lower risk-free rates or an assumption of earlier or specified timing of abandonment would cause the decommissioning liability of the corresponding asset to increase. These changes would also cause future accretion expenses to increase.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Summary of significant accounting policies (continued)

Key sources of estimation uncertainty (continued)

Impairment Estimate

The assessment for impairment for P&E and E&E assets involves comparing the carrying value of the CGU with the higher of value in use calculations and fair value less costs of disposal. Determination as to whether and how much an asset is impaired involves management estimates on highly uncertain matters such as future commodity prices, the effects of inflation on operating expenses, discount rates, production profiles and the outlook for regional supply-and-demand conditions for crude oil, natural gas and liquids. Impairment is recognized in the statement of income and comprehensive income in the period in which carrying amount exceeded the recoverable amount. Impairment reversals are recognized to the extent of the original impairment but are limited to the net book value that would have existed had the original impairment never been recorded, including estimates for depletion. In determining the appropriate discount rate the Company considers the acquisition metrics of recent transactions completed on similar assets to those in the specific CGU.

Accounts Receivable

Significant estimates are included in accounts receivable in terms of collectability as a significant portion of the balance is in dispute, the outcome for which is uncertain and could result in a material adjustment to the financial statements.

Deferred taxes

Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings.

Contingencies

When recognized, management makes its best estimate with respect to future cash outflow.

Stock-based compensation

The recognition of amounts in relation to stock-based compensation requires estimates related to valuation of stock options at the time of issuance including share price, risk free rate, volatility, expected life and dividend yield.

Commodity and interest rate contracts

The fair value of commodity and interest rate contracts is calculated using valuation models that require estimates as to future market prices expected interest rates and expected volatility in these variables. By their nature, these estimates are subject to measurement uncertainty and the effect of changes in such estimates on the financial statements for current and future periods could be significant.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

2. Significant accounting policies (continued)

1) Recently Adopted Accounting standards

IFRS 15 Revenue from Contracts with Customers (“IFRS 15”)

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.

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.

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.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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2. Significant accounting policies (continued)

IFRS 9 Financial Instruments ("IFRS 9")

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 consolidated financial statements for the period ended December 31, 2018 or December 31, 2017.

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.

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 consolidated 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.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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2. Significant accounting policies (continued)

	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 13.

p) Pending Accounting standards

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 expects adjustments for its office lease, certain vehicles and field equipment, however the full extent of the impact has not been finalized.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

*For the years ended December 31, 2018 and 2017
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3. Property and equipment

	<i>Oil and Natural Gas Interests</i>	<i>Well and Plant Equipment</i>	<i>Other Assets</i>	<i>Total</i>
Cost				
Balance at December 31, 2016	\$ 310,065	\$ 56,025	\$ 1,944	\$ 368,034
Cash additions	72,298	10,854	320	83,472
Capitalized share-based compensation	671	–	–	671
Decommissioning liability	1,381	–	–	1,381
Decommissioning costs incurred	95	–	–	95
Transfer from E&E	730	–	–	730
Balance at December 31, 2017	385,240	66,879	2,264	454,383
Cash additions	108,338	32,337	385	141,060
Capitalized share-based compensation (note 8)	1,818	–	–	1,818
Decommissioning liability (note 6)	2,439	–	–	2,439
Balance at December 31, 2018	\$ 497,835	\$ 99,216	\$ 2,649	\$ 599,700

Depletion, depreciation and impairment

Balance at December 31, 2016	\$ 80,948	\$ 8,084	\$ 1,308	\$ 90,340
Depletion and depreciation	20,516	1,168	259	21,943
Balance at December 31, 2017	101,464	9,252	1,567	112,283
Depletion and depreciation	29,693	1,924	222	31,839
Asset impairment	806	–	–	806
Balance at December 31, 2018	\$ 131,963	\$ 11,176	\$ 1,789	\$ 144,928
At December 31, 2017	\$ 283,776	\$ 57,627	\$ 697	\$ 342,100
At December 31, 2018	\$ 365,872	\$ 88,040	\$ 860	\$ 454,772

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in the consolidated statement of income and comprehensive income. At December 31, 2018, all of the Company's properties are pledged as security for the bank debt (see note 5). The calculation of depletion for the year ended December 31, 2018 included estimated future development costs of \$607 million (2017 – \$553 million) associated with the development of the Company's proved plus probable reserves.

During the year ended December 31, 2018, the Company capitalized \$2,439 (2017 – \$1,382) related to the decommissioning liability of property and equipment and \$1,818 (2017 – \$672) of share-based compensation. The Company also capitalized \$1,853 (2017 - \$1,018) 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 year ended December 31, 2018, the Company capitalized \$777 (2017 – \$640) of salaries and consulting expenses directly related to geological, drilling and completions.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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

3. Property and equipment (continued)

The impairment relates to the Medicine Hat area which was written off during the third quarter as the area has been shut-in and will be abandoned within the next twelve months.

The Company performed an impairment assessment of its property and equipment on a CGU basis and determined that there were impairment triggers as at December 31, 2018 as the Company's market capitalization was less than the net asset value.

The Company performed an impairment test using the December 31, 2018 reserve estimates prepared by independent reserve engineers. It was determined that no write-down was necessary as at December 31, 2018.

The proved plus probable reserve values were based on Yangarra's December 31, 2018 reserve report as prepared by its independent reserve engineer Deloitte LLP. The recoverable amounts were estimated based on proved plus probable reserve values using before-tax discount rates specific to the underlying composition of reserve categories and risk profiles. The discount rates applied to the different reserve categories ranged from 10 to 20 percent when the fair value less costs of disposal methodology was used. Key input estimates used in the determination of cash flows from Yangarra's oil and gas reserves included: quantities of reserves and future production; forward commodity pricing; development costs; operating costs; royalty obligations; abandonment costs; and discount rates.

Year	Edmonton	WTI Oil	AECO Gas	Foreign
	Light Crude			Exchange Rate
	CDN\$/bbl	US\$/bbl	CDN\$/mcf	US\$/CDN\$
2019	\$65.80	\$58.00	\$1.75	0.76
2020	\$72.45	\$61.20	\$2.20	0.76
2021	\$78.35	\$64.50	\$2.50	0.77
2022	\$81.95	\$69.00	\$2.80	0.79
2023	\$89.30	\$75.75	\$3.20	0.80
2024	\$91.10	\$77.30	\$3.55	0.80
2025	\$92.90	\$78.85	\$3.85	0.80
2026	\$94.75	\$80.40	\$3.95	0.80
2027	\$96.65	\$82.00	\$4.10	0.80
2028	\$98.60	\$83.65	\$4.20	0.80
Thereafter	2.0%/year	2.0%/year	2.0%/year	0.80

The results of Yangarra's impairment tests are sensitive to changes in any of the key estimates of which changes could decrease or increase the recoverable amounts of assets and result in impairment charges or in the recovery of previously recorded impairment charges. A 10% increase or decrease in the discount rate did not result in an impairment or reversal of impairment.

There were no other indicators of impairment as at December 31, 2018.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

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4. Exploration and evaluation assets

Cost

Balance at December 31, 2016	\$	16,538
Transfer to Property and Equipment		(730)
Balance at December 31, 2017		15,808
Additions		9,773
Balance at December 31, 2018	\$	25,581

Impairment losses

Balance at December 31, 2016	\$	9,775
Impairment		–
Balance at December 31, 2017 & December 31, 2018	\$	9,775

Net book value

At December 31, 2017	\$	6,033
At December 31, 2018	\$	15,806

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 December 31, 2018, the maximum amount available under the syndicated credit facility was \$175 million (2017 – \$100 million) comprised of a \$160 million (2017 – \$90 million) extendible revolving term credit facility and a \$15 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 May 31, 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 December 31, 2018, the \$ 134,489 (December 31, 2017 – \$84,886) reported amount of bank debt was comprised of \$80 (December 31, 2017 – nil) drawn on the operating facility, \$134,507 (December 31, 2017 – \$84,821) drawn on the extendible revolving term credit facility in bankers’ acceptance and net of unamortized transaction costs of \$98 (December 31, 2017 – \$347).

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 December 31, 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 year ended December 31, 2018, the weighted average effective interest rate for the bank debt was approximately 3.97% (2017 – 3.19%).

Subsequent to December 31, 2018, the Borrowing Base review was completed and the maximum amount available under the syndicated credit facility was increased to \$225 million.

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

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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:

	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Balance, beginning of year	\$ 10,076	\$ 8,097
Liabilities incurred	2,414	1,690
Decommissioning costs incurred	(333)	(95)
Effect of change in estimates	26	(214)
Accretion	227	598
Balance, end of year	\$ 12,410	\$ 10,076

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

	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Undiscounted cash flows	\$ 15,255	\$ 12,176
Discount rate	1.90% - 2.52%	1.31% - 2.47%
Inflation rate	2%	2%
Weighted average expected timing of cash flows	9.60 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 the \$94 of decommissioning liability related to this area is classified as current.

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

	<i>Number of shares</i>	<i>Amount (\$)</i>
Balance, December 31, 2016	79,816	\$ 163,052
Exercise of stock options	1,563	2,180
Contributed surplus transferred on exercise of stock options	-	1,154
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

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

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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 year ended December 31, 2018, the Company granted options to purchase 4,675 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 \$11,611 (\$2.48 per option) using the Black-Scholes option pricing model.

During the year ended December 31, 2018, the Company recognized \$5,219 (2017 – \$1,506) of share-based compensation on the consolidated statement of income. During the year ended December 31, 2018 the Company capitalized \$1,818 (2017 - \$671) related to property and equipment.

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

	<i>December 31, 2018</i>		<i>December 31, 2017</i>	
	<i>Options</i>	<i>Weighted – average exercise price</i>	<i>Options</i>	<i>Weighted – average exercise price</i>
Opening	7,864	\$1.85	7,889	\$1.50
Granted	4,675	5.32	1,558	2.60
Exercised	(3,962)	1.71	(1,563)	1.40
Forfeited	(253)	4.16	(20)	2.71
Closing	8,324	\$4.38	7,864	\$1.85

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

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 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	\$ 3.80	2,171

Yangarra Resources Ltd.
Notes to the Consolidated Financial Statements

For the years ended December 31, 2018 and 2017
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8. Share-based compensation (continued)

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

<i>Range of exercise price</i>	<i>Number outstanding</i>	<i>Weighted-average remaining contractual life (years)</i>	<i>Weighted-average exercise price</i>	<i>Number exercisable</i>
\$ 0.50 – \$ 1.00	1,482	2.72	\$ 0.74	715
\$ 1.01 – \$ 1.50	1,747	3.87	1.32	1,036
\$ 1.51 – \$ 2.00	2,285	2.49	1.81	1,485
\$ 2.01 – \$ 2.50	167	1.15	2.28	167
\$ 2.51 – \$ 3.00	1,360	2.83	2.71	640
\$ 3.01 – \$ 3.50	613	4.57	3.28	–
\$ 3.51 – \$ 4.00	17	4.74	3.79	–
\$ 4.01 – \$ 4.50	118	4.92	4.22	–
\$ 4.51 – \$ 5.00	75	4.93	4.80	–
	7,864	3.10	\$ 1.85	4,043

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

	<i>2018</i>	<i>2017</i>
Weighted average exercise per option	\$5.32	\$3.17
Risk-free interest rate	1.97% - 2.34%	0.91% - 1.80%
Expected volatility	62% - 63%	63% - 68%
Weighted average expected life	4 years	4.87 years
Forfeiture rate	5%	5%
Weighted average fair value per option	\$2.48	\$1.64

Yangarra Resources Ltd.
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9. Earnings per common share

		2018		2017
Net income for the period	\$	33,566	\$	19,485
Weighted average number of shares (basic)				
Issued common shares at beginning of year		81,378		79,816
Stock options exercised		3,275		904
<hr/>				
Weighted average number of common shares - basic		84,653		80,720

Diluted earnings per share was calculated as follows:

Weighted average number of shares (diluted)				
Weighted average number of shares (basic)		84,653		80,720
Effect of outstanding options		2,207		3,437
<hr/>				
Weighted average number of common shares - diluted		86,860		84,157

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 year ended December 31, 2018, 4,384 (2017 – 687) options are excluded as they are out of the money based on an average share price of \$4.69 (2017 – \$3.24).

10. Change in non-cash working capital

		2018		2017
Accounts receivable	\$	211	\$	(15,189)
Prepaid expenses and deposits		(894)		4
Accounts payable and accrued liabilities		13,429		23,968
<hr/>				
	\$	12,746	\$	8,783

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

Operating	\$	1,767	\$	(1,032)
Investing		10,979		9,815
<hr/>				
	\$	12,746	\$	8,783

Yangarra Resources Ltd.
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11. Taxes

The provision for income taxes differs from the amount computed by applying the combined federal and provincial tax rates to the income before income tax. The difference results from the following:

	<i>2018</i>	<i>2017</i>
Income before income taxes	\$ 47,795	\$ 27,346
Combined federal and provincial statutory income tax rate	27.0%	27.0%
Expected income tax expense	\$ 12,905	\$ 7,383
Stock-based compensation	1,415	425
Other	(91)	52
	\$ 14,229	\$ 7,860

The 2018 corporate tax rate was 27.0% (2017 – 27.0%).

The components of the net deferred tax asset (liability) are:

	<i>Balance December 31, 2017</i>	<i>Recognized in Income</i>	<i>Balance December 31, 2018</i>
Decommissioning liability	2,721	630	3,351
Non-capital loss carry-forwards	278	–	278
Share issue costs	396	(200)	196
Commodity price risk contracts	947	(1,019)	(72)
Interest rate contracts	(69)	(7)	(76)
Property and equipment	(37,418)	(13,633)	(51,051)
	(33,145)	(14,229)	(47,374)

	<i>Balance December 31, 2016</i>	<i>Recognized in Income</i>	<i>Balance December 31, 2017</i>
Decommissioning liability	2,187	534	2,721
Non-capital loss carry-forwards	278	–	278
Share issue costs	653	(257)	396
Commodity price risk contracts	306	641	947
Interest rate contracts	164	(233)	(69)
Property and equipment	(28,873)	(8,545)	(37,418)
	(25,285)	(7,860)	(33,145)

As at December 31, 2018, the Company has approximately \$278 million of tax pools available for deduction against future taxable income.

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12. Related party disclosure

The consolidated financial statements include the financial statements of the Company and the following subsidiary:
% equity interest

Name	<i>Country of Incorporation</i>	2018	2017
Yangarra Resources Corp.	Canada	100%	100%

Compensation of key management personal (Directors and Officers):

	2018	2017
Compensation	\$ 1,932	\$ 1,525
Share-based payments	7,020	1,628
	\$ 8,952	\$ 3,153

During the year ended December 31, 2018, the Company was charged or invoiced \$344 (2017 - \$922) by companies controlled by certain of the Company's officers and directors including \$19 (2017 - \$16) payable at December 31, 2018. Other long-term liabilities include a mortgage for \$126 (2017 - \$169) held in the name of an officer of the Company for a property that is used as a field office. The Company is the beneficial owner through a trust agreement of the property against which the mortgage is secured. All mortgage payments are made by the Company.

13. 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 consolidated 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 December 31, 2018, the maximum credit exposure is the carrying amount of the accounts receivable of \$26,203 (December 31, 2017 - \$26,414). The maximum exposure to credit risk for accounts receivable as at December 31, 2018 and December 31, 2017 by type of customer was:

	December 31, 2018	December 31, 2017
Natural gas and liquids marketers	\$ 8,441	\$ 12,737
Partners on joint operations	11,170	11,160
Realized commodity contracts	2,156	67
Other	4,436	2,450
	\$ 26,203	\$ 26,414

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13. Financial instruments and financial risk management (continued)

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 January 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.

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

	December 31, 2018	December 31, 2017
Under 30 days	\$ 14,196	\$ 17,449
30 to 60 days	515	2,003
60 to 90 days	2,846	169
Over 90 days	8,646	6,793
	\$ 26,203	\$ 26,414

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 17). The Company did not provide for any doubtful accounts nor write-off any accounts receivable during the year ended December 31, 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.

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13. Financial instruments and financial risk management (continued)

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 availability on the credit facility (see note 5).

As at December 31, 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	51,851	51,851	51,851	-	-
Bank debt	134,489	134,587	-	134,587	-
Other long-term liabilities	124	124	46	48	30
Commodity contracts	390	390	-	390	-
	186,854	186,952	51,897	135,025	30

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 year months ended December 31, 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 \$1,097 (2017 - \$856) 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 December 31, 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)	\$ 139
Pay a floating rate to receive a 1.935% (plus a 2.50% credit spread) fixed rate on \$10 million (May 2018-November 2023)	\$ 144
	\$ 283

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13. Financial instruments and financial risk management (continued)

ii. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The Company had no outstanding forward exchange rate contracts in place at December 31, 2018.

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 December 31, 2018, the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price	Fair Value
<u>Oil</u>						
2020	425 bbl/d	Jan to Dec	US\$ WTI	Sold Call	USD\$ 65.00/bbl	\$ (390)
<u>Propane</u>						
2019	200 bbl/d	Jan to Dec	Conway - C3	Swap	CAD \$41.75	\$ 655
Total						\$ 265

No new contracts were entered into after December 31, 2018.

As the Company had a limited number of derivatives in place as at December 31, 2018 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 consolidated statement of income and comprehensive income.

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13. Financial instruments and financial risk management (continued)

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

	Measurement Level	December 31, 2018		December 31, 2017	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets					
Financial assets at fair value through profit or loss:					
Risk management assets	2	\$ 938	\$ 938	\$ 324	\$ 324
Financial Liabilities					
Financial Liabilities at fair value through profit or loss:					
Risk management liabilities	2	\$ 390	\$ 390	\$ 3,576	\$ 3,576

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 year ended December 31, 2018.

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14. 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:

	<i>December 31, 2018</i>	<i>December 31, 2017</i>
Shareholders' equity	\$ 255,336	\$ 207,957
Bank debt	\$ 134,489	\$ 84,886

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 December 31, 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.

15. Finance expenses

During the year ended December 31, 2018 and 2017, the following items were included in the finance expense on the consolidated statements of income and comprehensive income:

	2018	2017
Interest & finance costs	\$ 4,716	\$ 2,728
Realized loss on interest rate contracts	62	243
Change in fair value of interest rate contracts (<i>note 13</i>)	(27)	(865)
Accretion of decommissioning liability (<i>note 6</i>)	227	598
Accretion of debt transaction costs	249	140
	\$ 5,227	\$ 2,844

Yangarra Resources Ltd.
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16. 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:

		2018		2017
Crude Oil	\$	101,188	\$	53,803
Natural Gas		13,134		12,251
Natural Gas Liquids		20,656		11,859
		134,978		77,913

At December 31, 2018, receivables from contracts with customers, which are included in trade accounts receivable, were \$17 million (2017 - \$24 million).

17. 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.

18. Commitments

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

2019		\$		1,436
2020		\$		1,471
2021		\$		1,455
2022		\$		914
2023		\$		734