



Yangarra Resources Ltd.
Condensed Consolidated Interim Financial Statements
For nine months ended September 30, 2020 and 2019

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

| | September 30, 2020 (unaudited) | December 31, 2019 (audited) |
|---|--------------------------------------|-----------------------------------|
| Assets | | |
| Current | | |
| Accounts receivable (note 11a) | \$ 18,551 | \$ 24,591 |
| Prepaid expenses and inventory | 5,429 | 3,857 |
| Interest rate contracts (note 11c i) | – | 135 |
| Commodity contracts (note 11c iii) | 55 | 53 |
| Total current assets | 24,035 | 28,636 |
| Non-current | | |
| Property and equipment (note 2) | 557,827 | 541,799 |
| Exploration and evaluation assets (note 3) | 21,955 | 21,529 |
| Interest rate contracts (note 11c i) | – | 231 |
| Total assets | \$ 603,817 | \$ 592,195 |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities (note 11b) | \$ 14,061 | \$ 25,869 |
| Commodity contracts (note 11c iii) | 721 | 237 |
| Interest rate contracts (note 11c i) | 701 | – |
| Current portion of lease obligations (note 5) | 1,930 | 1,624 |
| Total current liabilities | 17,413 | 27,730 |
| Non-current | | |
| Bank debt (note 4) | 203,797 | 190,291 |
| Lease obligations (note 5) | 2,894 | 3,570 |
| Other long-term liabilities (note 11b) | 47 | 84 |
| Commodity contracts (note 11c iii) | 13 | – |
| Interest rate contracts (note 11c i) | 2,730 | – |
| Decommissioning liability (note 6) | 16,498 | 14,838 |
| Deferred tax liability | 53,103 | 52,039 |
| Total liabilities | 295,495 | 288,552 |
| Shareholders' equity | | |
| Share capital (note 7b) | 176,349 | 176,349 |
| Contributed surplus | 26,556 | 23,448 |
| Retained earnings | 104,417 | 103,846 |
| Total shareholders' equity | 307,322 | 303,643 |
| Total liabilities and shareholders' equity | \$ 603,817 | \$ 592,195 |

Contingency (note 15)

Yangarra Resources Ltd.

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

| | Three months ended September 30, (unaudited) | | Nine months ended September 30, (unaudited) | |
|---|--|-----------|---|------------|
| | 2020 | 2019 | 2020 | 2019 |
| Revenue | | | | |
| Petroleum and natural gas sales (note 14) | \$ 18,910 | \$ 31,606 | \$ 62,635 | \$ 107,986 |
| Royalties | (976) | (2,093) | (2,930) | (7,881) |
| | 17,934 | 29,513 | 59,705 | 100,105 |
| Commodity price risk contracts (note 11c iii) | | | | |
| Realized (loss) gain on commodity contract settlement | (319) | 402 | (335) | 832 |
| Change in fair value of commodity contracts | (1,062) | 98 | (495) | 62 |
| | 16,553 | 30,013 | 58,875 | 100,999 |
| Expenses | | | | |
| Production | 3,734 | 6,449 | 14,812 | 19,290 |
| Transportation | 988 | 1,713 | 2,953 | 3,688 |
| General and administrative | 214 | 686 | 1,605 | 1,621 |
| Finance (note 13) | 4,170 | 2,105 | 12,215 | 6,114 |
| Share-based compensation (note 8) | 104 | 767 | 2,177 | 2,930 |
| Depletion, depreciation and impairment (note 2) | 6,652 | 9,539 | 23,478 | 28,783 |
| | 15,862 | 21,259 | 57,240 | 62,426 |
| Income before tax | 691 | 8,754 | 1,635 | 38,573 |
| Deferred tax expense | 154 | 2,194 | 1,064 | 2,280 |
| Net income and total comprehensive income | \$ 537 | \$ 6,560 | \$ 571 | \$ 36,293 |
| Earnings per share (note 9) | | | | |
| Basic | \$ 0.01 | \$ 0.08 | \$ 0.01 | \$ 0.43 |
| Diluted | \$ 0.01 | \$ 0.08 | \$ 0.01 | \$ 0.42 |
| Weighted average number of shares (note 9) | | | | |
| Basic | 85,380 | 85,363 | 85,380 | 85,362 |
| Diluted | 85,677 | 85,936 | 85,758 | 86,518 |

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

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

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Share Capital | | |
| Balance, beginning of period | \$ 176,349 | \$ 176,286 |
| Exercise of options (note 7) | – | 31 |
| Contributed surplus transferred on exercise of stock options (note 7) | – | 17 |
| Balance, end of period | 176,349 | 176,334 |
| Contributed Surplus | | |
| Balance, beginning of period | 23,448 | 18,517 |
| Share-based compensation (note 8) | | |
| Current options | 1,410 | 3,985 |
| Cancelled options | 1,698 | – |
| Exercise of options (note 7) | – | (17) |
| Balance, end of period | 26,556 | 22,485 |
| Retained Earnings | | |
| Balance, beginning of period | 103,846 | 60,533 |
| Net income | 571 | 36,293 |
| Balance, end of period | 104,417 | 96,826 |
| Total Shareholders' Equity | \$ 307,322 | \$ 295,645 |

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

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

| | Three months ended September 30, (unaudited) | | Nine months ended September 30, (unaudited) | |
|--|--|----------|---|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Operating | | | | |
| Net income for the period | \$ 537 | \$ 6,560 | \$ 571 | \$ 36,293 |
| Add back non-cash items: | | | | |
| Change in fair value of commodity contracts | 1,062 | (97) | 495 | (62) |
| Change in fair value of interest rate contracts (note 13) | 126 | (136) | 3,797 | 370 |
| Change in fair value of foreign exchange contracts (note 11c ii) | – | (4,265) | – | 887 |
| Share-based compensation (note 8) | 104 | 767 | 2,177 | 2,930 |
| Depletion, depreciation and impairment (note 2) | 6,652 | 9,539 | 23,478 | 28,783 |
| Accretion (note 13) | 99 | 228 | 178 | 637 |
| Deferred tax expense | 154 | 2,194 | 1,064 | 2,280 |
| Decommissioning costs incurred (note 6) | – | – | – | (578) |
| Change in non-cash working capital (note 10) | (1,323) | (4,023) | (7,080) | (15,805) |
| Net cash flow from operating activities | 7,411 | 10,767 | 24,680 | 55,735 |
| Financing | | | | |
| Issue of equity instruments, net of costs (note 7) | – | – | – | 31 |
| Bank debt advance (note 4) | 7,694 | 17,546 | 13,315 | 55,317 |
| Lease obligation repayment | (424) | (333) | (1,181) | (891) |
| Other long-term liabilities repayment | (16) | (9) | (39) | (31) |
| Net cash from financing activities | 7,254 | 17,204 | 12,095 | 54,426 |
| Investing | | | | |
| Additions to property and equipment (note 2) | (9,997) | (23,423) | (36,089) | (94,223) |
| Additions to exploration and evaluation assets (note 3) | – | (3,180) | (426) | (5,243) |
| Change in non-cash working capital (note 10) | (4,668) | (1,368) | (260) | (10,695) |
| Net cash flow used in investing activities | (14,665) | (27,971) | (36,775) | (110,161) |
| Change in cash and cash equivalents | – | – | – | – |
| Cash, beginning of the period | – | – | – | – |
| Cash, end of the period | \$ – | \$ – | \$ – | \$ – |

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

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(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. (the “Company” or “Yangarra”) is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6.

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

Statement of compliance and authorization:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 – *Interim Financial Reported* on a basis consistent with the accounting, estimation and valuation policies described in the Company’s audited Consolidated Financial Statements as at and for the year ended December 31, 2019 (the “Annual Financial Statements”). These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments and stock options which are recognized at fair value. All financial information is reported in Canadian dollars, unless otherwise noted. Certain information and disclosures normally required to be included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reported Standards have been condensed or omitted. These condensed consolidated interim financial statements should be read in conjunction with the Annual Financial Statements.

The condensed consolidated interim financial statements were authorized for issue by the Company’s Board of Directors on October 29, 2020.

2. 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, 2019 | \$ 586,790 | \$ 128,193 | \$ 10,157 | \$ 725,140 |
| Cash additions | 31,876 | 3,473 | 740 | 36,089 |
| Capitalized share-based compensation (note 8) | 932 | – | – | 932 |
| Decommissioning liability (note 6) | 1,515 | – | – | 1,515 |
| Lease additions (note 5) | – | – | 970 | 970 |
| Balance at September 30, 2020 | \$ 621,113 | \$ 131,666 | \$ 11,867 | \$ 764,646 |
| Depletion, depreciation and impairment | | | | |
| Balance at December 31, 2019 | \$ 165,892 | \$ 14,170 | \$ 3,279 | \$ 183,341 |
| Depletion and depreciation | 20,227 | 1,713 | 279 | 22,219 |
| Lease obligations | – | – | 1,259 | 1,259 |
| Balance at September 30, 2020 | \$ 186,119 | \$ 15,883 | \$ 4,817 | \$ 206,819 |
| At December 31, 2019 | \$ 420,898 | \$ 114,023 | \$ 6,878 | \$ 541,799 |
| At September 30, 2020 | \$ 434,994 | \$ 115,783 | \$ 7,050 | \$ 557,827 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)*

2. Property and equipment (continued)

The depletion, depreciation and impairment of property and equipment, and any eventual reversal thereof, are recognized in the condensed consolidated interim statements of income and comprehensive income. As at September 30, 2020, all of the Company's properties are pledged as security for the bank debt (see note 4). The calculation of depletion for the nine months ended September 30, 2020 included estimated future development costs of \$614 million (2019 – \$535 million) associated with the development of the Company's proved plus probable reserves.

During the nine months ended September 30, 2020, the Company capitalized \$1,515 (2019 – \$2,145) related to the decommissioning liability of property and equipment and \$932 (2019 – \$763) of share-based compensation. The Company also capitalized \$551 (2019 - \$970) of recoveries related to the Company's working interest in operated capital expenditure programs on which overhead has been charged in accordance with standard industry operating agreements. During the nine months ended September 30, 2020, the Company capitalized \$367 (2019 – \$314) of salaries and consulting expenses directly related to geological, drilling and completions.

The Company performed an impairment assessment of its property and equipment on a Cash Generating Unit ("CGU") basis and determined that there were impairment triggers as at September 30, 2020 as there was a significant decrease in oil pricing starting in March 2020 and the Company's market capitalization was less than the net asset value (the Company's market capitalization was less than the net asset value as at December 31, 2019).

The Company performed an impairment test using the September 30, 2020 reserve estimates prepared by our in-house reservoir engineer. It was determined that no write-down was necessary as at September 30, 2020. The same test was performed as at December 31, 2019, with reserve estimates prepared by our independent reserve engineer, and no write-down was necessary.

The proved plus probable reserve values were based on the Company's December 31, 2019 reserve report as prepared by its independent reserve engineer, which was updated for independent reserve engineer revised price estimates as at September 30, 2020. 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 value in use 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.

| | Edm. Light Crude | WTI Oil | AECO Gas | FX Rate |
|------------|------------------|-----------|-----------|------------|
| Year | CDN\$/bbl | US\$/bbl | CDN\$/mcf | US\$/CDN\$ |
| 2020 | \$49.35 | \$41.50 | \$2.55 | \$0.76 |
| 2021 | \$54.30 | \$45.90 | \$2.70 | \$0.77 |
| 2022 | \$61.70 | \$53.30 | \$2.75 | \$0.78 |
| 2023 | \$69.95 | \$61.00 | \$2.80 | \$0.80 |
| 2024 | \$71.05 | \$62.25 | \$2.85 | \$0.80 |
| 2025 | \$72.50 | \$63.50 | \$2.95 | \$0.80 |
| 2026 | \$73.95 | \$64.75 | \$3.00 | \$0.80 |
| 2027 | \$75.40 | \$66.05 | \$3.05 | \$0.80 |
| Thereafter | 2.0%/year | 2.0%/year | 2.0%/year | \$0.80 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

2. Property and equipment (continued)

The results of Yangarra’s impairment tests are sensitive to changes in any of the key estimates of which changes could decrease the recoverable amounts of assets and result in impairment charges. A 10% increase in the discount rate and a 10% decrease in commodity pricing did not result in an impairment.

There were no other indicators of impairment as at September 30, 2020.

3. Exploration and evaluation assets

Cost

| | | |
|-------------------------------|----|---------------|
| Balance at December 31, 2019 | \$ | 31,304 |
| Additions | | 426 |
| Balance at September 30, 2020 | | 31,730 |

Impairment losses

| | | |
|---|----|--------------|
| Balance at September 30, 2020 & December 31, 2019 | \$ | 9,775 |
|---|----|--------------|

Net book value

| | | |
|-----------------------|----|---------------|
| At December 31, 2019 | \$ | 21,529 |
| At September 30, 2020 | \$ | 21,955 |

Exploration and evaluation (“E&E”) assets consist of the Company’s undeveloped land which is pending the determination of proven or probable reserves. All the undeveloped land is the Company’s core Cardium area and when based on internal estimates when tested for impairment does not require an adjustment.

4. Bank debt

As at September 30, 2020, the maximum amount available under the syndicated credit facility was \$210 million (December 31, 2019 – \$225 million) comprised of a \$185 million (December 31, 2019 – \$200 million) extendible revolving term credit facility and a \$25 million (December 31, 2019 – \$25 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, 2022 (the “Maturity Date”) and the next Borrowing Base review is scheduled for November 30, 2020. The Maturity Date may be extended for 364-day periods pursuant to delivery of a request for extension by the Company within certain time periods specified in the syndicated credit facility agreement.

As at September 30, 2020, the \$203,797 (December 31, 2019 – \$190,291) reported amount of bank debt was comprised of \$19,710 (December 31, 2019 – \$15,767) drawn on the operating facility, \$184,666 (December 31, 2019 – \$174,766) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of \$579 (December 31, 2019 – \$242).

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)*

4. Bank debt (continued)

The Company is subject to a single financial covenant requiring an adjusted working capital ratio above 1:1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility and excluding unrealized commodity contracts). The Company was in compliance with this covenant as at September 30, 2020 and December 31, 2019. 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 200 bps to 400 bps on bank prime borrowings and between 300 bps and 500 bps on bankers' acceptances. The undrawn portion of the credit facility is subject to a standby fee in the range of 75 bps to 125 bps. During the nine months ended September 30, 2020, the weighted average effective interest rate for the bank debt was approximately 4.8% (2019 – 4.1%).

5. Lease obligations

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

| | <i>September 30, 2020</i> | <i>December 31, 2019</i> |
|-------------------------------|-------------------------------|------------------------------|
| Balance, beginning of period | \$ 5,194 | \$ – |
| Adoption of IFRS 16 | – | 3,321 |
| Additions | 996 | 3,208 |
| Cancellations | (26) | – |
| Lease payments | (1,508) | (1,648) |
| Interest | 168 | 313 |
| Balance, end of period | \$ 4,824 | \$ 5,194 |

\$1,930 was classified as current as at September 30, 2020 (December 31, 2019 - \$1,624).

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>September 30, 2020</i> | <i>December 31, 2019</i> |
|--------------------------------|-------------------------------|------------------------------|
| Balance, beginning of period | \$ 14,838 | \$ 12,410 |
| Liabilities incurred | 601 | 1,895 |
| Decommissioning costs incurred | – | (94) |
| Effect of change in estimates | 914 | 416 |
| Accretion | 145 | 211 |
| Balance, end of period | \$ 16,498 | \$ 14,838 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

6. Decommissioning liability (continued)

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

| | <i>September 30, 2020</i> | <i>December 31, 2019</i> |
|--|-------------------------------|------------------------------|
| Undiscounted cash flows | \$ 17,593 | \$ 17,200 |
| Discount rate | 0.25% - 1.32% | 1.37% - 1.92% |
| Inflation rate | 2% | 2% |
| Weighted average expected timing of cash flows | 7.5 years | 7.8 years |

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 at December 31, 2019 and September 30, 2020 | 85,380 | \$ 176,349 |

8. Share-based compensation

The Company has an equity settled stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Company by encouraging these individuals to acquire shares in the Company and thereby remain associated with and seek to maximize the value of the Company. Under the plan, the number of shares reserved for issuance pursuant to the exercise of all options under the plan may not exceed 10% of the issued and outstanding common shares on a non-diluted basis at any time. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Company, and vest over terms determined at the time of grant.

During the nine months ended September 30, 2020, the Company granted options to purchase 3,171 (2019 – 240) common shares, with 50% vesting immediately and 50% vesting one year after the grant date. The fair value of the options was estimated at \$780 (2019 - \$294) using the Black-Scholes option pricing model.

During the nine months ended September 30, 2020, the Company cancelled options to purchase 6,698 (2019 – nil) common shares and the unamortized stock-based compensation was accelerated and recognized during the period.

During the nine months ended September 30, 2020, the Company recognized \$2,177 (2019 – \$2,930) of share-based compensation on the condensed consolidated interim statements of income and comprehensive income, which includes \$1,178 (2019 – \$Nil) for the cancelled stock options. During the nine months ended September 30, 2020, the Company capitalized \$932 (2019 - \$763) related to property and equipment, which includes \$520 (2019 – \$ Nil) for the cancelled stock options.

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

8. Share-based compensation (continued)

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

| | <i>September 30, 2020</i> | | <i>December 31, 2019</i> | |
|-----------|---------------------------|--|--------------------------|--|
| | <i>Options</i> | <i>Weighted – average exercise price</i> | <i>Options</i> | <i>Weighted – average exercise price</i> |
| Opening | 8,498 | \$4.26 | 8,324 | \$4.38 |
| Granted | 3,171 | 0.52 | 500 | 1.96 |
| Exercised | – | – | (39) | (1.06) |
| Cancelled | (6,698) | (4.26) | (287) | (4.19) |
| Closing | 4,971 | \$0.87 | 8,498 | \$4.26 |

The following provides a summary of the stock option plan as at September 30, 2020:

| <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> | <i>Weighted- average exercise price</i> |
|--|-------------------------------|--|---|-------------------------------|---|
| \$ 0.50 – \$ 1.00 | 3,561 | 4.14 | \$ 0.55 | 1,985 | \$ 0.56 |
| \$ 1.01 – \$ 1.50 | 1,002 | 1.43 | 1.33 | 902 | 1.33 |
| \$ 1.51 – \$ 2.00 | 89 | 1.22 | 1.85 | 89 | 1.85 |
| \$ 2.51 – \$ 3.00 | 319 | 1.48 | 2.69 | 319 | 2.69 |
| | 4,971 | 3.37 | \$ 0.87 | 3,295 | \$ 0.87 |

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

| | <i>2020</i> | <i>2019</i> |
|--|----------------------|---------------|
| Weighted average exercise per option | \$0.52 | \$2.63 |
| Risk-free interest rate | 0.36% - 0.45% | 1.42% - 1.83% |
| Expected volatility | 68% - 69% | 63% - 64% |
| Weighted average expected life | 4 years | 4 years |
| Forfeiture rate | 5% | 5% |
| Weighted average fair value per option | \$0.25 | \$1.29 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

9. Earnings per common share

Basic earnings per share was calculated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|-----------|
| | 2020 | 2019 | 2020 | 2019 |
| Net income for the period | \$ 537 | \$ 6,560 | \$ 571 | \$ 36,293 |
| Weighted average number of shares (basic) | | | | |
| Issued common shares at beginning of period | 85,380 | 85,363 | 85,380 | 85,341 |
| Effect of shares issued | – | – | – | 21 |
| Weighted average number of common shares - basic | 85,380 | 85,363 | 85,380 | 85,362 |

Diluted earnings per share was calculated as follows:

| | | | | |
|--|---------------|--------|---------------|--------|
| Weighted average number of shares (diluted) | | | | |
| Weighted average number of shares (basic) | 85,380 | 85,363 | 85,380 | 85,362 |
| Effect of outstanding options | 297 | 573 | 378 | 1,156 |
| Weighted average number of common shares - diluted | 85,677 | 85,936 | 85,758 | 86,518 |

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. For the three months ended September 30, 2020, 2,486 (2019 – 6,755) options are excluded as they are out of the money based on an average share price of \$0.60 (2019 – \$1.68). For the nine months ended September 30, 2020, 1,560 (2019 – 5,438) options are excluded as they are out of the money based on an average share price of \$0.69 (2019 – \$2.46).

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

10. Change in non-cash working capital

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|-------------|
| | 2020 | 2019 | 2020 | 2019 |
| Accounts receivable | \$ 2,459 | \$ (988) | \$ 6,040 | \$ 27 |
| Prepaid expenses and inventory | 749 | (632) | (1,572) | 1,082 |
| Accounts payable and accrued liabilities | (9,199) | (3,771) | (11,808) | (27,609) |
| | \$ (5,991) | \$ (5,391) | \$ (7,340) | \$ (26,500) |

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

| | | | | |
|-----------|------------|------------|------------|-------------|
| Operating | \$ (1,323) | \$ (4,023) | \$ (7,080) | \$ (15,805) |
| Investing | (4,668) | (1,368) | (260) | (10,695) |
| | \$ (5,991) | \$ (5,391) | \$ (7,340) | \$ (26,500) |

11. Financial instruments and financial risk management

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these condensed consolidated interim financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with the risk management policies as set out herein:

a. Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and partners on joint operations in the oil and gas industry and are subject to normal industry credit risks.

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at September 30, 2020, the maximum credit exposure is the carrying amount of the accounts receivable of \$18,551 (December 31, 2019 – \$24,591). The maximum exposure to credit risk for accounts receivable as at September 30, 2020 and December 31, 2019 by type of customer was:

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

11. Financial instruments and financial risk management (continued)

a. Credit risk (continued)

| | September 30, 2020 | December 31, 2019 |
|--------------------------------------|---------------------------|-------------------|
| Natural gas and liquids marketers | \$ 7,277 | \$ 12,406 |
| Partners on joint operations | 8,428 | 9,530 |
| Realized commodity contracts | - | 97 |
| Provision for expected credit losses | - | (664) |
| Other | 2,846 | 3,222 |
| | \$ 18,551 | \$ 24,591 |

Receivables from natural gas and liquids marketers are typically collected on the 25th day of the month following production. The Company has mitigated the credit risk associated with the natural gas and liquids marketer through a security arrangement with Computershare. The Company historically has not experienced any significant collection issues with its natural gas and liquids marketers. The majority of the revenue accruals and receivables from natural gas and liquids marketers were received in October 2020.

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 September 30, 2020 and December 31, 2019, the Company's receivables are aged as follows:

| | September 30, 2020 | December 31, 2019 |
|---------------|---------------------------|-------------------|
| Under 30 days | \$ 7,949 | \$ 14,273 |
| 30 to 60 days | 238 | 187 |
| 60 to 90 days | 246 | 358 |
| Over 90 days | 10,118 | 9,773 |
| | \$ 18,551 | \$ 24,591 |

80% (2019 – 97%) of the over 90-day receivables are made up of three (2019 – four) 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 four of the industry partners (see note 15). The Company had a provision of expected credit losses during the nine months ended September 30, 2020 of \$nil (December 31, 2019 - \$664) as the previous year amount was removed due to an improvement in creditworthiness of the third party.

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 2020 and 2019, 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.

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)*

11. Financial instruments and financial risk management (continued)

b. Liquidity risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation. The Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. The Company uses authorizations for expenditures on both operated and non-operated projects to further manage capital expenditures.

To facilitate the capital expenditure program, the Company has a credit facility agreement which is regularly reviewed by the lender. The Company monitors its total debt position monthly. The Company also attempts to match its payment cycle with collection of petroleum and natural gas revenues on the 25th of each month. The Company anticipates it will have adequate liquidity to fund its financial liabilities through its future cash flows and availability on bank facilities. The Company's financial liabilities are comprised of accounts payable and accrued liabilities, interest rate contracts, commodity contracts, other long-term liabilities and bank debt, which are classified as current or non-current on the condensed consolidated interim statement of financial position based on their maturity dates. As at September 30, 2020, the contractual maturities of the Company's obligations are as follows:

| | Carrying Amount | Contractual Cash Flows | Less than 1 year | 1-2 Years | 2-5 Years | More than 5 years |
|--|--------------------|---------------------------|---------------------|-------------------|-----------------|-------------------------|
| Accounts payable and accrued liabilities | \$ 14,061 | \$ 14,061 | \$ 14,061 | \$ - | \$ - | \$ - |
| Bank debt | 203,797 | 204,374 | - | 204,374 | - | - |
| Lease liabilities | 4,824 | 5,846 | 1,930 | 1,768 | 2,127 | 21 |
| Other long-term liabilities | 47 | 47 | 41 | - | - | - |
| Interest rate contracts | 3,431 | 3,431 | 701 | 858 | 1,872 | - |
| Commodity contracts | 734 | 734 | 721 | 13 | - | - |
| | <u>\$ 226,894</u> | <u>\$ 228,493</u> | <u>\$ 17,454</u> | <u>\$ 207,013</u> | <u>\$ 3,999</u> | <u>\$21</u> |

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 set out herein:

i. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate and to mitigate this risk, the Company has entered into interest rate contracts. For the nine months ended September 30, 2020, if interest rates (including the effect of the interest rate contract) had been 1% lower with all other variables held constant, net income for the period would have been \$1,486 (2019 - \$1,200) 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 as at September 30, 2020:

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

11. Financial instruments and financial risk management (continued)

c. Market risk (continued)

i. Interest rate risk (continued)

| Contracts | Fair Value |
|---|-------------------|
| Pay a floating rate to receive a 1.94% fixed rate on \$40 million (April 2021-April 2025) | \$ (1,870) |
| Pay a floating rate to receive a 1.42% fixed rate on \$40 million (April 2021-April 2025) | (1,059) |
| Pay a floating rate to receive a 1.39% fixed rate on \$20 million (April 2021-April 2025) | (502) |
| | \$ (3,431) |

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

iii. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above.

As at September 30, 2020, 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 | \$ (1) |
| <u>Gas</u> | | | | | | |
| 2020 | 5,000 GJ/d | Apr to Oct | | AECO Swap | CDN \$1.80/GJ | (116) |
| 2020 | 5,000 GJ/d | Apr to Oct | | AECO Swap | CDN \$1.80/GJ | (116) |
| 2020 | 5,000 GJ/d | Apr to Oct | | AECO Swap | CDN \$1.78/GJ | (118) |
| 2020/2021 | 5,000 GJ/d | Jun 2020 to Mar 2021 | | AECO Swap | CDN \$2.40/GJ | (320) |
| 2020/2021 | 5,000 GJ/d | Nov 2020 to Mar 2021 | | AECO Collar | CDN \$2.75/GJ - \$3.40/GJ | 55 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

11. Financial instruments and financial risk management (continued)

c. Market risk (continued)

iii. Commodity price risk (continued)

| <u>Propane</u> | | | | | | |
|----------------|-----------|------------|-----------------------------------|------------|-----------------------------|-----------------|
| 2020 | 100 bbl/d | Jan to Dec | Conway - C3 to Mont Belvieu C3 | Basis Swap | Minus USD 0.02875/Gallon | (9) |
| 2020 | 100 bbl/d | Jan to Dec | Conway - C3 to Mont Belvieu C3 | Basis Swap | Minus USD 0.02/Gallon | (3) |
| 2021 | 200 bbl/d | Jan to Dec | Conway - C3 to Mont Belvieu C3 | Basis Swap | Minus USD 0.01/Gallon | (51) |
| Total | | | | | | \$ (679) |

No new commodity contracts were entered into after September 30, 2020.

As the Company had a limited number of derivatives in place as at September 30, 2020, the sensitivity of the fair value of a 10 percent volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the condensed consolidated interim statements of income and comprehensive income.

d. Fair value of financial instruments

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

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

| | Measurement Level | September 30, 2020 | | December 31, 2019 | |
|---|----------------------|--------------------|---------------|--------------------|---------------|
| | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial Assets | | | | | |
| Financial assets at fair value through profit or loss: | | | | | |
| Risk management assets | 2 | \$ 55 | \$ 55 | \$ 419 | \$ 419 |
| Financial Liabilities | | | | | |
| Financial liabilities at fair value through profit or loss: | | | | | |
| Risk management liabilities | 2 | \$ 4,165 | \$ 4,165 | \$ 237 | \$ 237 |

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements
For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)

11. Financial instruments and financial risk management (continued)

d. Fair value of financial instruments (continued)

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 nine months ended September 30, 2020.

12. Capital disclosures

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debt:

| | <i>September 30, 2020</i> | <i>December 31, 2019</i> |
|----------------------|---------------------------|--------------------------|
| Shareholders' equity | \$ 307,322 | \$ 303,643 |
| Bank debt | \$ 203,797 | \$ 190,291 |

The Company monitors capital based on annual cash from operations before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs. In order to maintain or adjust the capital structure, the Company considers its forecasted cash from operations before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank debt available from the Company's lender, the level of bank debt that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At September 30, 2020 and December 31, 2019, the Company's capital structure was subject to the banking covenants disclosed in note 4. No changes were made to the capital policy in 2020.

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)*

12. Capital disclosures (continued)

The current challenging economic climate may lead to further adverse changes in cash flows, working capital levels and/or debt balances, which may also have a direct impact on the Company's operating results and financial position. These and other factors may adversely affect the Company's liquidity and the Company's ability to generate income and cash flows in the future. As at September 30, 2020, the Company remains in compliance with all the terms of our credit facilities. However, in light of the current volatility in commodity prices and uncertainty regarding the timing for recovery in such prices, pipeline and transportation capacity constraints, and the effect of the Coronavirus (COVID-19), the preparation of financial forecasts is challenging.

13. Finance expenses

During the three and nine months ended September 30, 2020 and 2019, the following items were included in the finance expense on the condensed consolidated interim statements of income and comprehensive income:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
| | 2020 | 2019 | 2020 | 2019 |
| Interest & finance costs | \$ 3,889 | \$ 2,075 | \$ 8,101 | \$ 5,164 |
| Interest on lease obligations | 56 | 110 | 168 | 295 |
| Realized loss on interest rate contracts | - | 19 | (28) | 5 |
| Change in fair value of interest rate contracts | 126 | (136) | 3,797 | 370 |
| Accretion of decommissioning liability (note 6) | 35 | 53 | 145 | 169 |
| Accretion of debt transaction costs | 108 | 42 | 191 | 166 |
| Accretion of lease obligations | (44) | 135 | (159) | 303 |
| Foreign exchange transactions | - | (193) | - | (358) |
| | \$ 4,170 | \$ 2,105 | \$ 12,215 | \$ 6,114 |

14. Revenue

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------|-------------------------------------|------------------|------------------------------------|-------------------|
| | 2020 | 2019 | 2020 | 2019 |
| Crude Oil | \$ 9,709 | \$ 22,964 | \$ 34,119 | \$ 76,923 |
| Natural Gas | 6,218 | 4,511 | 20,004 | 17,165 |
| Natural Gas Liquids | 2,983 | 4,131 | 8,512 | 13,898 |
| | \$ 18,910 | \$ 31,606 | \$ 62,635 | \$ 107,986 |

At September 30, 2020, receivables from contracts with customers, which are included in accounts receivable, were \$10,430 (2019 - \$22,400).

Yangarra Resources Ltd.
Notes to the Condensed Consolidated Interim Financial Statements

*For the three and nine months ended September 30, 2020 and 2019
(in thousands, Canadian dollars, except per share and per unit amounts)*

15. Contingency

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

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.