Yangarra Resources Ltd.
Management's Discussion and Analysis
For three and nine months ended September 30, 2020 and 2019

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the December 31, 2019 audited consolidated financial statements, together with the accompanying notes.

Additional information about Yangarra filed with Canadian securities commissions is available on-line at www.sedar.com.

The MD&A has been prepared using information that is current to October 29, 2020.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.

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

Non–IFRS and Additional IFRS Measures

This document contains "funds flow from (used in) operations", which is an additional IFRS measure. The Company uses funds flow generated from (used in) operations as a key measure to demonstrate the Company's ability to generate funds to repay debt and fund future capital investment. This document also contains the terms "net debt or adjusted working capital (deficit)" and "netbacks", which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

<u>Funds flow from operations</u>

Yangarra's determination of funds flow from operations and funds flow from operations per share may not be comparable to that reported by other companies. Management uses funds flow from operations to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. Funds flow from operations is calculated using cash from operating activities before changes in non-cash working capital and decommissioning costs incurred. Yangarra presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

The following table reconciles funds flow from operations to cash from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Cash from operating activities	$ 7,411	$ 10,767	$ 24,680	$ 55,735
Change in fair value of foreign exchange contracts	-	4,265	-	(887)
Decommissioning costs incurred	-	-	-	578
Non Cash Interest and Finance	1,304	-	1,304	-
Changes in non-cash working capital	1,323	4,023	7,080	15,805
Funds flow from operations	$ 10,038	$ 19,055	$ 33,064	$ 71,231

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Netbacks

The Company considers corporate netbacks to be a key measure as they demonstrate Yangarra's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, field operating, funds flow from operations and net income / (loss) netbacks. Operating netback is calculated as the average sales price of its commodities (including realized gains on financial instruments) and then subtracts royalties, operating costs and transportation expenses. Field operating netback subtracts the realized gains on financial instruments, Funds flow from operations netback starts with the operating netback and further deducts general and administrative costs, finance expense and adds finance income. To calculate the net income (loss) netback, Yangarra takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. There is no IFRS measure that is reasonably comparable to netbacks.

Funds flow from operations margins and Operating margins

Are calculated as the ratio of Funds flow from operations netbacks to sales price and operating netback to sales price.

Adjusted Net debt

Adjusted net debt, which represent current assets less current liabilities, excluding current derivative financial instruments, are used to assess efficiency, liquidity and the general financial strength of the Company. There is no IFRS measure that is reasonably comparable to net debt or adjusted working capital (deficit).

	Sep 30, 2020	Sep 30, 2019
Bank Debt	$ 203,797	$ 189,972
Accounts receivable	(18,551)	(26,176)
Prepaid expenses and inventory	(5,429)	(3,173)
Accounts payable and accrued liabilities	14,061	24,242
Foreign exchange contract	-	887
Adjusted net Debt	$ 193,878	$ 185,752

Adjusted earnings before interest, taxes, depletion & depreciation, amortization

Adjusted earnings before interest, taxes, depletion & depreciation, amortization ("Adjusted EBITDA") which represents EBITDA, excluding changes in derivative financial instruments are used to assess efficiency, liquidity and the general financial strength of the Company.

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Net income (loss) for the Period	$ 537	$ 6,560	$ 571	$ 36,293
Finance	4,170	2,105	12,215	6,114
Deferred tax expense	154	2,194	1,064	2,280
Depletion, depreciation and impairment	6,652	9,539	23,478	28,783
Change in fair value of commodity contracts	1,062	(98)	495	(62)
Foreign exchange transactions	-	193	-	358
Adjusted EBITDA	$ 12,575	$ 20,493	$ 37,823	$ 73,766

Working Capital deficit (surplus)

Working capital deficit (surplus) is the total of current assets less the total of current liabilities and is used to assess efficiency, liquidity and the general financial strength of the Company

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

Overview

Yangarra Resources Ltd. ("**Yangarra**" or the "**Company**") is a junior oil and gas company engaged in the exploration, development and production of natural gas and oil with operations in Western Canada, with a main focus on the Cardium in Central Alberta, where the Company has extensive infrastructure and land holdings. Yangarra is dedicated to creating value for its shareholders through its commitment to a clear business strategy and performance objectives. The Company's strategy is to increase the value of its corporate assets through the drill bit and by assembling a large, focused land base in Central Alberta that features high-quality, long-life light oil and liquids-rich gas reserves. The Company has assembled a significant future drilling inventory and will strive to grow this inventory through drilling, geology and strategic acquisitions.

Third Quarter Highlights

- Average production of 8,409 boe/d (46% liquids) during the quarter, a 34% decrease from the same period in 2019
- Oil and gas sales were $18.9 million, a decrease of 40% from the same period in 2019
- Funds flow from operations of $10.0 million ($0.12 per share – basic), a decrease of 47% from the same period in 2019
- Adjusted EBITDA (which excludes changes in derivative financial instruments) was $12.6 million ($0.15 per share - basic)
- Net income of $0.5 million ($0.01 per share – basic, $0.7 million before tax), a decrease of 92% from the same period in 2019
- Operating costs were $6.10/boe (including $1.28/boe of transportation costs)
- Field operating netbacks were $17.08/boe
- Operating netbacks, which include the impact of commodity contracts, were $16.67/boe
- Operating margins were 68% and funds flow from operations margins were 53%
- G&A costs of $0.28/boe
- Royalties were 5% of oil and gas revenue
- All in cash costs were $11.06/boe
- Capital expenditures were $10.0 million
- Net Debt of $193.9 million
- Net Debt to third quarter annualized funds flow from operations was 4.8 : 1
- Retained earnings of $104 million
- Corporate LMR is 9.0 with decommissioning liabilities of $16.5 million (discounted)

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Operations Update

Yangarra has reduced drilling and completions costs by 20-25% as compared to pre COVID-19 wells as a result of the addition of a construction division, revised well designs, water handling improvements and a variety of other structural cost saving initiatives. This will allow the Company to achieve rates of return above internal thresholds on new wells with oil below US$40 WTI.

With capital efficiencies improving materially, the strengthening of natural gas prices and more stability in oil prices, Yangarra elected to complete four previously drilled wells and drill one additional well for the third quarter. For the next two quarters, Yangarra will match its capital budget to cash flow.

Approximately 2,500 boe/d (52% liquids) was shut-in for six weeks due to third-party infrastructure turnarounds and for completions activity. All the shut-in production together with four completed wells was brought on by the end of the quarter.

Financial Information

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Statements of Comprehensive Income				
Petroleum & natural gas sales	$ 18,910	$ 31,606	$ 62,635	$ 107,986
Net income (loss) (before tax)	$ 691	$ 8,754	$ 1,635	$ 38,573
Net income (loss)	$ 537	$ 6,560	$ 571	$ 36,293
Net income (loss) per share - basic	$ 0.01	$ 0.08	$ 0.01	$ 0.43
Net income (loss) per share - diluted	$ 0.01	$ 0.08	$ 0.01	$ 0.42
Statements of Cash Flow				
Funds flow from operations	$ 10,038	$ 19,055	$ 33,064	$ 71,231
Funds flow from operations per share - basic	$ 0.12	$ 0.22	$ 0.39	$ 0.83
Funds flow from operations per share - diluted	$ 0.12	$ 0.22	$ 0.39	$ 0.82
Cash from operating activities	$ 7,411	$ 10,768	$ 24,680	$ 55,735
Statements of Financial Position				
Property and equipment	$ 557,827	$ 530,389	$ 557,827	$ 530,389
Total assets	$ 603,817	$ 581,426	$ 603,817	$ 581,426
Working capital deficit (surplus)	$ (6,622)	$ (2,947)	$ (6,622)	$ (2,947)
Adjusted Net Debt	$ 193,878	$ 185,752	$ 193,878	$ 185,752
Shareholders equity	$ 307,322	$ 295,645	$ 307,322	$ 295,645
Weighted average number of shares - basic	85,380	85,363	85,380	85,362
Weighted average number of shares - diluted	85,677	85,936	85,758	86,518

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Business Environment

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Realized Pricing (Including realized commodity contracts)				
Oil ($/bbl)	$ 49.49	$ 69.83	$ 45.71	$ 69.81
NGL ($/bbl)	$ 19.01	$ 22.78	$ 16.45	$ 27.82
Gas ($/mcf)	$ 2.47	$ 1.06	$ 2.17	$ 1.56
Realized Pricing (Excluding commodity contracts)				
Oil ($/bbl)	$ 49.49	$ 69.83	$ 45.65	$ 69.81
NGL ($/bbl)	$ 18.96	$ 20.85	$ 16.47	$ 26.33
Gas ($/mcf)	$ 2.47	$ 1.06	$ 2.21	$ 1.56
Oil Price Benchmarks				
West Texas Intermediate ("WTI") (US$/bbl)	$ 40.89	$ 56.43	$ 38.35	$ 56.99
Edmonton Par ($/bbl)	$ 48.66	$ 69.48	$ 42.92	$ 70.31
Edmonton Par to WTI differential (US$/bbl)	$ (4.35)	$ (3.63)	$ (6.50)	$ (4.26)
Natural Gas Price Benchmarks				
AECO gas ($/mcf)	$ 2.28	$ 0.90	$ 2.07	$ 1.55
Foreign Exchange				
U.S./Canadian Dollar Exchange	0.75	0.76	0.74	0.75

Crude oil prices decreased by 28% for the three months ended September 30, 2020, with the West Texas Intermediate ("WTI") reference price averaging US$40.89/bbl compared with US$56.43/bbl in the same period in 2019. For the nine months ended September 30, 2020 WTI prices were down 33% averaging US$38.35/bbl. Demand for crude oil is generally tied to global economic growth, but is also influenced by factors such as infrastructure, political instability, market uncertainty, weather conditions, government regulations, the Saudi Arabia/Russia price war on North American shale production and the impact of COVID-19 on demand.

Edmonton par differentials to WTI widened in the three months ended September 30, 2020 when compared to the same period in 2019, moving from a US$3.63/bbl differential in 2019 to US$4.35/bbl in 2020. In the nine months ended September 30, 2020 Edmonton par differentials widened from US$4.26/bbl to US$6.50/bbl.

In the three months ended September 30, 2020 the US/CDN foreign exchange rate was 0.75 compared to 0.76 for the same period in 2019 and was 0.74 for the nine months ended September 30, 2020 compared to 0.75 for the same period in 2019. The Edmonton par reference price is denominated in Canadian dollars so the change in the foreign exchange rate has increased the Edmonton par price relative to WTI. Edmonton par is the closest reference price point for Yangarra's oil therefore is the closest proxy to realized pricing.

When compared to the three and nine months ended September 30, 2019, realized pricing on oil decreased by 29% and 35%, respectively. The decrease in oil pricing is a direct result of decreased WTI pricing and widening differentials.

When compared to the three and nine months ended September 30, 2019, liquids pricing decreased by 9%, and 37%, respectively, excluding commodity contracts, and decreased by 17% and 41%, respectively, when the effects of commodity contracts are included.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

AECO natural gas prices increased for the three and nine months ended September 30, 2020 by 153% to $2.28/mcf and by 33% to $2.07/mcf. When compared to the three and nine months ended September 30, 2019, realized pricing on natural gas increased by 133% and 41%, respectively.

Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Daily production volumes				
Natural gas (mcf/d)	27,445	41,068	33,103	39,049
Oil (bbl/d)	2,135	3,627	2,728	4,020
NGL's (bbl/d)	1,700	2,253	1,884	2,045
Combined (boe/d 6:1)	8,409	12,724	10,129	12,574
Revenue				
Petroleum & natural gas sales - Gross	$ 18,910	$ 31,606	$ 62,635	$ 107,986
Realized gain (loss) on commodity contract settlement	(319)	402	(335)	832
Total sales	18,591	32,008	62,300	108,818
Royalty expense	(976)	(2,093)	(2,930)	(7,881)
Total Revenue - Net of royalties	$ 17,615	$ 29,915	$ 59,370	$ 100,937

Total sales in Q3 2020 decreased by 42% to $18.6 million from $32.0 million in 2019. The decrease is attributable to:

- A 9% decrease in average product prices
- A 34% decrease in production (on a boe basis)

Total sales in the nine months ended September 30, 2020 decreased by 43% to $62.3 million from $108.8 million in the same period 2019. The increase is attributable to:

- A 28% decrease in average product prices; and
- A 19% decrease in production (on a boe basis)
- A decrease in liquids weighting from 48% in 2019 to 46% in 2020

The decrease in production is due to the 2,500 boe/d (52% liquids) that was shut-in for six weeks during the quarter due to third-party infrastructure maintenance and natural declines.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Company Netbacks ($/boe)

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Sales price	$ 24.44	$ 27.00	$ 22.57	$ 31.46
Royalty expense	(1.26)	(1.79)	(1.06)	(2.30)
Production costs	(4.83)	(5.51)	(5.34)	(5.62)
Transportation costs	(1.28)	(1.46)	(1.06)	(1.07)
Field operating netback	**17.08**	**18.24**	**15.11**	**22.47**
Realized gain (loss) on commodity contract settlement	(0.41)	0.34	(0.12)	0.24
Operating netback	**16.67**	**18.58**	**14.99**	**22.71**
G&A	(0.28)	(0.59)	(0.58)	(0.47)
Cash Finance expenses	(3.41)	(1.75)	(4.35)	(1.73)
Depletion and depreciation	(8.60)	(8.15)	(8.46)	(8.39)
Non Cash - Finance expenses	(1.98)	(0.04)	(0.05)	(0.05)
Stock-based compensation	(0.13)	(0.66)	(0.78)	(0.85)
Unrealized gain (loss) on financial instruments	(1.37)	0.08	(0.18)	0.02
Deferred income tax	(0.20)	(1.87)	(0.38)	(0.66)
Net Income netback	**$ 0.69**	**$ 5.60**	**$ 0.21**	**$ 10.57**

The overall average price earned by the Company was lower when compared to the three months ended September 30, 2019 as natural gas prices increased by 133%, oil prices decreased by 29% and liquid prices decreased by 17%. The average sales price decreased by 9% for the three months ended September 30, 2020 when compared to 2019.

Operating netbacks were $16.67 for the three months ended September 30, 2020 and decreased by 34% for the nine months ended September 30, 2020 when compared to the same periods in 2019 with lower realized pricing.

Field netbacks decreased by 6% for the three months ended September 30, 2020 and decreased by 33% for the nine months ended September 30, 2020 with lower realized pricing in 2020.

Royalty Expense

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Royalty expense	$ 976	$ 2,093	$ 2,930	$ 7,881
Per boe	$ 1.26	$ 1.79	$ 1.06	$ 2.30
As a % of sales (including commodity contracts)	5%	7%	5%	7%
As a % of sales (excluding commodity contracts)	5%	7%	5%	7%

Royalties decreased to $976 for the three months ended September 30, 2020 or 5% as a percentage of sales (excluding commodity contact settlements). For the nine months ended September 30, 2020 royalties decreased to $2,930 or 5% as a percentage of sales. The decrease is a result of higher gas cost allowance amounts due to the gas infrastructure spending in 2019 and lower royalty rates as a result of the reduced commodity prices.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Production and Transportation Costs

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Production costs	$ 3,734	$ 6,449	$ 14,812	$ 19,290
Per boe	$ 4.83	$ 5.51	$ 5.34	$ 5.62
Transportation costs	$ 988	$ 1,713	$ 2,953	$ 3,688
Per boe	$ 1.28	$ 1.46	$ 1.06	$ 1.07
Combined ($/boe)	$ 6.10	$ 6.97	$ 6.40	$ 6.69

Production and transportation costs decreased by 12% on a per boe basis when compared to the three months ended September 30, 2019 and decreased by 4% on a per boe basis when compared to the nine months ended September 30, 2019, due to numerous structural cost cutting measures that were implemented including the addition of a construction division.

Depletion and depreciation

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Depletion and depreciation	$ 6,652	$ 9,539	$ 23,478	$ 28,783
Per boe	$ 8.60	$ 8.15	$ 8.46	$ 8.39

Depletion and depreciation increased in the three and nine months ended September 30, 2020 due to decreases in production. On a per boe basis, depletion increased when compared 2019 due to limited reserve additions in the second and third quarter of 2020.

General and administrative expenses ("G&A")

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Gross G&A expenses	$ 380	$ 1,048	$ 2,156	$ 2,953
G&A recoveries	(166)	(362)	(551)	(1,332)
Net G&A expenses	$ 214	$ 686	$ 1,605	$ 1,621
Per boe	$ 0.28	$ 0.59	$ 0.58	$ 0.47

G&A decreased by 69% on a net basis and decreased by 64% on a gross basis when compared to three months ended September 30, 2019 due reduced costs and the federal government wage subsidy program. When compared to the nine months ended September 30, 2019 G&A decreased by 1% on a net basis and decreased by 27% on a gross basis due to due reduced recoveries

On a boe basis, for the three and nine months ended September 30, 2020 G&A decreased by 53% and increased 22% due to reduced production in 2020 and lower recoveries.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Other expenses

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Finance				
Interest and Finance Expense	$ 3,889	$ 2,076	$ 8,101	$ 5,164
Interest on lease obligations	56	110	168	295
Realized gain on interest rate contract settlement	-	19	(28)	5
Change in fair value of interest rate contracts	126	(136)	3,797	370
Accretion of decommissioning liability	35	53	145	169
Accretion of debt issue 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
Share-based compensation	$ 104	$ 767	$ 2,177	$ 2,930

Interest and financing fees for the three and nine months ended September 30, 2020 include interest on the revolving operating demand loan (the average amount drawn in 2020 was $193 million), servicing charges on the demand loan and the change in fair value of the interest rate contracts.

The increase in cash interest expense is due to the revised pricing grid on the syndicated facility that was put in place at the end of the second quarter.

The Company had the following interest rate contracts in place as at September 30, 2020:

- Pay a floating rate to receive a 1.94% fixed rate on $40 million (April 2021-April 2025)
- Pay a floating rate to receive a 1.42% fixed rate on $40 million (April 2021-April 2025)
- Pay a floating rate to receive a 1.39% fixed rate on $20 million (April 2021-April 2025)

The fair value on the interest rate contracts was ($3,431) as at September 30, 2020 (December 31, 2019 – $366).

Deferred Taxes

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Deferred income tax expense	$ 154	$ 2,194	$ 1,064	$ 2,280

Yangarra did not pay income taxes in 2020 and does not expect to pay income taxes in 2021 as it has sufficient tax pools to cover taxable income. The deferred taxes reduced when compared to 2019 due to the changes in corporate tax rates in Alberta and the lower net income for the nine months ended September 30, 2020.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Commodity price risk contracts

	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Realized gain (loss) on commodity contract settlement	$ (319)	$ 402	$ (335)	$ 832
Change in fair value of commodity contracts	(1,062)	98	(495)	62
	$ (1,381)	$ 500	$ (830)	$ 894

As at September 30, 2020 the Company was committed to the following commodity price risk contracts in place:

Year	Volume	Term	Reference	Type	Strike Price
Oil					
2020	425 bbl/d	Jan to Dec	US$ WTI	Sold Call	USD$ 65.00/bbl
Natural Gas					
2020	5,000 GJ/d	Apr to Oct	AECO	Swap	CDN $1.80/GJ
2020	5,000 GJ/d	Apr to Oct	AECO	Swap	CDN $1.80/GJ
2020	5,000 GJ/d	Apr to Oct	AECO	Swap	CDN $1.78/GJ
2020/2021	5,000 GJ/d	Jun 2020 to Mar 2021	AECO	Swap	CDN $2.40/GJ
2020/2021	5,000 GJ/d	Nov 2020 to Mar 2021	AECO	Collar	CDN $2.75/GJ -$3.40/GJ
Propane					
2020	100 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD 0.02875/Gallon
2020	100 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD 0.02/Gallon
2021	200 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD 0.01/Gallon

No new commodity contracts were entered 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 consolidated statement of income and comprehensive income.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Liquidity and Capital Resources

The following table summarizes the change in working capital during the nine months ended September 30, 2020 and year ended December 31, 2019:

	Nine months ended September 30, 2020	Year ended December 31, 2019
Adjusted Net Debt - beginning of period	$ (187,711)	$ (155,882)
Funds flow from operations	31,760	92,236
Additions to property and equipment	(36,089)	(115,276)
Decommissioning costs incurred	-	(966)
Additions to E&E Assets	(426)	(5,723)
Issuance of shares	-	41
Provision for Credit Losses	-	(664)
Other	(1,412)	(1,477)
Adjusted Net Debt - end of period	$ (193,878)	$ (187,711)
Credit facility limit	$ 210,000	$ 225,000

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).

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%).

The Company intends to fund the 2020 budget with cash flow from operations and the availability on the revolving operating demand loan.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Capital Spending

Cash additions	2020 Q3	2019 Q3	Nine Months Ended 2020	Nine Months Ended 2019
Land, acquisitions and lease rentals	$ 258	$ 170	$ 398	$ 306
Drilling and completion	8,036	18,194	30,971	66,063
Geological and geophysical	190	148	506	594
Equipment	1,232	4,807	3,473	26,474
Other asset additions	281	104	740	786
	$ 9,997	$ 23,423	$ 36,089	$ 94,223
Exploration & evaluation assets	$ -	$ 3,180	$ 426	$ 5,243

Yangarra completed the four wells that were drilled and uncompleted at the end of the first quarter and drilled one additional well that was left uncompleted as at September 30, 2020.

Outlook

The Company's 2020 budget was $105 million however after spending $25 million in the first quarter of 2020 all capital operations had been suspended due to the prevailing economic conditions and guidance has been suspended. In the third quarter, the outlook on commodity prices improved and the Company was able to generate drilling and completion cost reductions, as a result Yangarra resumed its capital program in August 2020.

Decommissioning Liabilities

As at September 30, 2020, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $17,593 for which $16,498 has been recorded using a discount rate of 0.41% - 1.32% an inflation rate of 2% and an estimated weighted average timing of cash flows of 7.5 years.

Off Balance Sheet Arrangements

There were no off-balance sheet arrangements.

Share Capital

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

	Common Shares	Stock Options
Balance - December 31, 2019	85,380	8,498
Grant of options	-	3,171
Forfeited options	-	(6,698)
Exercise of options	-	-
Balance - September 30, 2020	85,380	4,971

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Contingency

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.

Contractual Obligations and Commitments

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	-	-
	$ 226,894	$ 228,493	$ 17,454	$ 207,013	$ 3,999	$21

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 financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board 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:

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

	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 considers its receivables to be 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.

b. Liquidity risk

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

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

The Company will fund the 2020 budget with cash flow from operations and availability on the credit facility.

c. Market risk

Market risk consists of interest rate risk, currency risk and commodity price risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may use both financial derivatives and physical delivery sales contracts to manage market risks. All such transactions are conducted in accordance with a risk management policy as set out herein:

i. Interest rate risk

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

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

ii. 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 dollar and United States dollar, as outlined above

Capital Resources

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

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

	September 30, 2020	*December 31, 2019*
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, the Company's capital structure was subject to the banking covenants disclosed in the financial statements. No changes were made to the capital policy in 2020.

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 and based on current information, management expects to comply with all terms during the subsequent 12-month period. 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.

For the three and nine months ended September 30, 2020 (000's, CDN dollars, except per share and per unit)

Selected Quarterly Financial Information

	2020 Q3($)	2020 Q2($)	2020 Q1($)	2019 Q4($)
Petroleum & natural gas sales	18,910	16,290	27,435	35,990
Net income (loss)	537	(2,801)	2,835	7,020
Net income per share – basic	0.01	(0.03)	0.03	0.08
Net income per share – diluted	0.01	(0.03)	0.03	0.08
Funds flow from operations	10,038	7,733	15,293	21,005
Funds flow from operations per share – basic	0.12	0.09	0.18	0.25
Funds flow from operations per share –diluted	0.12	0.09	0.18	0.25
Capital expenditures	9,997	1,085	25,434	20,660

	2019 Q3($)	2019 Q2($)	2019 Q1($)	2018 Q4($)
Petroleum & natural gas sales	31,606	36,473	39,907	30,174
Net income (loss)	6,560	18,219	11,514	13,315
Net income (loss) per share – basic	0.08	0.21	0.13	0.16
Net income (loss) per share – diluted	0.08	0.21	0.13	0.15
Funds flow from operations	19,055	24,445	27,731	17,167
Funds flow from operations per share – basic	0.22	0.29	0.32	0.20
Funds flow from operations per share –diluted	0.22	0.28	0.32	0.20
Capital expenditures	26,603	13,813	59,048	36,946

Quarterly activities

Fluctuations in quarterly revenues, net income and funds flow from operations over the last eight quarters are due primarily to the volatility in commodity prices and changes in sales volumes due to production growth and declines tied to the timing of drilling activity. The Company has focused capital expenditures on drilling and completions. As a result of lower commodity pricing due to the Saudi Arabia/Russia price war and the COVID-19 demand impact the Company ceased capital expenditures in February 2020 resulting in a decline in production for Q1 and Q2 2020. Drilling and completion operations resumed in Q3 2020.

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact; and credit risk of non-payment for sales contracts and joint venture partners. Other than the risks described herein (including the risks and uncertainties listed in the Forward-Looking Statements section in this MD&A) the Company is also subject to the risk factors set forth in the most recently filed AIF of the Company available on SEDAR which can be accessed at www.sedar.com

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on reservoirs where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an asset retirement obligation that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities are discussed in further detail under "Critical Accounting Estimates" below, as well as in note 6 to the Company's Consolidated Financial Statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As at September 30, 2020, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules adopted by the Canadian securities regulatory authorities, was carried out under the supervision and with the participation of Management, including the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that, as at September 30, 2020, the design and operation of the Company's disclosure controls and procedures were effective in meeting all regulatory filing requirements.

Internal control over financial reporting means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Procedures ("GAAP") and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial reports;

Management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Management has conducted an evaluation of its internal controls over financial reporting and determined that at September 30, 2020 the controls were effective to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external reporting purposes. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated Internal Control-Integrated Framework ("2013 Framework") replacing the Internal Control - Integrated Framework (1992). The control framework Yangarra's officers used to design the Company's ICFR is the 2013 Framework.

During the period beginning on July 1, 2020 and ending on September 30, 2020, there were no material changes to the Company's internal controls over financial reporting, and the CEO and CFO have filed certifications with the Canadian securities regulators regarding the Company's 2020 public filing documents.

Critical Accounting 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.

CGU Determination

The Company's assets are aggregated into CGUs based on their ability to generate largely independent cash flows and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure and geographical proximity.

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 and significant downward revisions to estimated recoverable volumes or increases in estimated future development expenditures.

Contingencies

By their nature, contingencies will only be resolved when one or more of the future events occur or fail to occur. The assessment 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. These estimates and projections are uncertain as the Company does not have a long commercial production history to assist in the development of these forward-looking estimates. 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. The Company believes these prices are reasonable estimates for a long-term outlook.

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. As a result 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 and future income to decrease.

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 to sell. 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 (loss) and comprehensive income (loss) in the period in which carrying amount exceeded the recoverable amount.

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

Deferred income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amount and the tax basis of assets and liabilities. An estimate is required for both the timing and corresponding tax rate for this reversal. Should these estimates change, it may impact the measurement of the Company's assets or liabilities as well as deferred tax recovery or expense recognized to earnings. Where unfavorable evidence exists, additional considerations and evidence for recognition of deferred tax assets is required. The Company has applied management's judgment and evaluated applicable factors necessary in making this determination and has concluded that the positive evidence in consideration of the estimated future cash flows based on reserve reports from the Company's independent engineers, does not sufficiently outweigh negative factors. The Company only recognizes deferred tax assets arising from unused tax losses to the extent that the Company has sufficient taxable temporary differences or it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized.

Contingencies

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

Other areas of estimates

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. The fair value of commodity 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.