Yangarra Resources Ltd.
Condensed Interim Consolidated Financial Statements
For three and nine months ended September 30, 2021 and 2020

(in thousands, Canadian dollars)

		September 30, 2021 (unaudited)		December 31, 2020 (audited)
Assets				
Current				
Accounts receivable *(note 10a)*	$	**22,751**	$	18,691
Prepaid expenses and inventory		**5,023**		5,055
Commodity contracts *(note 10c iii)*		–		998
Total current assets		**27,774**		24,744
Non-current				
Property and equipment *(note 2)*		**606,945**		563,290
Exploration and evaluation assets		**22,130**		21,955
Total assets	$	**656,849**	$	609,989
Liabilities				
Current				
Accounts payable and accrued liabilities *(note 10b)*	$	**30,253**	$	20,887
Commodity contracts *(note 10c iii)*		**966**		870
Interest rate contracts *(note 10c i)*		**295**		633
Current portion of decommissioning liability *(note 5)*		**306**		306
Current portion of lease obligations *(note 4)*		**1,900**		2,077
Total current liabilities		**33,720**		24,773
Non-current				
Bank debt *(note 3)*		**199,332**		200,273
Lease obligations *(note 4)*		**1,796**		3,052
Other liabilities		**619**		–
Commodity contracts *(note 10c iii)*		**10**		–
Interest rate contracts *(note 10c i)*		**738**		2,743
Decommissioning liability *(note 5)*		**12,360**		12,307
Deferred tax liability		**63,877**		54,581
Total liabilities		**312,452**		297,729
Shareholders' equity				
Share capital *(note 6b)*		**177,282**		176,349
Contributed surplus		**28,052**		27,218
Retained earnings		**139,063**		108,693
Total shareholders' equity		**344,397**		312,260
Total liabilities and shareholders' equity	$	**656,849**	$	609,989

Contingency (note 14)

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

(unaudited, in thousands, Canadian dollars, except per share amounts)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Revenue				
Petroleum and natural gas sales *(note 13)*	$ **35,880**	$ 18,910	$ **92,884**	$ 62,635
Royalties	**(2,539)**	(976)	**(5,435)**	(2,930)
	33,341	17,934	**87,449**	59,705
Commodity price risk contracts *(note 10c iii)*				
Realized loss on commodity contract settlement	**(267)**	(319)	**(3,657)**	(335)
Unrealized change in fair value of commodity contracts	**(97)**	(1,062)	**(1,104)**	(495)
	32,977	16,553	**82,688**	58,875
Expenses				
Production	**4,573**	3,734	**12,405**	14,812
Transportation	**789**	988	**2,586**	2,953
General and administrative	**763**	214	**1,929**	1,605
Finance *(note 12)*	**2,694**	4,170	**6,678**	12,215
Share-based compensation *(note 7)*	**392**	104	**951**	2,177
Depletion and depreciation *(note 2)*	**6,109**	6,652	**18,473**	23,478
	15,320	15,862	**43,022**	57,240
Income before tax	**17,657**	691	**39,666**	1,635
Deferred tax expense	**4,157**	154	**9,296**	1,064
Net income and total comprehensive income	$ **13,500**	$ 537	$ **30,370**	$ 571
Earnings per share *(note 8)*				
Basic	$ **0.16**	$ 0.01	$ **0.35**	$ 0.01
Diluted	$ **0.15**	$ 0.01	$ **0.34**	$ 0.01
Weighted average number of shares *(note 8)*				
Basic	**86,051**	85,380	**85,704**	85,380
Diluted	**89,802**	85,677	**88,916**	85,758

(unaudited, in thousands, Canadian dollars)

For the nine months ended September 30:		**2021**		2020
Share Capital				
Balance, beginning of period	$	**176,349**	$	176,349
Exercise of options *(note 6b)*		**623**		–
Contributed surplus transferred on exercise of stock options *(note 6b)*		**310**		–
Balance, end of period		**177,282**		176,349
Contributed Surplus				
Balance, beginning of period		**27,218**		23,448
Share-based compensation *(note 7)*				
Current options		**1,144**		1,410
Cancelled options		–		1,698
Exercise of options *(note 6b)*		**(310)**		–
Balance, end of period		**28,052**		26,556
Retained Earnings				
Balance, beginning of period		**108,693**		103,846
Net income		**30,370**		571
Balance, end of period		**139,063**		104,417
Total Shareholders' Equity	$	**344,397**	$	307,322

Condensed Interim Consolidated Statements of Cash Flows

(unaudited, in thousands, Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	**2021**	2020
Operating				
Net income for the period	$ **13,500**	$ 537	$ **30,370**	$ 571
Add back non-cash items:				
Unrealized change in fair value of commodity contracts	**97**	1,062	**1,104**	495
Finance expense *(note 12)*	**2,694**	4,170	**6,678**	12,215
Share-based compensation *(note 7)*	**392**	104	**951**	2,177
Depletion and depreciation *(note 2)*	**6,109**	6,652	**18,473**	23,478
Deferred tax expense	**4,157**	154	**9,296**	1,064
Interest and finance costs paid *(note 12)*	**(2,823)**	(3,889)	**(8,415)**	(8,072)
Decommissioning costs incurred *(note 5)*	**(121)**	–	**(465)**	–
Change in non-cash working capital *(note 9)*	**(1,927)**	(1,323)	**(3,561)**	(7,080)
Net cash flow from operating activities	**22,078**	7,467	**54,431**	24,848
Financing				
Exercise of options *(note 6)*	**406**	–	**623**	–
Bank debt (repayment) advance *(note 3)*	**(275)**	7,678	**(1,283)**	13,276
Other liability advance	**619**	–	**619**	–
Lease obligation repayment *(note 4)*	**(531)**	(480)	**(1,585)**	(1,349)
Net cash (used in) from financing activities	**219**	7,198	**(1,626)**	11,927
Investing				
Additions to property and equipment *(note 2)*	**(23,474)**	(9,997)	**(61,529)**	(36,089)
Additions to exploration and evaluation assets	**(41)**	–	**(175)**	(426)
Change in non-cash working capital *(note 9)*	**1,218**	(4,668)	**8,899**	(260)
Net cash flow used in investing activities	**(22,297)**	(14,665)	**(52,805)**	(36,775)
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 interim consolidated financial statements

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

1. Basis of preparation and statement of compliance and authorization

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

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting 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, 2020 (the "Annual Financial Statements"). These condensed interim consolidated 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 included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reported Standards have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

The condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on November 3, 2021.

2. Property and equipment

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Cost				
Balance at December 31, 2020	$ 631,457	$ 132,419	$ 13,012	$ 776,888
Cash additions	**54,573**	**6,522**	**434**	**61,529**
Capitalized share-based compensation (note 7)	**193**	–	–	**193**
Decommissioning liability (note 5)	**406**	–	–	**406**
Balance at September 30, 2021	**$ 686,629**	**$ 138,941**	**$ 13,446**	**$ 839,016**
Depletion, depreciation and impairment				
Balance at December 31, 2020	$ 191,798	$ 16,365	$ 5,435	$ 213,598
Depletion and depreciation	**15,532**	**1,364**	**293**	**17,189**
Lease obligations	–	–	**1,284**	**1,284**
Balance at September 30, 2021	**$ 207,330**	**$ 17,729**	**$ 7,012**	**$ 232,071**
At December 31, 2020	$ 439,659	$ 116,054	$ 7,577	$ 563,290
At September 30, 2021	**$ 479,299**	**$ 121,212**	**$ 6,434**	**$ 606,945**

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

2. Property and equipment (continued)

At September 30, 2021, all of the Company's properties are pledged as security for the bank debt (see note 3). The calculation of depletion for the nine months ended September 30, 2021 included estimated future development costs of $560 million (2020 – $614 million) associated with the development of the Company's proved plus probable reserves.

Cash additions for the nine months ended September 30, 2021 include $962 (2020 - $551) 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 and $257 (2020 – $367) of capitalized salaries and consulting expenses directly related to geological, drilling and completions.

It was determined that there were impairment triggers as at September 30, 2021 due to the decline of the Company's market capitalization to less than the net asset value. As a result, the Company performed an impairment test on the combined property and equipment and exploration and evaluation assets on a combined basis as they are all in the same CGU. The Company used the September 30, 2021 reserve estimates prepared by its in-house reservoir engineer and determined that no write-down was necessary as at September 30, 2021. The same test was performed as at December 31, 2020 and no write-down was necessary.

Included in property and equipment is $3,965 (December 31, 2020 – $5,249) of right-of-use assets associated with the Company's lease obligations (note 4).

3. Bank debt

As at September 30, 2021, the maximum amount available under the syndicated credit facility was $210 million (December 31, 2020 – $210 million) comprised of a $185 million (December 31, 2020 – $185 million) extendable revolving term credit facility and a $25 million (December 31, 2020 – $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, 2023 (the "Maturity Date") and the next Borrowing Base review is scheduled for November 30, 2021. 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.

		September 30, 2021
Balance, beginning of period	$	200,273
Repayment (including $525 of debt transaction costs)		**(1,283)**
Accretion of debt transaction costs		**342**
Balance, end of period	$	**199,332**

As at September 30, 2021, the $199,332 (December 31, 2020 – $200,273) reported amount of bank debt was comprised of $15,607 (December 31, 2020 – $16,240) drawn on the operating facility, $184,376 (December 31, 2020 – $184,501) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $651 (December 31, 2020 – $468).

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

3. 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, 2021 and December 31, 2020. 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, 2021, the weighted average effective interest rate for the bank debt was approximately 5.32% (2020 – 4.80%).

4. 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.

		September 30, 2021
Balance, beginning of period	$	5,129
Lease payments		
Principal payments		**(1,311)**
Cash interest payments		**(274)**
Imputed interest expense		**152**
Balance, end of period	$	**3,696**

		September 30, 2021
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$	**1,900**
One to five years		**2,555**
Total undiscounted lease obligations		**4,455**
Unrecognized imputed interest		**(759)**
Lease obligation included in the consolidated statement of financial position	$	**3,696**
Current	$	**1,900**
Non - current	$	**1,796**

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

5. Decommissioning liability

The following table presents the reconciliation of the carrying amount of the liability associated with the decommissioning of the Company's property and equipment:

		September 30, 2021
Balance, beginning of period	$	12,613
Liabilities incurred		**1,054**
Decommissioning costs incurred		**(465)**
Effect of change in estimates		**(648)**
Accretion		**112**
Balance, end of period	$	**12,666**

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

		September 30, 2021
Undiscounted cash flows	$	**14,886**
Discount rate		**0.97% - 1.98%**
Inflation rate		**2%**
Weighted average expected timing of cash flows		**6.2 years**

$306 was classified as current as the Company will abandon several wells in the next 12 months as a result of the grant received under phase 5 of the Site Rehabilitation Program ("SRP").

6. Share capital

Common shares issued

	Number of shares		*Amount*
Balance, December 31, 2020	85,380	$	176,349
Exercise of stock options	**869**		**623**
Contributed surplus transferred on exercise of stock options	–		**310**
Balance, September 30, 2021	**86,249**	**$**	**177,282**

7. 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.

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

7. Share-based compensation (continued)

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, 2021, the Company granted options to purchase 1,518 (2020 – 3,171) common shares, with 50% vesting immediately and 50% vesting one year after the grant date. The fair value of the options was estimated at $969 (2020 - $780) using the Black-Scholes option pricing model.

During the nine months ended September 30, 2021, the Company recognized $951 (2020 – $2,177) of share-based compensation on the condensed interim consolidated statement of income and comprehensive income. During the nine months ended September 30, 2021, the Company capitalized $193 (2020 - $931) related to property and equipment.

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

	September 30, 2021	
	Options	***Weighted – average exercise price***
Balance, beginning of period	**8,208**	**$0.75**
Granted	**1,518**	**1.35**
Exercised	**(869)**	**(0.72)**
Cancelled	**(249)**	**(0.78)**
Balance, end of period	**8,608**	**$0.86**

The following provides a summary of the stock option plan as at September 30, 2021:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*	*Weighted-average exercise price*
$ 0.45 – $ 0.49	**68**	**4.00**	**$ 0.45**	**68**	**$ 0.45**
$ 0.50 – $ 1.00	**5,830**	**3.95**	**0.56**	**4,161**	**0.56**
$ 1.01 – $ 1.50	**2,294**	**3.23**	**1.35**	**1,498**	**1.35**
$ 1.51 – $ 2.00	**114**	**1.27**	**1.84**	**101**	**1.84**
$ 2.51 – $ 3.00	**302**	**0.47**	**2.69**	**302**	**2.69**
	8,608	**3.60**	**$ 0.86**	**6,130**	**$ 0.88**

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

	September 30, 2021
Weighted average exercise per option	**$1.35**
Risk-free interest rate	**0.91% – 1.09%**
Expected volatility	**65% – 66%**
Weighted average expected life	**4 years**
Forfeiture rate	**5%**
Weighted average fair value per option	**$0.64**

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

8. Earnings per common share

Basic earnings per share was calculated as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Net income for the period	$ **13,500**	$ 537	$ **30,370**	$ 571
Weighted average number of shares (basic)				
Issued common shares at beginning of period	**85,720**	85,380	**85,380**	85,380
Effect of shares issued	**331**	–	**324**	–
Weighted average number of common shares - basic	**86,051**	85,380	**85,704**	85,380
Net income per share - basic	**0.16**	0.01	**0.35**	0.01

Diluted earnings per share was calculated as follows:

Weighted average number of shares (diluted)				
Weighted average number of shares (basic)	**86,051**	85,380	**85,704**	85,380
Effect of outstanding options	**3,751**	297	**3,212**	378
Weighted average number of common shares - diluted	**89,802**	85,677	**89,916**	85,758
Net income per share - diluted	**0.15**	0.01	**0.34**	0.01

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, 2021, 1,318 (2020 – 2,486) options are excluded as they are out of the money based on an average share price of $1.44 (2020 – $0.60) for the period. For the nine months ended September 30, 2021, 2,290 (2020 – 1,560) options are excluded as they are out of the money based on an average share price of $1.22 (2020 – $0.69) for the period.

9. Change in non-cash working capital

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Accounts receivable	$ **(1,995)**	$ 2,459	$ **(4,060)**	$ 6,040
Prepaid expenses and inventory	**(609)**	749	**32**	(1,572)
Accounts payable and accrued liabilities	**1,895**	(9,199)	**9,366**	(11,808)
	$ **(709)**	$ (5,991)	$ **5,338**	$ (7,340)

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

Operating	$ **(1,927)**	$ (1,323)	$ **(3,561)**	$ (7,080)
Investing	**1,218**	(4,668)	**8,899**	(260)
	$ **(709)**	$ (5,991)	$ **5,338**	$ (7,340)

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

10. 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 interim consolidated financial statements. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board of Directors has implemented and monitors compliance with the risk management policies as set out herein:

a. Credit risk

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

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at September 30, 2021, the maximum credit exposure is the carrying amount of the accounts receivable of $22,751 (December 31, 2020 – $18,691). The maximum exposure to credit risk for accounts receivable as at September 30, 2021 and December 31, 2020 by type of customer was:

		September 30, 2021		December 31, 2020
Natural gas and liquids marketers	$	**13,178**	$	8,632
Partners on joint operations		**8,016**		8,150
Other		**1,557**		1,909
	$	**22,751**	$	18,691

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 2021.

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.

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

10. Financial instruments and financial risk management (continued)

a. Credit risk (continued)

As at September 30, 2021 and December 31, 2020, the Company's receivables are aged as follows:

	September 30, 2021	December 31, 2020
Under 30 days	$ **14,090**	$ 10,156
30 to 60 days	**146**	148
60 to 90 days	**370**	237
Over 90 days	**8,145**	8,150
	$ **22,751**	$ 18,691

99% (December 31, 2020 – 71%) of the over 90-day receivables are made up of three (December 31, 2020 – three) industry partners, for which a significant portion of the balances are in dispute (note 14). The Company has performed an analysis of each partner's financial situation and have determined they have the ability to pay.

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 2021 and 2020, 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, lease obligations, other liabilities and bank debt, which are classified as current or non-current on the condensed interim consolidated statement of financial position based on their maturity dates.

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

10. Financial instruments and financial risk management (continued)

b. Liquidity risk (continued)

As September 30, 2021, the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years
Accounts payable and accrued liabilities	$ 30,253	$ 30,253	$ 30,253	$ -	$ -
Bank debt	199,332	199,983	-	199,983	-
Lease obligations	3,696	4,455	1,900	1,552	1,003
Other liabilities	619	619	-	-	619
Interest rate contracts	1,033	1,033	295	295	443
Commodity contracts	976	976	966	10	-
	$ 235,909	$ 237,319	$ 33,414	$ 201,840	$ 2,065

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, 2021, 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 $1,473 (2020 - $1,486) 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, 2021:

Contracts	**Fair Value**
Pay a floating rate to receive a 1.94% fixed rate on $40 million (April 2021-April 2025)	**$ (870)**
Pay a floating rate to receive a 1.42% fixed rate on $40 million (April 2021-April 2025)	**(127)**
Pay a floating rate to receive a 1.39% fixed rate on $20 million (April 2021-April 2025)	**(36)**
	$ (1,033)

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% change in foreign exchange rates would have an immaterial impact the condensed interim consolidated statements of income and comprehensive income.

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

10. Financial instruments and financial risk management (continued)

c. Market risk (continued)

iii. Commodity price risk

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

As at September 30, 2021, the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price		Fair Value
Natural Gas							
2021	5,000 GJ/d	Jan – Dec	AECO 7A Daily CAD	Swap	CDN $2.805/GJ	**$**	**(921)**
Propane							
2021	200 bbl/d	Jan – Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Minus USD $0.01/Gallon		**(13)**
2022	200 bbl/d	Jan – Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Plus USD $0.0025/Gallon		**(42)**
Total						**$**	**(976)**

No new commodity contracts were entered into after September 30, 2021.

As the Company had a limited number of derivatives in place as at September 30, 2021, the sensitivity of the fair value of a 10% volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the condensed interim consolidated 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 debt approximates its carrying value as the interest rates charged on this debt are comparable to current market rates because they are variable. 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.

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

10. Financial instruments and financial risk management (continued)

d. Fair value of financial instruments (continued)

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

		September 30, 2021		December 31, 2020	
	Measurement Level	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Financial Assets					
Financial assets at fair value through profit or loss:					
Commodity contracts	2	**$ -**	**$ -**	$ 998	$ 998
Financial Liabilities					
Financial liabilities at fair value through profit or loss:					
Commodity contracts	2	**$ 976**	**$ 976**	$ 870	$ 870
Interest rate contracts	2	**$ 1,033**	**$ 1,033**	$ 3,376	$ 3,376

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, 2021.

11. Capital disclosures

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

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

	September 30, 2021	*December 31, 2020*
Shareholders' equity	$ **344,397**	$ 312,260
Bank debt	$ **199,332**	$ 200,273

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.

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

11. Capital disclosures (continued)

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, 2021 and December 31, 2020, the Company's capital structure was subject to the banking covenants disclosed in note 3. No changes were made to the capital policy in 2021.

12. Finance expense

During the three and nine months ended September 30, 2021 and 2020, the following items were included in the finance expense on the condensed interim consolidated statements of income and comprehensive income:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	**2021**	2020
Interest and finance costs	$ **2,823**	$ 3,889	$ **8,415**	$ 8,101
Imputed interest on lease obligations *(note 4)*	**49**	12	**152**	9
Realized loss (gain) on interest rate contracts	**304**	-	**506**	(28)
Change in fair value of interest rate contracts	**(660)**	126	**(2,849)**	3,797
Accretion of decommissioning liability *(note 5)*	**45**	35	**112**	145
Accretion of debt transaction costs *(note 3)*	**133**	108	**342**	191
	$ **2,694**	$ 4,170	$ **6,678**	$ 12,215

13. 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,	
	2021	2020	**2021**	2020
Crude oil	$ **17,728**	$ 9,709	$ **47,036**	$ 34,119
Natural gas	**9,792**	6,218	**25,748**	20,004
Natural gas liquids	**8,360**	2,983	**20,100**	8,512
	$ **35,880**	$ 18,910	$ **92,884**	$ 62,635

At September 30, 2021, receivables from contracts with customers, which are included in trade accounts receivable, were $15,935 (2020 - $10,430).

14. 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.