Q3 2020 RESULTS

FINANCIAL AND OPERATING RESULTS FOR THE
THREE AND NINE MONTHS ENDED **SEPTEMBER 30, 2020**

FINANCIAL RESULTS	**THREE MONTHS ENDED SEPT 30**			**NINE MONTHS ENDED SEPT 30**		
($000s, except per share amounts)	**2020**	2019	% Change	**2020**	2019	% Change
OIL AND NATURAL GAS SALES	**5,841**	6,113	(4)	**17,071**	20,775	(18)
CASH FLOW FROM OPERATING ACTIVITIES	**368**	950	(61)	**975**	8,367	(88)
Per share - basic and diluted	**-**	-	-	**-**	0.04	(100)
ADJUSTED FUNDS FLOW(1)	**586**	1,825	(68)	**548**	7,950	(93)
Per share - basic and diluted	**-**	0.01	(100)	**-**	0.04	(100)
NET (LOSS) EARNINGS	**(2,525)**	(1,181)	114	**(94,158)**	611	(15,510)
Per share - basic and diluted	**(0.01)**	(0.01)	-	**(0.47)**	-	(100)
CAPITAL EXPENDITURES	**647**	2,841	(77)	**13,321**	10,837	23
PROCEEDS ON SALE OF PROPERTIES AND EQUIPMENT(2)	**-**	1,625	100	**8,206**	4,767	72
WORKING CAPITAL (DEFICIENCY)				**(4,421)**	2,153	(305)
COMMON SHARES OUTSTANDING (000S)						
Weighted average - basic	**200,525**	200,525	-	**200,525**	200,525	-
Weighted average - diluted	**200,525**	200,525	-	**200,525**	200,710	(-)
End of period - basic				**200,525**	200,525	-
End of period - fully diluted				**218,527**	226,646	(4)

(1) Adjusted funds flow and adjusted funds flow per share do not have any standardized meaning prescribed by International Financial Reporting Standards ("IFRS") and therefore may not be comparable to similar measures used by other companies. Please refer to the "Non-GAAP Measures" section in the MD&A for more details and the "Cash Flow from Operating Activities and Adjusted Funds Flow" section in the MD&A for a reconciliation from cash flow from operating activities.

(2) The sale of equipment for proceeds of $4.8 million in 2019 is exclusive of $2.7 million deposit received in Q4 2018.

OPERATING RESULTS [1]	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% Change	**2020**	2019	% Change
Daily production						
Oil and NGLs (bbls/d)	**790**	829	(5)	**926**	838	11
Natural gas (mcf/d)	**13,739**	13,414	2	**14,036**	13,669	3
Oil equivalent (boe/d)	**3,080**	3,065	-	**3,266**	3,116	5
Revenue						
Oil and NGLs ($/bbl)	**38.21**	47.81	(20)	**31.81**	51.96	(39)
Natural gas ($/mcf)	**2.42**	2.00	21	**2.34**	2.38	(2)
Oil equivalent ($/boe)	**20.62**	21.68	(5)	**19.08**	24.42	(22)
Royalties						
Oil and NGLs ($/bbl)	**1.93**	-	100	**1.49**	-	100
Natural gas ($/mcf)	**0.06**	-	100	**0.05**	-	100
Oil equivalent ($/boe)	**0.76**	-	100	**0.63**	-	100
Net operating expenses [2]						
Oil and NGLs ($/bbl)	**10.19**	8.55	19	**9.87**	8.31	19
Natural gas ($/mcf)	**1.04**	0.88	18	**0.99**	0.86	15
Oil equivalent ($/boe)	**7.24**	6.17	17	**7.05**	6.01	17
Net transportation and marketing expenses [2]						
Oil and NGLs ($/bbl)	**0.32**	1.23	(74)	**0.84**	1.33	(37)
Natural gas ($/mcf) [3]	**1.45**	1.07	36	**1.56**	1.01	54
Oil equivalent ($/boe)	**6.53**	4.99	31	**6.95**	4.79	45
Operating netback [2]						
Oil and NGLs ($/bbl)	**25.77**	38.03	(32)	**19.61**	42.32	(54)
Natural gas ($/mcf)	**(0.13)**	0.05	(360)	**(0.26)**	0.51	(151)
Oil equivalent ($/boe)	**6.09**	10.52	(42)	**4.45**	13.62	(67)
Depletion and depreciation ($/boe)	**(10.08)**	(9.69)	4	**(8.82)**	(9.53)	(7)
Asset impairment ($/boe)	**-**	-	-	**(98.22)**	-	100
General and administrative expenses ($/boe)	**(3.94)**	(3.88)	2	**(3.77)**	(4.16)	(9)
Share based compensation ($/boe)	**(0.64)**	(0.34)	88	**(0.31)**	(0.61)	(49)
Gain (loss) on sale of equipment ($/boe)	**-**	(0.41)	(100)	**1.68**	1.69	(1)
Finance expense ($/boe)	**(0.33)**	(0.40)	(18)	**(0.25)**	(0.33)	(24)
Finance income ($/boe)	**-**	0.03	(100)	**-**	0.03	(100)
Net (loss) earnings ($/boe)	**(8.90)**	(4.17)	113	**(105.24)**	0.71	(14,923)

(1) "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

(2) Net operating expenses, net transportation and marketing expenses and operating netback do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the "Non-GAAP Measures" section in the MD&A for more details and the "Net Operating Expenses", "Net Transportation and Marketing Expenses" and "Operating Netback" sections in the MD&A for reconciliations from operating expenses, transportation and marketing expenses, and net earnings (loss) per boe, respectively.

(3) Includes $0.35/mcf and $0.44/mcf of unutilized firm transportation expenses for the three and nine months ended September 30, 2020, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

November 19, 2020

The MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three and nine months ended September 30, 2020 and the audited financial statements and MD&A for the year ended December 31, 2019. The unaudited condensed interim financial statements and financial data contained in the MD&A have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar amounts are expressed in Canadian currency, unless otherwise noted.

DESCRIPTION OF BUSINESS

Leucrotta Exploration Inc. ("Leucrotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSXV") under the symbol "LXE".

FREQUENTLY RECURRING TERMS

The Company uses the following frequently recurring industry terms in the MD&A: "bbls" refers to barrels, "mcf" refers to thousand cubic feet, and "boe" refers to barrel of oil equivalent. Disclosure provided herein in respect of a boe may be misleading, particularly if used in isolation. A boe conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent has been used for the calculation of boe amounts in the MD&A. This boe conversion rate is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

NON-GAAP MEASURES

This MD&A refers to certain financial measures that are not determined in accordance with IFRS (or "GAAP"). This MD&A contains the terms "adjusted funds flow", "adjusted funds flow per share", "operating netback", "net operating expenses", and "net transportation and marketing expenses" which do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures used by other companies. The Company uses these measures to help evaluate its performance.

Management uses adjusted funds flow to analyze performance and considers it a key measure as it demonstrates the Company's ability to generate the cash necessary to fund future capital investments and abandonment obligations and to repay debt, if any. Adjusted funds flow is a non-GAAP measure and has been defined by the Company as cash flow from operating activities excluding the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents adjusted funds flow per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of net earnings (loss) per share. Adjusted funds flow is reconciled from cash flow from operating activities under the heading "Cash Flow from Operations and Adjusted Funds Flow".

Management considers operating netback an important measure as it demonstrates its profitability relative to current commodity prices. Operating netback, which is calculated as average unit sales price less royalties, net operating expenses, and net transportation and marketing expenses, represents the cash margin for every barrel of oil equivalent sold. Operating netback per boe is reconciled to net earnings (loss) per boe under the heading "Operating Netback".

Net operating expenses is calculated as operating expenses less processing revenues. Management uses net operating expenses to determine the current periods' cash cost of operating expenses less processing revenue and net operating expenses per boe is used to measure operating efficiency on a comparative basis. The measure approximates the Company's operating expenses relative to its produced volumes by excluding third party operating costs.

Net transportation and marketing expenses is calculated as transportation expenses less marketing revenues. Management uses net transportation and marketing expenses to determine the current periods' cash cost of transportation expenses less marketing revenue and net transportation and marketing expenses per boe is used to measure transportation efficiency on a comparative basis as well as the Company's ability to mitigate the cost of excess committed capacity.

UPDATE

In Q3 2020, Leucrotta's capital spending continued to be minimal in order to maintain low debt levels during uncertain times. Leucrotta will continue to minimize capital expenditures and reduce debt throughout the remainder of the year. Production decreased to 3,080 boe/d in Q3 2020 as flush production came off at Two Rivers, in addition to Two Rivers being shut-in during September for a third party turn-around. Q3 2020 returned to positive cash flow despite low gas prices in Chicago and significant costs of unutilized transportation.

In Q4 2020, Leucrotta mitigated its remaining twelve months of unutilized transportation for a loss of $2.2 million and signed a new bank credit facility that totals $12 million providing Leucrotta with sufficient credit. With commodity prices continuing to increase, Leucrotta will be able to further reduce debt in 2021.

Leucrotta is working on several initiatives to help accelerate the development of its large Montney resource base in 2021 and we look forward to reporting on further business developments in the near future.

SUMMARY OF FINANCIAL RESULTS

($000s, except per share amounts)	Three Months Ended September 30 2020	2019	% Change	Nine Months Ended September 30 2020	2019	% Change
Oil and natural gas sales	**5,841**	6,113	(4)	**17,071**	20,775	(18)
Cash flow from operating activities	**368**	950	(61)	**975**	8,367	(88)
Per share - basic and diluted	**-**	-	-	**-**	0.04	(100)
Adjusted funds flow (1)	**586**	1,825	(68)	**548**	7,950	(93)
Per share - basic and diluted	**-**	0.01	(100)	**-**	0.04	(100)
Net (loss) earnings	**(2,525)**	(1,181)	114	**(94,158)**	611	(15,510)
Per share - basic and diluted	**(0.01)**	(0.01)	-	**(0.47)**	-	(100)
Total assets				**222,692**	**317,652**	(30)
Total long-term liabilities				**15,205**	**14,704**	3
Working capital (deficiency)				**(4,421)**	**2,153**	(305)

(1) Adjusted funds flow and adjusted funds flow per share do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the "Non-GAAP Measures" section for more details and the "Cash Flow from Operating Activities and Adjusted Funds Flow" section for a reconciliation from cash flow from operating activities.

The Company experienced a decrease in oil and natural gas sales, cash flow from operating activities, and adjusted funds flow for the three and nine months ended September 30, 2020 compared to the same periods in 2019. This was due to significant oil and NGLs commodity price declines, higher net operating expenses and higher net transportation and marketing expenses (see discussion below).

Along with decreased cash flow from operating activities, the large net loss in the nine months ended September 30, 2020 was due to the impairment of $87.9 million of the Company's property, plant, and equipment charged in Q1 2020.

PRODUCTION	Three Months Ended September 30 2020	2019	% Change	Nine Months Ended September 30 2020	2019	% Change
Average Daily Production						
Oil and NGLs (bbls/d)	**790**	829	(5)	**926**	838	11
Natural gas (mcf/d)	**13,739**	13,414	2	**14,036**	13,669	3
Combined (boe/d)	**3,080**	3,065	-	**3,266**	3,116	5

Daily production was 3,080 boe/d and 3,266 boe/d for the three and nine months ended September 30, 2020, respectively, consistent with 3,065 boe/d and 3,116 boe/d for the comparative periods in 2019.

Leucrotta's production profile for the third quarter of 2020 was consistent with the comparative quarter in 2019. The Q3 2020 weighting was 74% natural gas (Q3 2019 - 73%) and 26% oil and NGLs (Q3 2019 - 27%).

OIL AND NATURAL GAS SALES ($000s)	Three Months Ended September 30 2020	2019	% Change	Nine Months Ended September 30 2020	2019	% Change
Oil and NGLs	**2,777**	3,645	(24)	**8,071**	11,889	(32)
Natural gas	**3,064**	2,468	24	**9,000**	8,886	1
Total	**5,841**	6,113	(4)	**17,071**	20,775	(18)
Average Sales Price						
Oil and NGLs ($/bbl)	**38.21**	47.81	(20)	**31.81**	51.96	(39)
Natural gas production sales and transportation revenue ($/mcf)	**2.42**	2.00	21	**2.34**	2.38	(2)
Combined ($/boe)	**20.62**	21.68	(5)	**19.08**	24.42	(22)

Revenue totaled $5.8 million and $17.1 million for the three and nine months ended September 30, 2020, respectively, compared to $6.1 million and $20.8 million for the comparative periods in 2019. The decrease was due to the large declines in oil and NGLs commodity prices partially offset by higher natural gas prices.

PROCESSING AND MARKETING REVENUE	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Processing revenue	**178**	132	35	**312**	410	(24)
Marketing revenue	**-**	27	(100)	**-**	178	(100)
Total	**178**	159	12	**312**	588	(47)

Processing revenue relates to fees received from third parties for gas processed through the Company's gas plant. Marketing revenue relates to unutilized firm transportation assigned to third parties for a contracted fee in which the Company receives a premium.

The following table outlines the Company's realized wellhead prices and industry benchmarks:

Commodity Pricing	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% Change	**2020**	2019	% Change
Oil and NGLs						
Corporate price ($CDN/bbl)	**38.21**	47.81	(20)	**31.81**	51.96	(39)
Canadian light sweet ($CDN/bbl)	**49.05**	69.26	(29)	**44.13**	69.58	(37)
West Texas Intermediate ("WTI") ($US/bbl)	**40.93**	56.47	(28)	**38.32**	57.04	(33)
Natural gas						
Corporate price ($CDN/mcf)	**2.42**	2.00	21	**2.34**	2.38	(2)
AECO ($CDN/mcf)	**2.27**	1.00	127	**2.10**	1.57	34
Chicago City Gate ($US/mmbtu)	**1.85**	2.10	(12)	**1.74**	2.48	(30)
Exchange rate						
$US/$CAD exchange rate	**0.7510**	0.7573	(1)	**0.7392**	0.7524	(2)

Differences between corporate and benchmark prices can be the result of quality differences (higher or lower API oil and higher or lower heat content natural gas), sour content, the mix of sales points and marketing contracts negotiated for products, the mix of oil and NGLs, and various other factors. Leucrotta's differences are mainly the result of a higher proportion of lower priced NGLs and higher heat content natural gas production that is priced higher than AECO reference prices as well as the diversification of sales points and marketing contracts for products.

The Company's corporate average oil and NGLs prices were 77.9% and 72.1% of Canadian light sweet prices for the three and nine months ended September 30, 2020, respectively, compared to 69.0% and 74.7% for the comparative periods in 2019. Q3 2020 was higher compared to Q3 2019 due to significant declines in butane and propane prices in Q3 2019 that are not linked to the Canadian light sweet index price. Leucrotta's liquids mix during the third quarter of 2020 was approximately 69% oil, condensate and pentanes, 11% butane and 20% propane (Q3 2019 - 67% oil, condensate and pentanes, 11% butane and 22% propane).

Corporate average natural gas prices were 106.6% and 111.4% of AECO prices for the three and nine months ended September 30, 2020, respectively, down from 200.0% and 151.6% for the comparative periods in 2019. The decrease in 2020 from 2019 was mainly due to the larger spread between Chicago prices and AECO prices in 2019 compared to 2020. In 2019, the Company received Chicago indexed pricing on the first 7,000 mcf/d, AECO pricing plus $0.31/mcf on the next 6,000 mcf/d, and ATP pricing on production above this in the Doe/Mica core area. In 2020, the Company received Chicago indexed pricing on all its natural gas production.

Future prices received from the sale of the products may fluctuate as a result of market factors. In addition, the Company may enter into commodity price contracts to help manage future cash flows. The Company does not currently have any commodity price contracts outstanding.

ROYALTIES	Three Months Ended September 30			Nine Months Ended September 30		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Oil and NGLs	**141**	-	100	**377**	-	100
Natural gas	**75**	-	100	**187**	-	100
Total	**216**	-	100	**564**	-	100
Average Royalty Rate (% of sales)						
Oil and NGLs	**5.1**	-	100	**4.7**	-	100
Natural gas	**2.4**	-	100	**2.1**	-	100
Combined	**3.7**	-	100	**3.3**	-	100

The Company pays royalties to provincial governments (Crown) and other oil and gas companies that own surface or mineral rights. Crown royalties are calculated on a sliding scale based on commodity prices and individual well production rates. Royalty rates can change due to commodity price fluctuations and changes in production volumes on a well-by-well basis, subject to a minimum and maximum rate restriction ascribed by the Crown. The provincial government has also enacted various royalty incentive programs that are available for wells that meet certain criteria, such as natural gas deep drilling, which can result in fluctuations in royalty rates.

During the three and nine months ended September 30, 2020, royalties were $0.2 million and $0.6 million, respectively, compared to $nil for both comparative periods in 2019.

During the three and nine months ended September 30, 2020, the Company realized credits of $0.3 million (September 30, 2019 - $0.4 million) and $0.5 million (September 30, 2019 - $1.6 million), respectively, to offset royalties payable. These credits stem from the British Columbia Government's Infrastructure Royalty Credit Program resulting from infrastructure built and wells drilled and tied-into the related infrastructure and has $0.1 million of credits remaining.

Further credits to reduce Crown royalties are expected in the future as Crown royalties continue to be payable on wells already tied-into completed and approved infrastructure projects and as new infrastructure is built and wells are drilled and tied-into related infrastructure that was approved for credits under the program and become royalty payable. The timing of receipt of future credits is dependent on commodity prices and production levels and thus cannot be readily forecast; correspondingly, royalty rates reported in future quarters will vary as these credits are recognized. This credit program is in addition to BC's Natural Gas Deep Well Royalty Credit Program where the Company currently has $1.1 million in remaining royalty credits.

NET OPERATING EXPENSES	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Oil and NGLs	**741**	653	13	**2,504**	1,902	32
Natural gas	**1,488**	1,219	22	**4,115**	3,620	14
Operating expenses	**2,229**	1,872	19	**6,619**	5,522	20
Less: processing revenue	**(178)**	(132)	35	**(312)**	(410)	(24)
Net operating expenses (non-GAAP)	**2,051**	1,740	18	**6,307**	5,112	23
Average net operating expenses						
Oil and NGLs ($/bbl)	**10.19**	8.55	19	**9.87**	8.31	19
Natural gas ($/mcf)	**1.04**	0.88	18	**0.99**	0.86	15
Combined ($/boe)	**7.24**	6.17	17	**7.05**	6.01	17

Per unit net operating expenses were $7.24/boe and $7.05/boe for the three and nine months ended September 30, 2020, respectively, up slightly from $6.17/boe and $6.01/boe in the comparative periods in 2019. The increase is mainly the result of higher costs associated with new oil wells. Mica 13-07 was brought back on production during Q2 2019 and the Two Rivers, BC wells were brought on production during Q1 2020 and had high initial start-up costs.

NET TRANSPORTATION AND MARKETING EXPENSES	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Oil and NGLs transportation	**24**	94	(74)	**214**	305	(30)
Natural gas transportation	**1,827**	1,341	36	**6,001**	3,947	52
Transportation and marketing expenses	**1,851**	1,435	29	**6,215**	4,252	46
Less: marketing revenue	**-**	(27)	(100)	**-**	(178)	(100)
Net transportation and marketing expenses (non-GAAP)	**1,851**	1,408	31	**6,215**	4,074	53
Average net transportation and marketing expenses						
Oil and NGLs ($/bbl)	**0.32**	1.23	(74)	**0.84**	1.33	(37)
Natural gas ($/mcf)	**1.45**	1.07	36	**1.56**	1.01	54
Combined ($/boe)	**6.53**	4.99	31	**6.95**	4.79	45

Net transportation and marketing expenses are mainly third-party pipeline tariffs from firm transportation agreements to deliver production to the purchasers at main hubs. Net transportation and marketing expenses increased to $6.53/boe and $6.95/boe for the three and nine months ended September 30, 2020, respectively, compared to $4.99/boe and $4.79/boe for the comparative periods in 2019.

The increase in natural gas transportation in 2020 compared to 2019 was due to unutilized firm gas transportation. For the three and nine months ended September 30, 2020, unutilized transportation was $0.5 million ($0.35/mcf) and $1.7 million ($0.44/mcf), respectively. Also, the Company transported all of its natural gas production to Chicago in 2020 compared to only a portion in 2019.

Subsequent to September 30, 2020, the Company entered into an agreement to reduce its firm transportation to deliver natural gas to ATP from 33.3 mmcf/d to 13.4 mmcf/d which will eliminate or greatly reduce unutilized transportation going forward. The cost to reduce the transportation commitment was 50% of the original obligation for a total of $2.2 million payable monthly through October 31, 2021.

The decrease in oil and NGLs transportation for the three and nine months ended September 30, 2020 from the comparative periods in 2019 was the result of different sales points and sales and transportation contracts for new production.

OPERATING NETBACK	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% Change	**2020**	2019	% Change
Oil and NGLs ($/bbl)						
Revenue	**38.21**	47.81	(20)	**31.81**	51.96	(39)
Royalties	**(1.93)**	-	100	**(1.49)**	-	100
Net operating expenses	**(10.19)**	(8.55)	19	**(9.87)**	(8.31)	19
Net transportation and marketing expenses	**(0.32)**	(1.23)	(74)	**(0.84)**	(1.33)	(37)
Operating netback	**25.77**	38.03	(32)	**19.61**	42.32	(54)
Natural gas ($/mcf)						
Revenue	**2.42**	2.00	21	**2.34**	2.38	(2)
Royalties	**(0.06)**	-	100	**(0.05)**	-	100
Net operating expenses	**(1.04)**	(0.88)	18	**(0.99)**	(0.86)	15
Net transportation and marketing expenses	**(1.45)**	(1.07)	36	**(1.56)**	(1.01)	54
Operating netback (loss)	**(0.13)**	0.05	(360)	**(0.26)**	0.51	(151)
Combined ($/boe)						
Revenue	**20.62**	21.68	(5)	**19.08**	24.42	(22)
Royalties	**(0.76)**	-	100	**(0.63)**	-	100
Net operating expenses	**(7.24)**	(6.17)	17	**(7.05)**	(6.01)	17
Net transportation and marketing expenses	**(6.53)**	(4.99)	31	**(6.95)**	(4.79)	45
Operating netback	**6.09**	10.52	(42)	**4.45**	13.62	(67)

During the three and nine months ended September 30, 2020, Leucrotta generated an operating netback of $6.09/boe and $4.45/boe, respectively, down from $10.52/boe and $13.62/boe for the comparative periods in 2019. The decrease in oil and NGLs operating netback was caused mainly by lower oil and NGLs commodity prices and higher net operating expenses due to higher costs associated with new oil wells in Two Rivers, BC. The decrease in natural gas operating netbacks was mainly due to higher net transportation and marketing expenses due to transporting all of the Company's natural gas production to Chicago and not being able to mitigate its unutilized firm natural gas transportation. The cost of unutilized firm natural gas transportation was $0.35/mcf in Q3 2020 and $0.44/mcf for the nine months ended September 30, 2020.

The following is a reconciliation of operating netback per boe to net earnings (loss) per boe for the periods noted:

	Three Months Ended September 30			Nine Months Ended September 30		
($/boe)	**2020**	2019	% Change	**2020**	2019	% Change
Operating netback	**6.09**	10.52	(42)	**4.45**	13.62	(67)
Depletion and depreciation	**(10.08)**	(9.69)	4	**(8.82)**	(9.53)	(7)
Asset impairment	-	-	-	**(98.22)**	-	100
General and administrative expenses	**(3.94)**	(3.88)	2	**(3.77)**	(4.16)	(9)
Share based compensation	**(0.64)**	(0.34)	88	**(0.31)**	(0.61)	(49)
Gain (loss) on sale of assets	**-**	(0.41)	(100)	**1.68**	1.69	(1)
Finance expense	**(0.33)**	(0.40)	(18)	**(0.25)**	(0.33)	(24)
Finance income	**-**	0.03	(100)	**-**	0.03	(100)
Net (loss) earnings	**(8.90)**	(4.17)	113	**(105.24)**	0.71	(14,923)

DEPLETION AND DEPRECIATION	Three Months Ended September 30			Nine Months Ended September 30		
	2020	2019	% Change	**2020**	2019	% Change
Depletion and depreciation ($000s)	**2,858**	2,733	5	**7,893**	8,107	(3)
Depletion and depreciation ($/boe)	**10.08**	9.69	4	**8.82**	9.53	(7)

The Company calculates depletion on property, plant, and equipment mainly based on proved plus probable reserves. Depletion and depreciation for the three and nine months ended September 30, 2020 was $10.08/boe and $8.82/boe, respectively, compared to $9.69/boe and $9.53/boe for the comparative periods in 2019.

Included in depletion and depreciation expense for the three and nine months ended September 30, 2020, is $23 thousand (September 30, 2019 - $23 thousand) and $68 thousand (September 30, 2019 - $68 thousand), respectively, related to the right-of-use asset for the Company's head office lease and $0.5 million (September 30, 2019 - $nil) and $0.9 million (September 30, 2019 - $63 thousand), respectively, related to land lease expiries.

IMPAIRMENT ASSESSMENT

At September 30, 2020, the Company evaluated its property, plant, and equipment ("PP&E") Montney CGU for indicators of impairment or impairment reversals. There were no indicators identified and therefore, no impairment or impairment reversal was recognized during the three months ended September 30, 2020.

At March 31, 2020, indicators of impairment were determined to exist in the Company's Montney CGU primarily as a result of significant and sustained declines in forward commodity benchmark prices for oil, natural gas and NGLs and a sustained market capitalization deficiency relative to the book value of the Company's shareholders' equity.

The recoverable amount of the Company's Montney CGU, comprised of primarily natural gas and natural gas liquids reserves, was determined using the value in use methodology based on the net present value of cash flows from oil and natural gas reserves at pre-tax discount rates ranging from 10 to 17.5 percent depending on the underlying composition and risk profile of the reserve category. At March 31, 2020, the Company determined that the carrying amount of the Company's Montney CGU exceeded the recoverable amount, net of associated decommissioning obligations, of $86.5 million and accordingly, an impairment charge of $84.8 million was recorded. An additional $2.4 million of impairment was recorded prior to the transfer of certain assets from exploration and evaluation assets to PP&E and an additional $0.7 million of impairment was recorded upon transfer of certain assets to assets held for sale for a total impairment expense of $87.9 million for the three months ended March 31, 2020.

GENERAL AND ADMINISTRATIVE	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
G&A expenses (gross)	**1,122**	1,176	(5)	**3,548**	3,743	(5)
G&A capitalized	**(6)**	(80)	(93)	**(174)**	(204)	(15)
G&A recoveries	**-**	(1)	(100)	**(2)**	(3)	(33)
G&A expenses (net)	**1,116**	1,095	2	**3,372**	3,536	(5)
G&A expenses ($/boe)	**3.94**	3.88	2	**3.77**	4.16	(9)

General and administrative ("G&A") expenses were $3.94/boe and $3.77/boe for the three and nine months ended September 30, 2020, respectively, compared to $3.88/boe and $4.16/boe for the comparative periods in 2019. G&A expenses in the first nine months of 2020 were consistent to the comparative periods in 2019.

SHARE BASED COMPENSATION	**Three Months Ended September 30**			**Nine Months Ended September 30**		
	2020	2019	% Change	**2020**	2019	% Change
Share based compensation ($000s)	**181**	96	89	**279**	516	(46)
Share based compensation ($/boe)	**0.64**	0.34	88	**0.31**	0.61	(49)

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus.

For the three months ended September 30, 2020, share based compensation expense increased to $0.2 million from $0.1 million in the comparable period in 2019. 7.0 million stock options were issued during the three months ended September 30, 2020 (September 30, 2019 - nil) contributing to this increase.

For the nine months ended September 30, 2020, share based compensation expense decreased to $0.3 million from $0.5 million in the comparable period in 2019. The decrease in expense is mainly due to using the graded (accelerated) amortization method whereby more expense is recognized earlier in the stock options and warrants life. 7.0 million stock options were granted during the nine months ended September 30, 2020 (September 30, 2019 - nil).

FINANCE EXPENSE	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Interest expense	**63**	53	19	**110**	124	(11)
Accretion of decommissioning obligations	**30**	60	(50)	**116**	156	(26)
Finance expense	**93**	113	(18)	**226**	280	(19)
Finance expense ($/boe)	**0.33**	0.40	(18)	**0.25**	0.33	(24)

Interest expense includes interest payments on the credit facility and the interest expense on lease obligations. Interest expense remained consistent for the three and nine months ended September 30, 2020 compared to the same periods in 2019.

Accretion expense decreased for the three and nine months ended September 30, 2020 compared to the same periods in 2019 due to a reduction in the risk-free rate used to discount the Company's decommissioning obligations.

FINANCE INCOME

Finance income relates to interest earned on cash in the bank. Finance income totaled $nil and $3 thousand for the three and nine months ended September 30, 2020, respectively, down from $8 thousand and $21 thousand in the comparative periods in 2019. The decrease corresponds to the decrease in the Company's cash balance over the comparative periods.

DEFERRED INCOME TAXES

The Company has not realized the net deferred income tax asset based on the independently evaluated reserve report as cash flows are not expected to be sufficient to realize the deferred income tax asset at this time.

Estimated tax pools at September 30, 2020 total approximately $326.4 million (December 31, 2019 - $322.8 million).

CASH FLOW FROM OPERATING ACTIVITIES AND ADJUSTED FUNDS FLOW

The following is a reconciliation of cash flow (used in) from operating activities to adjusted funds flow (used) for the periods noted:

	Three Months Ended September 30			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Cash flow from operating activities	**368**	950	(61)	**975**	8,367	(88)
Add (deduct):						
Decommissioning expenditures	**27**	56	(52)	**105**	93	13
Change in non-cash working capital	**191**	819	(77)	**(532)**	(510)	4
Adjusted funds flow (non-GAAP)	**586**	1,825	(68)	**548**	7,950	(93)

Adjusted funds flow was $0.6 million ($nil per basic and diluted share) and $0.5 million ($nil per basic and diluted share) for the three and nine months ended September 30, 2020, respectively, compared to adjusted funds flow of $1.8 million ($0.01 per basic and diluted share) and $8.0 million ($0.04 per basic and diluted share) for the comparative periods in 2019. The decrease was mainly due to lower oil and NGLs commodity pricing and higher overall net operating expenses and net transportation and marketing expenses. Net operating expenses increased due to higher costs associated with new oil wells in Two Rivers, BC. Net transportation and marketing expenses increased due to transporting all of the Company's natural gas production to Chicago and not being able to mitigate its unutilized firm natural gas transportation.

Cash flow from operating activities decreased for the three and nine months ended September 30, 2020 to $0.4 million ($nil per basic and diluted share) and $1.0 million ($nil per basic and diluted share), respectively, from $1.0 million ($nil per basic and diluted share) and $8.4 million ($0.04 per basic and diluted share) for the comparative periods in 2019. The decrease period over period is due to similar reasons as stated above. Cash flow from operating activities differs from adjusted funds flow due to the inclusion of changes in non-cash working capital and expenditures on decommissioning obligations.

NET EARNINGS (LOSS)

Net loss for the three months ended September 30, 2020 was $2.5 million ($0.01 per basic and diluted share) compared to $1.2 million ($0.01 per basic and diluted share) for the comparative period in 2019. For the nine months ended September 30, 2020, the Company had a net loss of $94.2 million ($0.47 per basic and diluted share) compared to net earnings of $0.6 million ($nil per basic and diluted share) for the comparative period in 2019. Along with decreased cash flow from operating activities for both the three and nine months ended September 30, 2020, the large net loss for the nine months ended September 30, 2020 was due to the impairment of $87.9 million of the Company's property, plant, and equipment charged in Q1 2020.

CAPITAL EXPENDITURES	**Three Months Ended September 30**			**Nine Months Ended September 30**		
($000s)	**2020**	2019	% Change	**2020**	2019	% Change
Property acquisitions	**-**	52	(100)	**-**	1,543	(100)
Land	**246**	228	8	**869**	821	6
Drilling, completions, and workovers	**55**	754	(93)	**5,817**	3,827	52
Equipment	**300**	1,722	(83)	**6,512**	4,444	47
Geological and geophysical	**46**	85	(46)	**123**	202	(39)
Total expenditures	**647**	2,841	(77)	**13,321**	10,837	23
Proceeds on sale of properties and equipment	**-**	1,625	(100)	**8,206**	4,767	72

The Company halted capital expenditures in Q2 2020 after completing the Two Rivers, BC facility due to having a working capital deficiency and the global impact of COVID-19 on commodity prices (see below). During the first nine months of 2020, the Company drilled, completed and tied-in a second Montney well at Two Rivers. The Company also completed construction of the Two Rivers facility and commenced production of two Montney wells (B16-05 drilled and completed in Q1 2020 and A10-08 drilled and completed in Q4 2017). During Q2 2020, the Company received proceeds of $6.0 million from a third party related to the Two Rivers property and lands and proceeds of $2.2 million and future operating credits of $1.5 million related to the sale of certain non-core facility assets.

During the first nine months of 2019, the Company finished completing a liquids-rich Upper Montney well (B8-22) in Mica, BC and drilled an exploratory well in a zone below the Lower Montney zone in Mica, BC. The Company closed three property acquisitions in Two Rivers, BC, one being a strategic infrastructure acquisition and the other two undeveloped land acquisitions. The Company also completed its sale of certain equipment for proceeds of $5.9 million (deposit of $2.7 million was received in Q4 2018 and the remainder in Q1 2019) resulting in a gain on the sale of equipment of $1.6 million. During the three months ended September 30, 2019, the Company sold additional equipment for proceeds of $1.6 million resulting in a marginal loss of $0.1 million.

LIQUIDITY AND CAPITAL RESOURCES

Management uses working capital as a measure to assess the Company's financial position and is reconciled as follows:

($000s)	**September 30, 2020**	December 31, 2019	% Change
Current assets	**3,358**	3,728	(10)
Less:			
Current liabilities	**(7,779)**	(3,603)	116
Working capital (deficiency)	**(4,421)**	125	(3,637)

At September 30, 2020, the Company had a working capital deficiency of $4.4 million including $5.5 million drawn on the credit facility.

The Company has a $20.0 million operating demand loan credit facility with a Canadian chartered bank. To access the credit facility over $15.0 million requires entering into and maintaining forward commodity price contracts of no less than 50% of production volumes for the first 12 months and no less than 25% of production volumes for the following 12 months thereafter. The credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a $100 million fixed and floating charge debenture on the assets of the Company. The undrawn portion of the credit facility is subject to a standby fee in the range of 0.20% to 0.45%. At September 30, 2020, the Company had outstanding letters of guarantee of $4.0 million which reduce the amount that can be borrowed under the credit facility.

Subsequent to September 30, 2020, the credit facility was reduced to $12.0 million, comprised of a demand loan facility of $8.0 million and a demand letter of credit facility of $4.0 million. The amended credit facility includes a covenant to enter into and maintain forward commodity price contracts of no less than 50% of production volumes for the first 6 months and no less than 25% of production volumes for the following 6 months thereafter. The next review of the credit facility by the bank is scheduled to occur on or before May 31, 2021.

The Company's credit facility includes a covenant requiring the Company to maintain an adjusted working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its demand loan facility divided by current liabilities excluding any current portion drawn on the credit facility. The Company was compliant with this covenant at September 30, 2020. Subsequent to September 30, 2020, the definition of current assets excludes restricted cash.

The Company has $1.4 million in a restricted corporate account to cross-guarantee a margin account for the President of the Company. The President is charged a fee by the Company and the margin account is also restricted until the cross-guarantee is removed. The President's margin account holds $2.5 million of securities of Leucrotta common shares and a margin payable of $1.4 million. The cross-guarantee is not intended to be long-term in nature and will be removed as soon as practicable. The cross-guarantee has allowed the President to comply with corporate governance mandates. The $1.4 million has been segregated on the statement of financial position as restricted cash at September 30, 2020 (December 31, 2019 - $1.3 million).

Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of its cash flow, equity, and debt if required. Leucrotta's capital program is flexible and can be adjusted as needed based upon the current economic environment. The Company will continue to monitor the economic environment and the possible impact on its business and strategy and will make adjustments as necessary. Capital spending will be limited on a go-forward basis until there is more clarity on commodity prices. Leucrotta will look to reduce debt through cash flow and sale of non-core properties and equipment. During the nine months ended September 30, 2020 the Company disposed of certain non-core facility assets for proceeds of $2.2 million and future operating credits of $1.5 million.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at September 30, 2020:

($000s)	**Total**	**Less than One Year**	**One to Three Years**	**After Three Years**
Accounts payable and accrued liabilities	2,171	2,171	-	-
Credit facility	5,514	5,514	-	-
Lease obligations	102	94	8	-
Decommissioning obligations	15,197	-	-	15,197
Operating commitments	242	224	18	-
Firm transportation agreements	23,089	11,028	11,752	309
Total contractual obligations	46,315	19,031	11,778	15,506

Transportation commitments include contracts to transport natural gas and NGLs through third-party owned pipeline systems. At September 30, 2020, the Company had commitments of 33.3 mmcf/d of firm transportation to deliver natural gas to the Alliance Trading Pool (ATP) through October 31, 2021. The Company has also committed to 14.2 mmcf/d of firm transportation to deliver natural gas to Chicago through October 31, 2024.

Subsequent to September 30, 2020, the Company entered into an agreement to reduce its firm transportation to deliver natural gas to ATP to 13.4 mmcf/d and extended the agreement through to October 31, 2022. The cost to reduce the transportation commitment was 50% of the original obligation for a total of $2.2 million payable monthly through October 31, 2021.

Operating commitments include the non-lease variable components of the head office lease.

OFF BALANCE SHEET ARRANGEMENTS

The Company has certain lease arrangements, all of which are reflected in the contractual obligations and commitments table, which were entered into in the normal course of operations. All leases other than the fixed payment component of the head office lease have been treated as operating commitments whereby the lease payments are included in operating expenses or general and administrative expenses depending on the nature of the lease.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. The voting common shares of the Company commenced trading on the TSXV on August 19, 2014 under the symbol "LXE". The following table summarizes the common shares outstanding and the number of shares exercisable into common shares from stock options:

(000s)	**September 30, 2020**	November 19, 2020
Voting common shares	**200,525**	200,525
Stock options	**18,002**	18,002
Total	**218,527**	218,527

SUMMARY OF QUARTERLY RESULTS

	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018 (1)
Average Daily Production								
Oil and NGLs (bbls/d)	**790**	1,128	862	765	829	861	824	850
Natural gas (mcf/d)	**13,739**	16,019	12,354	12,392	13,414	13,550	14,049	14,115
Combined (boe/d)	**3,080**	3,797	2,921	2,830	3,065	3,119	3,166	3,202
($000s, except per share amounts)								
Oil and natural gas sales	**5,841**	5,439	5,791	6,870	6,113	6,560	8,102	7,113
Cash flow (used in) from								
operating activities	**368**	(798)	1,405	2,098	950	3,688	3,729	3,764
Per share - basic and diluted	**-**	(-)	0.01	0.01	-	0.02	0.02	0.02
Adjusted funds flow (used) (2)	**586**	(798)	760	2,316	1,825	2,017	4,108	2,875
Per share - basic and diluted	**-**	(-)	-	0.01	0.01	0.01	0.02	0.01
Net earnings (loss)	**(2,525)**	(2,189)	(89,444)	(6,140)	(1,181)	(882)	2,674	(161)
Per share - basic and diluted	**(0.01)**	(0.01)	(0.45)	(0.03)	(0.01)	(-)	0.01	(-)

(1) IFRS 16 was adopted January 1, 2019 using the modified retrospective approach; therefore, comparative information has not been restated Refer to note 3 of the audited financial statements for the year ended December 31, 2019 for the Company's significant accounting policies.

(2) Adjusted funds flow (used) and adjusted funds flow (used) per share do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures used by other companies. Please refer to the "Non-GAAP Measures" section for more details and the "Cash Flow from Operating Activities and Adjusted Funds Flow" section for a reconciliation from cash flow from operating activities.

Production increased in the second quarter of 2020 due to flush production from start-up at Two Rivers, BC. Q3 2020 was lower due to normal declines plus Two Rivers being shut-in for one month due to 3rd party plant turnarounds. Prior to 2020, production had decreased in each quarter of 2018 and 2019 due to natural declines. Oil and natural gas sales, cash flow (used in) from operating activities and adjusted funds flow (used) generally followed the same trend as production with some exceptions based on volatility of commodity prices received. Declines in oil, NGLs and natural gas commodity pricing in the first three quarters of 2020 negatively affected cash flow (used in) operating activities, adjusted funds flow (used) and net loss. The higher net earnings in Q1 2019 from Q4 2018 was mainly the result of a $1.6 million gain on the sale of equipment and higher oil, NGLs and natural gas commodity pricing. The increased net losses in Q4 2019 and Q1 2020 were the result of impairment charges of $5.8 million in Q4 2019 and $87.9 million in Q1 2020.

SIGNIFICANT ACCOUNTING POLICIES

All accounting policies are consistent with those of the previous financial year with the exception of those noted below. Refer to note 3 of the audited financial statements for the year ended December 31, 2019 for the Company's significant accounting policies.

Accounting Pronouncement Adopted

On January 1, 2020, the Company adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard will be applied prospectively. No acquisitions were completed during the nine months ended September 30, 2020.

CRITICAL ACCOUNTING ESTIMATES

Management is required to make estimates, judgments, and assumptions in the application of IFRS that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses for the period then ended. Certain of these estimates may change from period to period resulting in a material impact on the Company's results from operations and financial position. See note 2d in the notes to the Company's audited financial statements for the year ended December 31, 2019 for full descriptions of the use of estimates and judgments.

Coronavirus disease (COVID-19) estimation uncertainty

In early March 2020, the World Health Organization declared the COVID-19 coronavirus outbreak to be a global pandemic. The current and expected impacts on global commerce are anticipated to be far-reaching. To date there have been significant stock market declines and volatility, significant volatility in commodity and foreign exchange markets, restrictions on the conduct of business in many jurisdictions and the global movement of people and some goods have become restricted. There is significant ongoing uncertainty surrounding COVID-19 and the extent and duration of the impacts that it may have on demand and prices for the commodities Leucrotta produces, on its suppliers, on its employees and on global financial markets. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect to the Company is not known at this time. Estimates and judgments made by management in the preparation of interim financial statements are subject to a higher degree of measurement uncertainty during this volatile period. In the current environment, assumptions about future commodity prices, exchange rates, and interest rates are subject to greater variability than normal, which could in the future significantly affect the valuation of Leucrotta's assets, both financial and non-financial. As an understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops, there is amplified potential for changes in estimates and judgments over the remainder of 2020.

RISK ASSESSMENT

The acquisition, exploration, and development of oil and natural gas properties involves many risks common to all participants in the oil and natural gas industry. Leucrotta's exploration and development activities are subject to various business risks such as unstable commodity prices, interest rate and foreign exchange fluctuations, the uncertainty of replacing production and reserves on an economic basis, government regulations, taxes, and safety and environmental concerns. While management realizes these risks cannot be eliminated, they are committed to monitoring and mitigating these risks.

Reserves and reserve replacement

The recovery and reserve estimates on Leucrotta's properties are estimates only and the actual reserves may be materially different from that estimated. The estimates of reserve values are based on a number of variables including price forecasts, projected production volumes and future production and capital costs. All of these factors may cause estimates to vary from actual results.

Leucrotta's future oil and natural gas reserves, production, and adjusted funds flow to be derived therefrom are highly dependent on the Company successfully acquiring or discovering new reserves. Without the continual addition of new reserves, any existing reserves the Company may have at any particular time and the production therefrom will decline over time as such existing reserves are exploited. A future increase in Leucrotta's reserves will depend on its abilities to acquire suitable prospects or properties and discover new reserves.

To mitigate this risk, Leucrotta has assembled a team of experienced technical professionals who have expertise operating and exploring in areas the Company has identified as being the most prospective for increasing reserves on an economic basis. To further mitigate reserve replacement risk, Leucrotta has targeted a majority of its prospects in areas which have multi-zone potential, year-round access, and lower drilling costs and employs advanced geological and geophysical techniques to increase the likelihood of finding additional reserves.

Operational risks

Leucrotta's operations are subject to the risks normally incidental to the operation and development of oil and natural gas properties and the drilling of oil and natural gas wells. Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is comprised of foreign currency risk, interest rate risk, and other price risk, such as commodity price risk. The objective of market risk management is to manage and control market price exposures within acceptable limits, while maximizing returns. The Company may use financial derivatives or physical delivery sales contracts to manage market risks. All such transactions are conducted within risk management tolerances that are reviewed by the Board of Directors. As required under the terms of the Company's credit facility, the Company is subject to an upper limit on fixed price contracts of 65% of its future production up to a three year period. Subsequent to September 30, 2020, the Company's credit facility was amended to include a covenant to enter into and maintain forward commodity price contracts of no less than 50% of production volumes for the first 6 months and no less than 25% of production volumes for the following 6 months thereafter.

Foreign exchange risk
The prices received by the Company for the production of oil, natural gas, and NGLs are primarily determined in reference to US dollars, but are settled with the Company in Canadian dollars. The Company's cash flow from commodity sales will therefore be impacted by fluctuations in foreign exchange rates. The Company currently does not have any foreign exchange contracts in place.

Interest rate risk
The Company is exposed to interest rate risk when it borrows funds at floating interest rates. The Company currently does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. The amount drawn on the Company's credit facility at September 30, 2020 was $5.5 million.

Commodity price risk
Oil and natural gas prices are impacted by not only the relationship between the Canadian and US dollar but also by world economic events that dictate the levels of supply and demand. The Company's oil, natural gas, and NGLs production is marketed and sold on the spot market to area aggregators based on daily spot prices that are adjusted for product quality and transportation costs. The Company's cash flow from product sales will therefore be impacted by fluctuations in commodity prices. In addition, the Company may enter into commodity price contracts to manage future cash flows. At September 30, 2020, the Company did not have any commodity price contracts outstanding.

Credit risk

Credit risk represents the financial loss that the Company would suffer if the Company's counterparties to a financial asset fail to meet or discharge their obligation to the Company. A substantial portion of the Company's accounts receivable and deposits are with customers and joint interest partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally grants unsecured credit but routinely assesses the financial strength of its customers and joint interest partners.

The Company sells the majority of its production to three petroleum and natural gas marketers and therefore is subject to concentration risk. Historically, the Company has not experienced any collection issues with its oil and natural gas marketers. Joint interest receivables are typically collected within one to three months of the joint interest billing being issued to the partner. The Company attempts to mitigate the risk from joint interest receivables by obtaining partner approval for significant capital expenditures prior to the expenditure being incurred. The Company does not typically obtain collateral from petroleum and natural gas marketers or joint interest partners; however, in certain circumstances, the Company may cash call a partner in advance of expenditures being incurred.

The maximum exposure to credit risk is represented by the carrying amount of cash and cash equivalents, restricted cash, and accounts receivable on the statement of financial position. At September 30, 2020, $1.3 million (86%) of the Company's outstanding accounts receivable were current and $0.1 million (5%) were outstanding for more than 90 days. During the nine month period ended September 30, 2020, the Company deemed $43 thousand of outstanding accounts receivable to be uncollectable (September 30, 2019 - $37 thousand).

Cash and cash equivalents and restricted cash consist of bank balances placed with financial institutions with strong investment grade ratings which management believes the risk of loss to be remote.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual, quarterly, and monthly capital expenditure budgets, which are monitored and updated as required, and requires authorizations for expenditures on projects to assist with the management of capital. In managing liquidity risk, the Company ensures that it has access to additional financing, including potential equity issuances and additional debt financing. The Company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The Company has a working capital deficit of $4.4 million including $5.5 million drawn on the $20.0 million credit facility (which also has $4.0 million of letters of credit reducing the availability of this credit facility). Subsequent to September 30, 2020, the credit facility was reduced to $12.0 million, comprised of a demand loan facility of $8.0 million and a demand letter of credit facility of $4.0 million. The amended credit facility includes a covenant to enter into and maintain forward commodity price contracts of no less than 50% of production volumes for the first 6 months and no less than 25% of production volumes for the following 6 months thereafter. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of its cash balance, cash flow, equity, and debt if required.

The global impact of COVID-19 as well as the recent declines in spot prices for oil have resulted in significant declines in financial markets and has forecasted a great deal of uncertainty. As a result, oil and gas companies are subject to liquidity risks in maintaining their revenues and earnings as well as ongoing and future development and operating expenditure requirements. 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. In light of the current volatility and difficulty in reliably estimating the length or severity of these developments, and hence their financial impact, the preparation of financial forecasts is challenging. At September 30, 2020, the Company remains in compliance with all terms of its credit facility and based on current available information, management expects to comply with all terms during at least the subsequent 12-month period. The Company continues to monitor this uncertainty in conjunction with its financing alternatives to access liquidity.

Safety and Environmental Risks

The oil and natural gas business is subject to extensive regulation pursuant to various municipal, provincial, national, and international conventions and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases, or emissions of various substances produced in association with oil and natural gas operations. Leucrotta is committed to meeting and exceeding its environmental and safety responsibilities. Leucrotta has implemented an environmental and safety policy that is designed, at a minimum, to comply with current governmental regulations set for the oil and natural gas industry. Changes to governmental regulations are monitored to ensure compliance. Environmental reviews are completed as part of the due diligence process when evaluating acquisitions. Environmental and safety updates are presented and discussed at each Board of Directors meeting. Leucrotta maintains adequate insurance commensurate with industry standards to cover reasonable risks and potential liabilities associated with its activities as well as insurance coverage for officers and directors executing their corporate duties. To the knowledge of management, there are no legal proceedings to which Leucrotta is a party or of which any of its property is the subject matter, nor are any such proceedings known to Leucrotta to be contemplated.

FORWARD-LOOKING INFORMATION

This document contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words “expect”, “anticipate”, “continue”, “estimate”, “may”, “will”, “should”, “believe”, “intends”, “forecast”, “plans”, “guidance” and similar expressions are intended to identify forward-looking statements or information.

More particularly and without limitation, this MD&A contains forward-looking statements and information relating to the Company’s risk management program, oil, NGLs, and natural gas production, capital programs, and debt. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions relating to prevailing commodity prices and exchange rates, applicable royalty rates and tax laws, future well production rates, the performance of existing wells, the success of drilling new wells, the availability of capital to undertake planned activities, and the availability and cost of labour and services.

Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, it can give no assurance that such expectations will prove to be correct. Since forward-looking statements and information address future events and conditions, by their very nature they involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated due to a number of factors and risks. These include, but are not limited to, the risks associated with the oil and gas industry in general such as operational risks in development, exploration and production, delays or changes in plans with respect to exploration or development projects or capital expenditures, the uncertainty of estimates and projections relating to production rates, costs, and expenses, commodity price and exchange rate fluctuations, marketing and transportation, environmental risks, competition, the ability to access sufficient capital from internal and external sources and changes in tax, royalty, and environmental legislation. The forward-looking statements and information contained in this document are made as of the date hereof for the purpose of providing the readers with the Company’s expectations for the coming year. The forward-looking statements and information may not be appropriate for other purposes. The Company undertakes no obligation to update publicly or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, unless so required by applicable securities laws.

ADDITIONAL INFORMATION

Additional information related to the Company may be found on the SEDAR website at www.sedar.com.

Leucrotta Exploration Inc.
Condensed Interim Statements of Financial Position
(unaudited)

($000s)	Note	**September 30 2020**	December 31 2019
Assets			
Current assets			
Cash and cash equivalents		**-**	295
Restricted cash		**1,430**	1,310
Accounts receivable		**1,494**	1,816
Prepaid expenses and deposits		**434**	307
		3,358	3,728
Property, plant, and equipment	(5)	**97,250**	182,742
Exploration and evaluation assets	(6)	**121,126**	122,982
Deferred credits	(5)	**958**	-
		219,334	305,724
		222,692	309,452
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**2,171**	3,516
Current portion of lease obligations	(7)	**94**	87
Credit facility	(8)	**5,514**	-
		7,779	3,603
Lease obligations	(7)	**8**	82
Decommissioning obligations	(9)	**15,197**	12,191
		22,984	15,876
Shareholders' Equity			
Shareholders' capital	(10)	**288,837**	288,837
Contributed surplus		**20,027**	19,737
Deficit		**(109,156)**	(14,998)
		199,708	293,576
		222,692	309,452
Commitments	(15)		
Subsequent events	(8,15)		

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

Leucrotta Exploration Inc.
Condensed Interim Statements of Operations and Comprehensive (Loss) Earnings
(unaudited)

		Three Months Ended September 30		Nine Months Ended September 30	
($000s, except per share amounts)	**Note**	**2020**	2019	**2020**	2019
Revenue					
Oil and natural gas sales	(14)	**5,841**	6,113	**17,071**	20,775
Processing and marketing	(14)	**178**	159	**312**	588
Royalties	(14)	**(216)**	-	**(564)**	-
		5,803	6,272	**16,819**	21,363
Expenses					
Operating		**2,229**	1,872	**6,619**	5,522
Transportation and marketing		**1,851**	1,435	**6,215**	4,252
Depletion and depreciation	(5,6)	**2,858**	2,733	**7,893**	8,107
Asset impairment	(4,5,6)	**-**	-	**87,883**	-
General and administrative		**1,116**	1,095	**3,372**	3,536
Share based compensation	(11)	**181**	96	**279**	516
Loss (gain) on sale of equipment	(4,5)	**-**	117	**(1,507)**	(1,440)
Finance income		**-**	(8)	**(3)**	(21)
Finance expense		**93**	113	**226**	280
		8,328	7,453	**110,977**	20,752
Net (loss) earnings and comprehensive (loss) earnings		**(2,525)**	(1,181)	**(94,158)**	611
Net (loss) earnings per share					
Basic and diluted	(12)	**(0.01)**	(0.01)	**(0.47)**	-

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

Leucrotta Exploration Inc.
Condensed Interim Statements of Shareholders' Equity
(unaudited)

($000s)	Shareholders' Capital	Contributed Surplus	Deficit	Total Equity
Balance, December 31, 2018	288,837	19,074	(9,469)	298,442
Net earnings	-	-	611	611
Share based compensation	-	600	-	600
Balance, September 30, 2019	288,837	19,674	(8,858)	299,653
Balance, December 31, 2019	288,837	19,737	(14,998)	293,576
Net loss	**-**	**-**	**(94,158)**	**(94,158)**
Share based compensation	**-**	**290**	**-**	**290**
Balance, September 30, 2020	**288,837**	**20,027**	**(109,156)**	**199,708**

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

Leucrotta Exploration Inc.
Condensed Interim Statements of Cash Flows
(unaudited)

($000s)	Note	Three Months Ended September 30 **2020**	2019	Nine Months Ended September 30 **2020**	2019
Operating Activities					
Net (loss) earnings		**(2,525)**	(1,181)	**(94,158)**	611
Depletion and depreciation	(5,6)	**2,858**	2,733	**7,893**	8,107
Asset impairment	(4,5,6)	**-**	-	**87,883**	-
Share based compensation	(11)	**181**	96	**279**	516
Finance expense		**93**	113	**226**	280
Interest paid		**(63)**	(53)	**(110)**	(124)
Loss (gain) on sale of equipment	(4,5)	**-**	117	**(1,507)**	(1,440)
Use of deferred credits	(5)	**42**	-	**42**	-
Decommissioning expenditures	(9)	**(27)**	(56)	**(105)**	(93)
Change in non-cash working capital	(13)	**(191)**	(819)	**532**	510
		368	950	**975**	8,367
Financing Activities					
Credit facility	(8)	**285**	-	**5,514**	(2,356)
Payment of lease obligations	(7)	**(22)**	(22)	**(67)**	(64)
		263	(22)	**5,447**	(2,420)
Investing Activities					
Capital expenditures - property, plant, and equipment	(5)	**(447)**	(2,363)	**(6,760)**	(4,897)
Capital expenditures - exploration and evaluation assets	(6)	**(200)**	(426)	**(6,561)**	(4,397)
Property disposition (acquisitions)	(4,5,6)	**-**	(52)	**6,000**	(1,543)
Sale of equipment	(4,5)	**-**	1,625	**2,206**	4,767
Change in non-cash working capital	(13)	**16**	758	**(1,602)**	(341)
		(631)	(458)	**(6,717)**	(6,411)
Change in cash and cash equivalents		**-**	470	**(295)**	(464)
Cash and cash equivalents, beginning of period		**-**	1,795	**295**	2,729
Cash and cash equivalents, end of period		**-**	2,265	**-**	2,265

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

1. REPORTING ENTITY

Leucrotta Exploration Inc. ("Leucrotta" or the "Company") is an oil and natural gas company, actively engaged in the acquisition, development, exploration, and production of oil and natural gas reserves in northeastern British Columbia, Canada. Leucrotta was incorporated in Alberta, Canada under the Business Corporations Act (Alberta) on June 10, 2014 under the name of 1828073 Alberta Ltd., and subsequently changed its name to Leucrotta Exploration Inc. on July 15, 2014. The Company commenced trading on the TSX Venture Exchange ("TSXV") on August 19, 2014 under the symbol "LXE".

The Company conducts many of its activities jointly with others and these condensed interim financial statements reflect only the Company's proportionate interest in such activities.

The Company's place of business is located at 700, 639 – 5th Avenue SW, Calgary, Alberta, Canada, T2P 0M9.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, as prescribed by IAS 34, Interim Financial Reporting. The condensed interim financial statements do not include all of the information and disclosure required in annual financial statements and should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2019.

The condensed interim financial statements were authorized for issuance by the Board of Directors on November 19, 2020.

(b) Basis of measurement

The condensed interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The condensed interim financial statements are presented in Canadian dollars, which is the functional currency of the Company.

(d) Use of estimates and judgments

The preparation of the condensed interim financial statements in conformity with IFRS requires management to make estimates and use judgment regarding the reported amounts of assets and liabilities as at the date of the condensed interim financial statements and the reported amounts of revenues and expenses during the period. By their nature, estimates are subject to measurement uncertainty and changes in such estimates in future periods could require a material change in the interim financial statements. Accordingly, actual results may differ from the estimated amounts as future confirming events occur. The significant estimates and judgments made by management in the preparation of these condensed interim financial statements were consistent with those applied to the financial statements as at and for the year ended December 31, 2019.

Subsequent to December 31, 2019, global oil prices declined considerably caused by reduced demand driven by the novel coronavirus ("COVID-19") health pandemic and over supply concerns stemming from failed negotiations between OPEC+ countries on production curtailments. While the OPEC+ countries have now reached an agreement on production cuts, the macro environment remains weak and considerable uncertainty exists regarding the duration and extent of oil demand destruction from the COVID-19 pandemic. There have also been significant stock market declines, significant volatility in foreign exchange markets, and restrictions on the conduct of business in many jurisdictions. The current challenging economic climate may have significant adverse impacts on the Company, including, but not limited to:

- material declines in revenue and cash flows due to reduced commodity pricing,
- declines in future revenue could result in increased impairment charges to long-term assets,
- increased risk of non-performance by the Company's customers which could materially increase collection risk of accounts receivable and customer defaults on contracts, and
- prolonged demand destruction could negatively impact the Company's ability to maintain liquidity.

The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect to the Company is not known at this time. Estimates and judgments made by management in the preparation of these condensed interim financial statements are subject to a higher degree of measurement uncertainty during this volatile period. As an understanding of the longer-term impacts of COVID-19 on commodity, credit and equity markets develops, there is amplified potential for changes in these estimates and judgments over the remainder of 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes described below, the condensed interim financial statements have been prepared following the same accounting policies as the annual financial statements for the year ended December 31, 2019. The accounting policies have been applied consistently by the Company to all periods presented in these condensed interim financial statements.

Accounting pronouncement adopted

On January 1, 2020, the Company adopted the amendments to the definition of a business in IFRS 3 Business Combinations. The amendments are intended to provide additional guidance to determine if a transaction should be recorded as a business combination or an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess if an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. This standard will be applied prospectively. No acquisitions were completed during the nine months ended September 30, 2020.

4. ASSETS HELD FOR SALE

	Net Book Value
Balance, December 31, 2018	4,314
Sale of equipment	(4,314)
Balance, December 31, 2019	-
Cost transferred from property, plant, and equipment (note 5)	**5,585**
Cost transferred from exploration and evaluation assets (note 6)	**1,229**
Accumulated depreciation, depreciation and impairment transferred from property, plant, and equipment (note 5)	**(814)**
Sale of assets	**(6,000)**
Balance, September 30, 2020	**-**

During the nine months ended September 30, 2020, the Company received proceeds of $6.0 million from a third party related to the Two Rivers property and lands. At March 31, 2020, the net carrying value of the effected properties was classified as held for sale as it was highly probable that their net carrying value would be recovered through a sales transaction. Management determined the net carrying value of these properties was $0.7 million higher than the estimated consideration which resulted in the recognition of an impairment loss applied against the carrying value of these properties immediately prior to the $6.0 million reclassification of assets from property, plant, and equipment and exploration and evaluation assets to assets held for sale. The sale closed on May 5, 2020.

During the year ended December 31, 2019, the Company sold certain equipment for proceeds of $5.9 million (USD $4.4 million) resulting in a gain of $1.6 million. During the fourth quarter of 2018, the Company received deposits totaling $2.7 million (USD $2.0 million) relating to the sale with the remaining balance of $3.1 million (USD $2.4 million) received in the first quarter of 2019. The $2.7 million deposit was recognized in cash with an offsetting amount recognized in accounts payable as at December 31, 2018 and upon the sale closing the deposit was applied to the proceeds and the accounts payable was reversed.

5. PROPERTY, PLANT, AND EQUIPMENT

Cost	Total
Balance, December 31, 2018	234,782
Property acquisition	1,556
Additions	8,932
Dispositions	(2,000)
Change in decommissioning obligations	1,566
Initial recognition of right-of-use assets	254
Capitalized share based compensation	52
Balance, December 31, 2019	245,142
Additions	**6,760**
Transfer from exploration and evaluation assets (note 6)	**3,923**
Transfer to assets held for sale (note 4)	**(5,585)**
Sale of equipment	**(2,673)**
Change in decommissioning obligations	**3,148**
Capitalized share based compensation	**2**
Balance, September 30, 2020	**250,717**

Accumulated Depletion, Depreciation, and Impairment	Total
Balance, December 31, 2018	47,350
Depletion and depreciation	10,558
Impairment	4,750
Dispositions	(258)
Balance, December 31, 2019	62,400
Transfer to assets held for sale (note 4)	**(814)**
Sale of equipment	**(621)**
Depletion and depreciation	**7,029**
Impairment	**85,473**
Balance, September 30, 2020	**153,467**

Net Book Value	Total
December 31, 2019	182,742
September 30, 2020	**97,250**

The Company closed a sale of non-core facility assets during the nine months ended September 30, 2020 for cash consideration of $2.2 million and non-cash consideration of $1.5 million of operating credits. The operating credits will be received in the form of discounted future service costs for use of the purchaser's facilities and expire after 10 years from the date of closing (May 2030). The operating credits have been recognized at their expected fair value of $1.2 million with $0.2 million recorded in Prepaid expenses and deposits and $1.0 million recorded as Deferred credits. For the three and nine months ended September 30, 2020, $42 thousand of operating credits were recognized. Net assets disposed of consisted of facility assets of $2.1 million and related decommissioning obligations of $0.2 million, resulting in a gain on sale of $1.5 million. There are no reserves assigned to the facility assets disposed of through the transaction.

During the nine months ended September 30, 2019, the Company closed a property acquisition for cash consideration of $0.5 million. Net assets acquired consisted of strategic pipeline and facility infrastructure in the Company's core Montney area less decommissioning obligations acquired of $1.1 million. There were no producing wells and no reserves assigned to the wells acquired through the transaction.

During the three and nine months ended September 30, 2020, $6 thousand (September 30, 2019 - $40 thousand) and $53 thousand (September 30, 2019 - $0.1 million), respectively, of directly attributable general and administrative costs were capitalized as expenditures on property, plant, and equipment.

Depletion and depreciation

The calculation of depletion and depreciation expense as at September 30, 2020 included an estimated $323.1 million (September 30, 2019 - $328.2 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately $4.8 million (September 30, 2019 - $3.8 million) for the estimated salvage value of production equipment and facilities.

Included in depletion and depreciation expense for the three and nine months ended September 30, 2020, is $23 thousand (September 30, 2019 - $23 thousand) and $68 thousand (September 30, 2019 - $68 thousand), respectively, related to the right-of-use asset for the Company's head office lease. At September 30, 2020, the net book value of this right-of-use asset is $0.1 million.

Impairment Assessment

Effective January 1, 2020, the Company consolidated its two CGUs into one CGU (the "Montney CGU") to reflect the operations of Leucrotta's current asset base.

At September 30, 2020, the Company evaluated its property, plant, and equipment ("PP&E") Montney CGU for indicators of impairment or impairment reversals. There were no indicators identified and therefore, no impairment or impairment reversal was recognized during the three months ended September 30, 2020.

At March 31, 2020, indicators of impairment were determined to exist in the Company's Montney CGU primarily as a result of significant and sustained declines in forward commodity benchmark prices for oil, natural gas and NGLs and a sustained market capitalization deficiency relative to the book value of the Company's shareholders' equity.

The recoverable amount of the Company's Montney CGU, comprised of primarily natural gas and natural gas liquids reserves, was determined using the value in use methodology based on the net present value of cash flows from oil and natural gas reserves at pre-tax discount rates ranging from 10 to 17.5 percent depending on the underlying composition and risk profile of the reserve category. At March 31, 2020, the Company determined that the carrying amount of the Company's Montney CGU exceeded the recoverable amount, net of associated decommissioning obligations, of $86.5 million and accordingly, an impairment charge of $84.8 million was recorded. An additional $2.4 million of impairment was recorded prior to the transfer of certain assets from exploration and evaluation assets to PP&E and an additional $0.7 million of impairment was recorded upon transfer of certain assets to assets held for sale for a total impairment expense of $87.9 million for the three months ended March 31, 2020.

Commodity price estimates based on an average of three independent reserve evaluators used in the impairment calculations as at March 31, 2020 were as follows:

Year	West Texas Intermediate Oil ($US/bbl)	Foreign Exchange Rate (USD/CDN)	Edmonton Light, Sweet Oil ($CDN/bbl)	AECO Gas Price ($CDN/mmbtu)	Chicago Gas Price ($USD/mmbtu)
2020	29.17	0.707	29.22	1.74	2.01
2021	40.45	0.728	46.85	2.20	2.49
2022	49.17	0.745	59.27	2.37	2.70
2023	53.28	0.747	65.02	2.45	2.77
2024	55.66	0.748	68.43	2.52	2.84
2025	56.87	0.750	69.81	2.60	2.91
2026	58.01	0.750	71.24	2.66	2.97
2027	59.17	0.750	72.70	2.72	3.03
2028	60.35	0.750	74.19	2.79	3.10
2029	61.56	0.750	75.71	2.85	3.16
2030	62.79	0.750	77.22	2.91	3.22
Escalate Thereafter	2.0% per year		2.0% per year	2.0% per year	2.0% per year

The results of impairment tests are sensitive to changes in any of the key estimates of which changes could decrease or increase the recoverable amounts of assets and result in additional impairment charges or recovery of impairment charges. Key input estimates used in the determination of cash flows from oil and gas reserves include: quantities of reserves and future production, forward commodity pricing, development costs, operating costs, royalty obligations, abandonment costs, and discount rates. As at March 31, 2020, if pre-tax discount rates used in the calculation of impairment changed by 1% with all other variables held constant, the recoverable amount of the Montney CGU would change by approximately $9.4 million. As at March 31, 2020, if commodity price estimates changed by $1.00/bbl for oil and NGLs and $0.10/mcf for natural gas with all other variables held constant, the recoverable amount of the Company's CGU would change by approximately $12.9 million.

6. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, December 31, 2018	118,480
Property acquisitions	1,085
Additions	4,522
Impairment	(1,084)
Land lease expiries	(63)
Capitalized share based compensation	42
Balance, December 31, 2019	122,982
Additions	**6,561**
Transfer to property, plant, and equipment (note 5)	**(3,923)**
Impairment prior to the transfer to property, plant, and equipment	**(2,410)**
Transfer to assets held for sale (note 4)	**(1,229)**
Land lease expiries	**(864)**
Capitalized share based compensation	**9**
Balance, September 30, 2020	**121,126**

Exploration and evaluation assets consist of the Company's exploration projects which are pending the determination of proved or probable reserves. Additions represent the Company's share of costs incurred on exploration and evaluation assets during the period, consisting primarily of undeveloped land and drilling costs until the drilling of the well is complete and the results have been evaluated.

During the three and nine months ended September 30, 2020, $nil (September 30, 2019 - $40 thousand) and $0.1 million (September 30, 2019 - $0.1 million), respectively, of directly attributable general and administrative costs were capitalized as expenditures on exploration and evaluation assets.

Land lease expiries for the three and nine months ended September 30, 2020 were $0.5 million (September 30, 2019 - $nil) and $0.9 million (September 30, 2019 - $63 thousand), respectively, and have been included in depletion and depreciation expense.

Prior to the transfer of exploration and evaluation assets to PP&E during the three months ended March 31, 2020, management completed an impairment assessment and determined an impairment charge of $2.4 million as the estimated future cash flows from proved and probable reserves were not sufficient to support transferring the carrying amount of all of the costs incurred to PP&E.

The Company closed a property acquisition during the nine months ended September 30, 2019 for cash consideration of $1.0 million. Net assets acquired consisted of undeveloped land in the Company's core Montney area.

7. LEASE OBLIGATIONS

Effective January 1, 2019, the Company applied the IFRS 16 accounting policy and recognized its office lease contract as a right-of-use asset. Lease obligations are discounted with an effective interest rate of 5.0% and right-of-use asset is amortized based on the lease term. The Company's office lease expires October 31, 2021 and has no renewal option in the lease agreement.

	Total
Balance, December 31, 2018	-
Liabilities recognized on adoption of IFRS 16	254
Lease payments	(96)
Interest expense	11
Balance, December 31, 2019	169
Lease payments	**(72)**
Interest expense	**5**
Balance, September 30, 2020	**102**

Current	**94**
Long-term	**8**
	102

The total undiscounted amount of the estimated future cash flows to settle the lease obligations over the remaining lease term is $0.1 million. The Company's minimum lease payments are as follows:

	September 30, 2020
Within one year	97
Later than one year but not later than two years	8
Later than two years	-
Minimum lease payments	105
Amount representing interest expense	(3)
Present value of net lease payments	**102**

8. CREDIT FACILITY

The Company has a $20.0 million operating demand loan credit facility with a Canadian chartered bank. To access the credit facility over $15.0 million requires entering into and maintaining forward commodity price contracts of no less than 50% of production volumes for the first 12 months and no less than 25% of production volumes for the following 12 months thereafter. The credit facility bears interest at prime plus a range of 0.50% to 2.50% and is secured by a $100 million fixed and floating charge debenture on the assets of the Company. The undrawn portion of the credit facility is subject to a standby fee in the range of 0.20% to 0.45%. At September 30, 2020, the Company had outstanding letters of guarantee of $4.0 million which reduce the amount that can be borrowed under the credit facility.

Subsequent to September 30, 2020, the credit facility was reduced to $12.0 million, comprised of a demand loan facility of $8.0 million and a demand letter of credit facility of $4.0 million. The amended credit facility includes a covenant to enter into and maintain forward commodity price contracts of no less than 50% of production volumes for the first 6 months and no less than 25% of production volumes for the following 6 months thereafter. The next review of the credit facility by the bank is scheduled to occur on or before May 31, 2021.

The Company's credit facility includes a covenant requiring the Company to maintain an adjusted working capital ratio of not less than one-to-one. The working capital ratio, as defined by its creditor, is calculated as current assets plus any undrawn amounts available on its demand loan divided by current liabilities excluding any current portion drawn on the credit facility. The Company was compliant with this covenant at September 30, 2020. Subsequent to September 30, 2020, the definition of current assets excludes restricted cash.

9. DECOMMISSIONING OBLIGATIONS

The Company's decommissioning obligations result from its ownership interest in oil and natural gas assets including well sites and gathering systems. The total decommissioning obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to abandon and reclaim the wells and facilities, and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows (adjusted for inflation at 1.25% per year) required to settle the decommissioning obligations is approximately $18.5 million (December 31, 2019 - $17.1 million adjusted for inflation at 1.35% per year) which is estimated to be incurred over the next 30 years. At September 30, 2020, a risk-free rate of 1.01% (December 31, 2019 - 1.67%) was used to calculate the net present value of the decommissioning obligations.

	Nine Months Ended September 30, 2020	Year Ended December 31, 2019
Balance, beginning of period	**12,191**	9,572
Provisions incurred	**250**	65
Provisions settled	**(105)**	(256)
Property (dispositions) acquisitions	**(153)**	1,098
Revisions in estimated cash flows	**1,439**	188
Revisions due to change of rates	**1,459**	1,313
Accretion	**116**	211
Balance, end of period	**15,197**	12,191

10. SHAREHOLDERS' CAPITAL

The Company is authorized to issue an unlimited number of voting common shares, an unlimited number of non-voting common shares, Class A preferred shares, issuable in series, and Class B preferred shares, issuable in series. No non-voting common shares or preferred shares have been issued.

Voting Common Shares	Number	Amount
Balance, December 31, 2018 and 2019 and September 30, 2020	**200,525**	**288,837**

11. SHARE BASED COMPENSATION PLANS

Stock options

The Company has authorized and reserved for issuance 20.1 million common shares under a stock option plan enabling certain officers, directors, employees, and consultants to purchase common shares. The Company will not issue options exceeding 10% of the shares outstanding at the time of the option grants (the performance warrants described below are aggregated with any options for the 10% limit). Under the plan, the exercise price of each option equals the market price of the Company's shares on the date of the grant and an option's maximum term is ten years. At September 30, 2020, 18.0 million options were outstanding at an average exercise price of $0.99 per share.

	Number of Options	Weighted Average Exercise Price ($)
Balance, December 31, 2018	11,422	1.25
Forfeited	(266)	1.28
Balance, December 31, 2019	11,156	1.25
Granted	**7,045**	**0.60**
Forfeited	**(199)**	**1.32**
Balance, September 30, 2020	**18,002**	**0.99**
Exercisable, September 30, 2020	**10,949**	**1.25**

The Company accounts for its share based compensation plans using the fair value method. Under this method, compensation cost is charged to earnings over the vesting period for stock options and warrants granted to officers, directors, employees, and consultants with a corresponding increase to contributed surplus.

The fair value of the stock options granted were estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

	September 30, 2020	December 31, 2019
Risk-free interest rate (%)	**0.4**	-
Expected life (years)	**4.0**	-
Expected volatility (%)	**62.8**	-
Expected dividend yield (%)	**-**	-
Forfeiture rate (%)	**0.5**	-
Weighted average fair value of options granted ($ per option)	**0.33**	-

During the three and nine months ended September 30, 2020, the Company recognized $0.2 million (September 30, 2019 - $0.1 million) and $0.3 million (September 30, 2019 - $0.4 million), respectively, of share based compensation related to the stock options. At September 30, 2020 there was $2.2 million remaining as unrecognized share based compensation related to the stock options.

Performance Warrants

During the three months ended September 30, 2020, all performance warrants expired unexercised. The Company previously had 7.2 million performance warrants outstanding to certain officers, directors, employees, and consultants to purchase common shares at an exercise price of $1.70 that expired on August 15, 2020.

	Number of Warrants	Exercise Price
Balance, December 31, 2018	7,485	1.70
Forfeited	(170)	1.70
Balance, December 31, 2019	7,315	1.70
Forfeited	**(100)**	**1.70**
Expired	**(7,215)**	**1.70**
Balance, September 30, 2020	**-**	**-**

During the three and nine months ended September 30, 2020, the Company recognized $nil (September 30, 2019 - $nil) and $nil (September 30, 2019 - $0.2 million), respectively, of share based compensation related to the performance warrants.

Purchase Warrants

During the three months ended September 30, 2020, all purchase warrants expired unexercised. The Company previously had 7.65 million purchase warrants outstanding to certain officers, directors, employees, and consultants to purchase common shares at an exercise price of $2.04 that were fully vested and that expired on September 12, 2020.

	Number of Warrants	Exercise Price
Balance, December 31, 2018 and 2019	7,650	2.04
Expired	**(7,650)**	**2.04**
Balance, September 30, 2020	**-**	**-**

During the three and nine months ended September 30, 2020 and 2019, the Company recognized $nil of share based compensation related to the purchase warrants.

12. PER SHARE AMOUNTS

The following table summarizes the weighted average number of shares used in the basic and diluted net earnings (loss) per share calculations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	**2020**	2019
Weighted average number of shares - basic	**200,525**	200,525	**200,525**	200,525
Dilutive effect of share based compensation plans	**-**	-	**-**	185
Weighted average number of shares - diluted	**200,525**	200,525	**200,525**	200,710

For the three months ended September 30, 2020, 18.0 million stock options (September 30, 2019 - 11.2 million), nil purchase warrants (September 30, 2019 - 7.7 million) and nil performance warrants (September 30, 2019 - 7.3 million) were anti-dilutive due to the net loss.

For the nine months ended September 30, 2020, 18.0 million stock options (September 30, 2019 - 9.1 million), nil purchase warrants (September 30, 2019 - 7.7 million) and nil performance warrants (September 30, 2019 - 7.3 million) were anti-dilutive and were not included in the diluted net earnings (loss) per share calculation.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	**2020**	2019
Restricted cash	**-**	-	**(120)**	(160)
Accounts receivable	**129**	(352)	**322**	1,269
Prepaid expenses and deposits (1)	**(163)**	(353)	**73**	(204)
Accounts payable and accrued liabilities	**(141)**	644	**(1,345)**	(3,465)
Deposit on equipment held for sale (note 4)	**-**	-	**-**	2,729
Change in non-cash working capital	**(175)**	(61)	**(1,070)**	169
Relating to:				
Investing	**16**	758	**(1,602)**	(341)
Operating	**(191)**	(819)	**532**	510
Change in non-cash working capital	**(175)**	(61)	**(1,070)**	169

(1) Prepaid expenses and deposits excludes $0.2 million of non-cash operating credits (see note 5).

14. REVENUE

The Company sells its production pursuant to fixed or variable price contracts. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Commodity prices are based on market indices that are determined on a monthly or daily basis. Under the contracts, the Company is required to deliver variable volumes of oil, natural gas liquids or natural gas to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production, and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

The contracts generally have a term of one year or less, whereby delivery takes place throughout the contract period. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Company's oil and natural gas revenues disaggregated by revenue source:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	**2020**	2019
Oil and condensate	**2,253**	3,211	**6,542**	9,996
Other natural gas liquids	**524**	434	**1,529**	1,893
Natural gas	**3,064**	2,468	**9,000**	8,886
Oil and natural gas sales	**5,841**	6,113	**17,071**	20,775

Under certain marketing arrangements the Company will transfer title of its natural gas production to a third-party marketing company who will subsequently redeliver the natural gas production to an end customer by utilizing the Company's pipeline capacity. This portion representing the sale of transportation services is presented within natural gas revenue which is disaggregated in the below table by type:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	**2020**	2019
Natural gas production sales	**1,700**	1,433	**4,734**	5,576
Transportation revenue	**1,364**	1,035	**4,266**	3,310
Natural gas sales	**3,064**	2,468	**9,000**	8,886

The following table presents the Company's processing and marketing revenues disaggregated by revenue source:

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	**2020**	2019
Processing revenue	**178**	132	**312**	410
Marketing revenue	**-**	27	**-**	178
Processing and marketing revenue	**178**	159	**312**	588

The Company's revenue was generated entirely in the province of British Columbia. The majority of revenue resulted from sales whereby the transaction price was based on index prices. Of total oil and natural gas sales, three customers represented combined sales of 97% for the nine month period ended September 30, 2020 (September 30, 2019 - three customers represented combined sales of 84%).

During the three and nine months ended September 30, 2020, the Company realized credits of $0.3 million (September 30, 2019 - $0.4 million) and $0.5 million (September 30, 2019 - $1.6 million), respectively, to offset royalties payable. These credits stem from the British Columbia Government's Infrastructure Royalty Credit Program resulting from infrastructure built and wells drilled and tied-into the related infrastructure and has $0.1 million of credits remaining.

15. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at September 30, 2020:

	2020	2021	2022	2023	2024	Thereafter	Total
Operating Commitments	56	186	-	-	-	-	242
Firm transportation agreements	2,671	9,903	3,711	3,711	3,093	-	23,089
	2,727	10,089	3,711	3,711	3,093	-	23,331

Transportation commitments include contracts to transport natural gas and NGLs through third-party owned pipeline systems. At September 30, 2020, the Company had commitments of 33.3 mmcf/d of firm transportation to deliver natural gas to the Alliance Trading Pool (ATP) through October 31, 2021. The Company has also committed to 14.2 mmcf/d of firm transportation to deliver natural gas to Chicago through October 31, 2024.

Subsequent to September 30, 2020, the Company entered into an agreement to reduce its firm transportation to deliver natural gas to ATP to 13.4 mmcf/d and extended the agreement through to October 31, 2022. The cost to reduce the transportation commitment was 50% of the original obligation for a total of $2.2 million payable monthly through October 31, 2021.

Operating commitments include the non-lease variable components of the head office lease.

CORPORATE INFORMATION

OFFICERS AND DIRECTORS

Robert J. Zakresky, CA
President, CEO & Director

Nolan Chicoine, MPAcc, CA
VP Finance & CFO

Terry L. Trudeau, P.Eng.
VP Operations & COO

R.D. (Rick) Sereda, M.Sc., P.Geol.
VP Exploration

Helmut R. Eckert, P.Land
VP Land

Peter Cochrane, P.Eng.
VP Engineering

Daryl H. Gilbert, P.Eng.
Chairman of the Board

Don Cowie
Director

Brian Krausert, B.Sc.
Director

Kelvin B. Johnston
Director

Tom J. Medvedic, CA
Director

William Lancaster
Director

Josef Vejvoda
Director

BANK

National Bank of Canada
1800, 311 – 6th Avenue SW
Calgary, Alberta T2P 3H2

LEGAL COUNSEL

Gowling WLG (Canada) LLP
1600, 421 – 7th Avenue SW
Calgary, Alberta T2P 4K9

INDEPENDENT ENGINEERS

GLJ Ltd.
1920, 401 – 9th Avenue SW
Calgary, Alberta T2P 3C5

TRANSFER AGENT

Computershare
100 University Avenue, 8th Floor
Toronto, Ontario M5J 2Y1

AUDITORS

KPMG LLP
3100, 205 – 5th Avenue SW
Calgary, Alberta T2P 4B9

For further information, please visit our website at **www.leucrotta.ca** or contact:

Robert J. Zakresky
President & CEO
P 403.705.4525

Nolan Chicoine
VP Finance & CFO
P 403.705.4525

Leucrotta Exploration Inc.
Suite 700, 639 – 5th Avenue SW
Calgary, Alberta T2P 0M9
P 403.705.4525
F 403.705.4526

FORWARD-LOOKING STATEMENTS

This Interim Report may contain forward-looking information that involves a number of risks and uncertainties that could cause actual results to differ materially from those anticipated. For this purpose, any statements herein that are not statements of historical fact may be deemed to be forward-looking statements. Such risks and uncertainties include, but are not limited to: risks associated with the oil and gas industry (e.g. operational risks in exploration, development and production; changes and/or delays in the development of capital assets; uncertainty of reserve estimates; uncertainty of estimates and projections relating to production and costs; commodity price fluctuations; environmental risks; and industry competition).

LEUCROTTA
EXPLORATION INC.