Q1 2016 RESULTS

FINANCIAL AND OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31 2016

LEUCROTTA EXPLORATION INC.

HIGHLIGHTS

- Maintained a cash and working capital balance of $41.0 million at March 31, 2016
- Increased production 16% to 1,251 boe/d in Q1 2016 from 1,076 boe/d in Q4 2015
- Announced light oil delineation well at Mica (713 boe/d including 300 boe/d of 42 API sweet oil and 55 boe/d of natural gas liquids) in the Lower Montney turbidite play
- Announced liquids-rich delineation well at East Doe (test rate of 1,290 boe/d of liquids-rich gas) in the Lower Montney turbidite play

FINANCIAL	**THREE MONTHS ENDED MARCH 31**		
($000s, except per share amounts)	**2016**	2015	% Change
OIL AND NATURAL GAS SALES	**2,301**	4,291	(46)
FUNDS FROM (USED IN) OPERATIONS(1)	**(283)**	1,166	(124)
Per share - basic and diluted	**-**	0.01	(100)
NET LOSS	**(2,773)**	(1,816)	53
Per share - basic and diluted	**(0.02)**	(0.01)	100
CAPITAL EXPENDITURES AND ACQUISITIONS	**4,398**	17,649	(75)
WORKING CAPITAL	**40,952**	8,520	381
COMMON SHARES OUTSTANDING (000S)			
Weighted average - basic and diluted	**165,227**	165,227	-
End of period - basic	**165,227**	165,227	-
End of period - diluted	**189,279**	185,099	2

(1) Funds from (used in) operations and funds from (used in) operations 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 Funds from (used in) Operations section in the MD&A for a reconciliation from cash flow from (used in) operating activities.

OPERATING RESULTS [(1)]	**Three Months Ended March 31**		
	2016	2015	% Change
Daily production			
Oil and NGLs (bbls/d)	**412**	387	6
Natural gas (mcf/d)	**5,031**	11,428	(56)
Oil equivalent (boe/d)	**1,251**	2,291	(45)
Revenue			
Oil and NGLs ($/bbl)	**37.21**	42.93	(13)
Natural gas ($/mcf)	**1.98**	2.72	(27)
Oil equivalent ($/boe)	**20.22**	20.81	(3)
Royalties			
Oil and NGLs ($/bbl)	**3.06**	5.13	(40)
Natural gas ($/mcf)	**-**	0.09	(100)
Oil equivalent ($/boe)	**1.02**	1.32	(23)
Production expenses			
Oil and NGLs ($/bbl)	**13.98**	6.60	112
Natural gas ($/mcf)	**1.09**	1.10	(1)
Oil equivalent ($/boe)	**8.98**	6.60	36
Transportation expenses			
Oil and NGLs ($/bbl)	**4.65**	2.75	69
Natural gas ($/mcf)	**0.43**	0.26	65
Oil equivalent ($/boe)	**3.26**	1.78	83
Operating netback [(2)]			
Oil and NGLs ($/bbl)	**15.52**	28.45	(45)
Natural gas ($/mcf)	**0.46**	1.27	(64)
Oil equivalent ($/boe)	**6.96**	11.11	(37)
Depletion and depreciation ($/boe)	**(11.89)**	(8.06)	48
General and administrative expenses ($/boe)	**(10.73)**	(6.01)	79
Share based compensation ($/boe)	**(9.68)**	(6.86)	41
Finance expenses ($/boe)	**(0.35)**	(0.25)	40
Finance income ($/boe)	**1.34**	0.61	120
Deferred tax recovery ($/boe)	**-**	0.65	(100)
Net loss ($/boe)	**(24.35)**	(8.81)	176

(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) Operating netback does 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.

PRESIDENT'S MESSAGE

As previously announced, Leucrotta drilled a light oil delineation well (713 boe/d including 300 boe/d of 42 API sweet oil and 55 boe/d of natural gas liquids) in the Lower Montney turbidite play confirming a large light oil resource on its land. Leucrotta estimates this resource is present on a minimum of 60 net sections of Leucrotta acreage. Leucrotta has previously announced liquids-rich delineation wells on its Lower Montney Turbidite play with the East Doe well achieving a test rate of 1,290 boe/d of liquids-rich gas. Leucrotta estimates this large gas resource covers approximately 40 net sections of Leucrotta acreage.

In Q1 2016, Leucrotta spent $4.4 million of which $3.2 was used to purchase land in the East Doe area (previously announced). Leucrotta expects minimal capital will be spent in Q2 2016, however, Leucrotta will be very active in getting pipelines and locations licensed to maintain maximum flexibility in its go forward capital program and be able to react quickly when commodity markets are favourable.

The initial focus of capital will be to tie-in the 8-22 light oil well and the 8-18 liquids-rich gas well to the Leucrotta owned facility at Doe and to start further delineation of the Montney light oil resource noted above. Leucrotta anticipates it will complete the tie-ins by the end of Q3 2016 and start drilling in late Q3 2016 or early Q4 2016. The extent of the program will be driven in part by commodity prices.

At the end of Q1 2016, Leucrotta maintained a cash and working capital balance of $41.0 million and has no debt. Current production is approximately 1,100 boe/d which will see natural declines until previously drilled wells are tied in. Leucrotta has not provided guidance on capital spending given the uncertainty in the commodity markets but will be cautious in its spending profile.

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

May 24, 2016

The MD&A should be read in conjunction with the unaudited condensed interim financial statements and related notes for the three months ended March 31, 2016 and the audited financial statements and MD&A for the year ended December 31, 2015. 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") in Canadian currency (except where noted as being in another currency).

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 "funds from (used in) operations", "funds from (used in) operations per share", and "operating netback" 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 funds from (used in) operations 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 to repay debt. Funds from (used in) operations is a non-GAAP measure and has been defined by the Company as cash flow from (used in) operating activities excluding the change in non-cash working capital related to operating activities and expenditures on decommissioning obligations. The Company also presents funds from (used in) operations per share whereby amounts per share are calculated using weighted average shares outstanding, consistent with the calculation of earnings (loss) per share. Funds from (used in) operations is reconciled from cash flow from (used in) operating activities under the heading "Funds from (used in) Operations".

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, production expenses, and transportation expenses, represents the cash margin for every barrel of oil equivalent sold. Operating netback per boe is reconciled to net loss per boe under the heading "Operating Netback".

UPDATE

As previously announced, Leucrotta drilled a light oil delineation well (713 boe/d including 300 boe/d of 42 API sweet oil and 55 boe/d of natural gas liquids) in the Lower Montney turbidite play confirming a large light oil resource on its land. Leucrotta estimates this resource is present on a minimum of 60 net sections of Leucrotta acreage. Leucrotta has previously announced liquids-rich delineation wells on its Lower Montney Turbidite play with the East Doe well achieving a test rate of 1,290 boe/d of liquids-rich gas. Leucrotta estimates this large gas resource covers approximately 40 net sections of Leucrotta acreage.

In Q1 2016, Leucrotta spent $4.4 million of which $3.2 was used to purchase land in the East Doe area (previously announced). Leucrotta expects minimal capital will be spent in Q2 2016, however, Leucrotta will be very active in getting pipelines and locations licensed to maintain maximum flexibility in its go forward capital program and be able to react quickly when commodity markets are favourable.

The initial focus of capital will be to tie-in the 8-22 light oil well and the 8-18 liquids-rich gas well to the Leucrotta owned facility at Doe and to start further delineation of the Montney light oil resource noted above. Leucrotta anticipates it will complete the tie-ins by the end of Q3 2016 and start drilling in late Q3 2016 or early Q4 2016. The extent of the program will be driven in part by commodity prices.

At the end of Q1 2016, Leucrotta maintained a cash and working capital balance of $41.0 million and has no debt. Current production is approximately 1,100 boe/d which will see natural declines until previously drilled wells are tied in. Leucrotta has not provided guidance on capital spending given the uncertainty in the commodity markets but will be cautious in its spending profile.

SUMMARY OF FINANCIAL RESULTS

($000s, except per share amounts)	Three Months Ended March 31 2016	2015	% Change
Oil and natural gas sales	**2,301**	4,291	(46)
Funds from (used in) operations	**(283)**	1,166	(124)
Per share - basic and diluted	**-**	0.01	(100)
Net loss	**(2,773)**	(1,816)	53
Per share - basic and diluted	**(0.02)**	(0.01)	100
Total assets	**241,943**	235,942	3
Total long-term liabilities	**7,022**	8,270	(15)
Working capital	**40,952**	8,520	381

The Company experienced a reduction in oil and natural gas sales, funds from (used in) operations, and an increased net loss for the first quarter of 2016 compared to the same period in 2015 due to the decline of oil, NGL, and natural gas commodity prices during that time and from the sale of certain oil and natural gas properties and equipment in Q2 2015 resulting in lower production.

The large increase in working capital from March 31, 2015 stems mainly from the sale of oil and gas properties and equipment for $79.3 million during Q2 2015 partially offset by capital expenditures.

PRODUCTION	Three Months Ended March 31 2016	2015	% Change
Average Daily Production			
Oil and NGLs (bbls/d)	**412**	387	6
Natural gas (mcf/d)	**5,031**	11,428	(56)
Combined (boe/d)	**1,251**	2,291	(45)

Daily production for the first quarter of 2016 decreased 45% to 1,251 boe/d from 2,291 boe/d for the comparative quarter in 2015. The decrease in production was due to the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 and the swap of non-core production and shut-in of other non-core production in Q4 2015 partially offset by new light oil production from Stoddart and successful drilling at Doe/Mica in the Montney formation. Production has increased from 1,076 boe/d in Q4 2015 as a result of having a full quarter of production from the Doe development well put on production during Q4 2015.

Leucrotta's production profile for the first quarter of 2016 saw an increase in liquids weighting over the comparative quarter in 2015. The Q1 2016 weighting was 67% natural gas (83% Q1 2015) and 33% oil and NGLs (17% Q1 2015). The increase in liquids weighting was due to the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 which were gas weighted and also new light oil production from Mica and Stoddart. The weighting for the fourth quarter of 2015 was 55% natural gas and 45% oil and NGLs. The reduction in liquids weighting from Q4 2015 was the result of the gas-weighted Doe development well being put on production during Q4 2015 and the natural decline of flush oil production from Mica and Stoddart.

REVENUE ($000s)	Three Months Ended March 31 2016	2015	% Change
Oil and NGLs	**1,396**	1,493	(6)
Natural gas	**905**	2,798	(68)
Total	**2,301**	4,291	(46)
Average Sales Price			
Oil and NGLs ($/bbl)	**37.21**	42.93	(13)
Natural gas ($/mcf)	**1.98**	2.72	(27)
Combined ($/boe)	**20.22**	20.81	(3)

Revenue totaled $2.3 million for the first quarter of 2016, down 46% from $4.3 million for the comparative quarter in 2015. The decrease in revenue was due to declines in oil, NGL and natural gas commodity prices combined with decreased production.

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

Commodity Pricing	Three Months March 31		
	2016	2015	% Change
Oil and NGLs			
Corporate price ($CDN/bbl)	**37.21**	42.93	(13)
Canadian light sweet ($CDN/bbl)	**41.22**	51.85	(21)
West Texas Intermediate ($US/bbl)	**33.45**	48.63	(31)
Natural gas			
Corporate price ($CDN/mcf)	**1.98**	2.72	(27)
AECO price ($CDN/mcf)	**1.83**	2.75	(33)
Exchange rate			
CDN/US dollar average exchange rate	**0.7287**	0.8066	(10)

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 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. The Company's corporate average oil and NGLs prices were 90.3% of Canadian light sweet prices for the first quarter of 2016, up from 82.8% for the comparative quarter in 2015. The increase for the first quarter of 2016 was due to the new light oil production at Mica and Stoddart which was priced higher than the average NGLs mix. Corporate average natural gas prices were 108.2% of AECO price for the first quarter of 2016, up from 98.9% for the comparative quarter in 2015. The increase in the Company's corporate natural gas price compared to AECO was due to having a larger portion of the Company's natural gas sales in Q1 2015 priced on an interruptible basis off indexes other than AECO. The Company has a new firm transportation and pricing contract that commenced December 1, 2015 which alleviated that pricing issue.

Leucrotta's liquids mix during the first quarter of 2016 was approximately 82% oil, condensate and pentanes, 6% butane and 12% propane (Q1 2015 - 64% oil, condensate and pentanes, 12% butane and 24% propane).

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 March 31		
($000s)	**2016**	2015	% Change
Oil and NGLs	**114**	179	(36)
Natural gas	**2**	94	(98)
Total	**116**	273	(58)
Average Royalty Rate (% of sales)			
Oil and NGLs	**8.2**	12.0	(32)
Natural gas	**0.2**	3.4	(94)
Combined	**5.0**	6.4	(22)

The Company pays royalties to provincial governments (Crown), freeholders, which may be individuals or companies, 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.

For the first quarter of 2016, oil, NGLs, and natural gas royalties totaled $0.1 million (5.0% of revenue) compared to $0.3 million (6.4% of revenue) for the comparative quarter in 2015. Oil royalties have decreased to 8.2% in Q1 2016 compared to 12.0% in Q1 2015 due to prior period Crown price adjustments. Natural gas royalties have decreased to 0.2% in Q1 2016 compared to 3.4% in Q1 2015 due to the decline of natural gas commodity prices, changes in the monthly capital cost and processing fee deductions and new natural gas wells having deep gas royalty credits.

PRODUCTION EXPENSES	Three Months Ended March 31		
($000s)	**2016**	2015	% Change
Oil and NGLs	**524**	230	128
Natural gas	**498**	1,131	(56)
Total	**1,022**	1,361	(25)

Average expense			
Oil and NGLs ($/bbl)	**13.98**	6.60	112
Natural gas ($/mcf)	**1.09**	1.10	(1)
Combined ($/boe)	**8.98**	6.60	36

Per unit production expenses increased to $8.98/boe in Q1 2016 from $6.60/boe in Q1 2015. The increase in production expenses on a per boe basis is due to the sale of oil and natural gas properties and equipment during the second quarter of 2015 which lowered overall production and also left a larger percentage of higher-cost properties within the Company. The significant increase in oil and NGLs production expenses was also due to new light oil production from Mica and Stoddart which carries higher production expenses due to water handling and disposal, emulsion hauling and treating, and other normal costs associated with the production of oil.

TRANSPORTATION EXPENSES	Three Months Ended March 31		
($000s)	**2016**	2015	% Change
Oil and NGLs	**174**	96	81
Natural gas	**197**	271	(27)
Total	**371**	367	1

Average expense			
Oil and NGLs ($/bbl)	**4.65**	2.75	69
Natural gas ($/mcf)	**0.43**	0.26	65
Combined ($/boe)	**3.26**	1.78	83

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. Transportation costs increased to $3.26/boe in Q1 2016 from $1.78/boe for Q1 2015. The increase was mainly due to higher transportation fees charged to producers, higher transportation costs associated with new light oil production from Mica and Stoddart and also the sale of oil and natural gas properties and equipment during the second quarter of 2015 which yielded very low transportation costs.

OPERATING NETBACK	Three Months Ended March 31		
	2016	2015	% Change
Oil and NGLs ($/bbl)			
Revenue	**37.21**	42.93	(13)
Royalties	**(3.06)**	(5.13)	(40)
Production expenses	**(13.98)**	(6.60)	112
Transportation expenses	**(4.65)**	(2.75)	69
Operating netback	**15.52**	28.45	(45)
Natural gas ($/mcf)			
Revenue	**1.98**	2.72	(27)
Royalties	**-**	(0.09)	(100)
Production expenses	**(1.09)**	(1.10)	(1)
Transportation expenses	**(0.43)**	(0.26)	65
Operating netback	**0.46**	1.27	(64)
Combined ($/boe)			
Revenue	**20.22**	20.81	(3)
Royalties	**(1.02)**	(1.32)	(23)
Production expenses	**(8.98)**	(6.60)	36
Transportation expenses	**(3.26)**	(1.78)	83
Operating netback	**6.96**	11.11	(37)

During the first quarter of 2016, Leucrotta generated an operating netback of $6.96/boe, down 37% from $11.11/boe from the first quarter of 2015. It was also down from $10.08/boe in the fourth quarter of 2015. The decrease was mainly due to the declines in oil, NGL, and natural gas prices as well as increased production and transportation costs associated with new light oil production.

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

	Three Months Ended March 31		
($/boe)	**2016**	2015	% Change
Operating netback (non-GAAP)	**6.96**	11.11	(37)
Depletion and depreciation	**(11.89)**	(8.06)	48
General and administrative expenses	**(10.73)**	(6.01)	79
Share based compensation	**(9.68)**	(6.86)	41
Finance expenses	**(0.35)**	(0.25)	40
Finance income	**1.34**	0.61	120
Deferred tax recovery	**-**	0.65	(100)
Net loss	**(24.35)**	(8.81)	176

DEPLETION AND DEPRECIATION	Three Months Ended March 31		
	2016	2015	% Change
Depletion and depreciation ($000s)	**1,354**	1,662	(19)
Depletion and depreciation ($/boe)	**11.89**	8.06	48

The Company calculates depletion on property, plant, and equipment mainly based on proved plus probable reserves. Some facilities in Stoddart, where the production and reserves do not represent the useful life of the assets, are depreciated over twenty years. Depletion and depreciation for the first quarter of 2016 was $11.89/boe, up from $8.06/boe for the comparative quarter in 2015. The increase in the depletion rate per boe was mainly the result of the increased oil weighting in the Company's production mix in which oil properties typically carry higher depletion rates per boe.

GENERAL AND ADMINISTRATIVE	Three Months Ended December 31		
($000s)	**2016**	2015	% Change
G&A expenses (gross)	**1,309**	1,421	(8)
G&A capitalized	**(60)**	(162)	(63)
G&A recoveries	**(27)**	(21)	29
G&A expenses (net)	**1,222**	1,238	(1)
G&A expenses ($/boe)	**10.73**	6.01	79

General and administrative expenses ("G&A") were $10.73/boe for the first quarter of 2016 compared to $6.01/boe for the first quarter of 2015. G&A expenses in Q1 2016 were consistent to the comparative quarter in 2015 but increased on a per boe basis due to decreased production resulting from the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015.

SHARE BASED COMPENSATION	Three Months Ended March 31		
	2016	2015	% Change
Share based compensation ($000s)	**1,102**	1,415	(22)
Share based compensation ($/boe)	**9.68**	6.86	41

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 performance warrants was determined based on a Monte Carlo simulation and the fair value of stock options and purchase warrants was measured based on the Black-Scholes-Merton option-pricing model.

Share based compensation expense decreased to $1.1 million for the first quarter of 2016 from $1.4 million for the comparative quarter in 2015. The decrease is mainly due to using the graded (accelerated) amortization method whereby more expense is recognized earlier in the stock options and warrants expected life. On a per boe basis the expense increase in Q1 2016 over Q1 2015 is due to decreased production resulting from the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015.

FINANCE EXPENSES	Three Months Ended March 31		
($000s)	**2016**	2015	% Change
Interest expense	**6**	12	(50)
Accretion of decommissioning obligations	**34**	39	(13)
Finance expenses	**40**	51	(22)
Finance expenses ($/boe)	**0.35**	0.25	40

Finance expenses were consistent in Q1 2016 from the comparative quarter in 2015.

FINANCE INCOME

Finance income totaled $0.2 million for first quarter of 2016 compared to $0.1 million in the comparative quarter in 2015. Finance income relates to interest earned on cash in the bank.

DEFERRED INCOME TAXES

During the fourth quarter of 2015 the Company derecognized the net deferred income tax asset based on the independently evaluated reserves report as cash flows are not expected to be sufficient to realize the deferred income tax asset based on existing commodity prices. As a result, there was no deferred income tax recovery for the first quarter of 2016.

The Company had a deferred income tax recovery on the loss before taxes for the first quarter of 2015 of $0.1 million. The deferred income tax recovery in the first quarter of 2015 was lower than expected by applying the statutory tax rate to the loss before taxes due to non-deductible items such as share based compensation.

Estimated tax pools at March 31, 2016 total approximately $207.0 million (December 31, 2015 - $202.3 million).

FUNDS FROM (USED IN) OPERATIONS

Funds used in operations for the first quarter of 2016 was $0.3 million ($nil per basic and diluted share) compared to funds from operations of $1.2 million ($0.01 per basic and diluted share) for the comparative quarter in 2015. The significant decrease was mainly due to the decline in oil, NGL, and natural gas commodity prices and decreased production resulting from the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015.

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

	Three Months Ended March 31		
($000s)	**2016**	2015	% Change
Cash flow from (used in) operating activities	**726**	(453)	(260)
Add back:			
Change in non-cash working capital	**(1,009)**	1,619	(162)
Funds from (used in) operations (non-GAAP)	**(283)**	1,166	(124)

NET LOSS

The Company had a net loss of $2.8 million ($0.02 per basic and diluted share) for the first quarter of 2016 compared to $1.8 million ($0.01 per basic and diluted share) for the comparative quarter in 2015. The increased net loss in the first quarter of 2016 was mainly the result of the decline in oil, NGL, and natural gas commodity prices and decreased production.

CAPITAL EXPENDITURES	Three Months Ended March 31		
($000s)	**2016**	2015	% Change
Land	**3,546**	212	1,573
Drilling, completions, and workovers	**188**	6,389	(97)
Equipment	**618**	10,820	(94)
Geological and geophysical	**46**	228	(80)
Total expenditures	**4,398**	17,649	(75)

During the first quarter of 2016 the Company had capital expenditures of $4.4 million compared to capital expenditures of $17.6 million for the comparative quarter in 2015. Capital expenditures have declined dramatically due to the low oil and natural gas commodity prices and the Company's preference at this time to preserve its positive cash balance in order to react to opportunities as they arise and dictate the pace of development. In the first quarter of 2016 the Company added Montney acreage adjacent to its Montney land base through both Crown land sales and private land acquisitions.

During the first quarter of 2015 the Company spent the majority of its expenditures on gas plant equipment and the completion and testing of its light oil Montney well in Dawson-Sunrise and testing the step-out Montney natural gas well in Dawson-Sunrise and the Baldonnel light oil well in Stoddart.

LIQUIDITY AND CAPITAL RESOURCES

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

($000s)	**March 31, 2016**	December 31, 2015	% Change
Current assets	**44,192**	58,740	(25)
Less:			
Current liabilities	**(3,240)**	(13,107)	(75)
Working capital	**40,952**	45,633	(10)

At March 31, 2016, the Company had working capital of $41.0 million and $nil had been drawn on the revolving credit facility.

The Company has a $10.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving 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. At March 31, 2016, $nil had been drawn on the revolving credit facility. The $10.0 million borrowing base is subject to a set-off and security agreement in which $10.0 million from the Company's bank account is withheld from use. At March 31, 2016, the Company had outstanding letters of guarantee of $1.1 million which reduce the amount that can be borrowed under the credit facility and have been set-off from the Company's bank account and classified as restricted cash. The next review of the revolving credit facility by the bank is scheduled on or before June 1, 2016.

The Company has $1.0 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 margin account holds $3.7 million of securities of Leucrotta common shares and a margin payable of $989 thousand. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. Throughout late 2014 and into 2016, significant trading restrictions (blackouts) have been placed on all insiders of the Company due to the fact that Leucrotta is a small entity in a large emerging play whereby most operations are material. The cross-guarantee has allowed the President to comply with corporate governance mandates. The $1.0 million has been segregated on the statement of financial position as restricted cash at March 31, 2016.

The ongoing global economic conditions have continued to impact the liquidity in financial and capital markets, restrict access to financing, and cause significant volatility in commodity prices. Despite the economic downturn and financial market volatility, the Company was able to create financial flexibility with the sale of oil and gas properties and equipment for $79.3 million in Q2 2015 and holds a working capital balance of $41.0 million. Management anticipates that the Company will continue to have adequate liquidity to fund budgeted capital investments through a combination of cash flow, equity, and debt. 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.

CONTRACTUAL OBLIGATIONS

The following is a summary of the Company's contractual obligations and commitments at March 31, 2016:

($000s)	**Total**	**Less than One Year**	**One to Three Years**	**After Three Years**
Accounts payable and accrued liabilities	3,240	3,240	-	-
Decommissioning obligations	7,022	-	-	7,022
Office leases	1,518	583	935	-
Firm transportation agreements	29,750	2,950	14,463	12,337
Total contractual obligations	41,530	6,773	15,398	19,359

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 options, warrants, and other instruments:

(000s)	**March 31, 2016**	May 24, 2016
Voting common shares	**165,227**	165,227
Warrants	**15,150**	15,150
Stock options	**8,902**	8,902
Total	**189,279**	189,279

SUMMARY OF QUARTERLY RESULTS

	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Average Daily Production								
Oil and NGLs (bbls/d)	**412**	479	157	243	387	486	325	337
Natural gas (mcf/d)	**5,031**	3,585	2,244	7,320	11,428	12,309	12,548	9,330
Combined (boe/d)	**1,251**	1,076	531	1,463	2,291	2,538	2,416	1,892
($000s, except per share amounts)								
Oil and natural gas sales	**2,301**	2,819	972	2,777	4,291	6,801	7,586	7,110
Funds from (used in) operations	**(283)**	464	(808)	(207)	1,166	2,995	3,740	3,626
Per share - basic and diluted	**-**	-	(0.01)	-	0.01	0.02	0.03	0.03
Net (loss) earnings	**(2,773)**	(15,205)	(3,086)	31,519	(1,816)	(171)	199	887
Per share - basic and diluted	**(0.02)**	(0.09)	(0.02)	0.19	(0.01)	-	-	0.01

The Company had experienced significant increases in production from Q2 2014 up to and including Q1 2015 stemming from successful drilling activities at Northeast BC. In Q2 and Q3 2015, production decreased significantly due to the sale of certain oil and gas properties which were producing approximately 1,300 boe/d at the time of disposition. Production increased again in Q4 2015 and Q1 2016 from the successful drilling activities in Northeast BC. In 2015 and Q1 2016, the production declines, combined with a very significant decrease in oil, NGLs and natural gas commodity prices starting in Q4 2014, caused a large decrease in oil and natural gas sales, funds from operations and net earnings. Q2 2015 net earnings saw a significant boost from a gain on the sale of oil and gas properties and equipment. Q3 2015 had an impairment loss on non-core lands of $0.9 million contributing to the net loss. Also contributing to the net losses starting in Q4 2014 was increased share based compensation resulting from the warrants issued in Q3

2014 and stock options issued in Q4 2014 and Q4 2015. The large net loss in Q4 2015 was mainly the result of impairment charges on non-Montney assets and derecognizing the deferred income tax asset.

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, financial position, and change in financial position.

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 funds from operations 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.

Foreign exchange risk
The prices received by the Company for the production of crude 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 March 31, 2016 was $nil.

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 March 31, 2016, 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 venture 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 venture 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 venture receivables are typically collected within one to three months of the joint venture invoice being issued to the partner. The Company attempts to mitigate the risk from joint venture 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 venture 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 March 31, 2016, $1.1 million (79%) of the Company's outstanding accounts receivable were current and $0.2 million (17%) were outstanding for more than 90 days. During the period ended March 31, 2016, the Company did not deem any outstanding accounts receivable to be uncollectable.

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.

With declining commodity prices over the past year, the Company has decided to delay its gas plant project and intends to sell some of the fabricated components to create more financial flexibility. With successful drilling activities in the fourth quarter of 2015, the Company intends on using a portion of this equipment in future infrastructure expansions. At March 31, 2016 the Company has expended a total of $28.8 million on this project and intends to sell approximately half of the value of this equipment. The Company had also committed to firm transportation over five years for a total of $29.8 million.

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, oil, NGLs, and natural gas commodity prices, production expenses, working capital, and the ability to sell certain fabricated gas plant components. 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 Statements of Financial Position
(unaudited)

($000s)	Note	March 31 2016	December 31 2015
Assets			
Current assets			
Cash and cash equivalents		**40,486**	53,804
Restricted cash		**2,131**	2,131
Accounts receivable		**1,388**	2,535
Prepaid expenses and deposits		**187**	270
		44,192	58,740
Property, plant, and equipment	(4)	**108,445**	108,553
Exploration and evaluation assets	(5)	**89,306**	85,745
		197,751	194,298
		241,943	253,038
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**3,240**	13,107
Decommissioning obligations	(7)	**7,022**	6,673
		10,262	19,780
Shareholders' Equity			
Shareholders' capital	(8)	**213,875**	283,587
Contributed surplus		**9,601**	8,405
Reserve from common-control transaction		**-**	(69,712)
Retained earnings		**8,205**	10,978
		231,681	233,258
		241,943	253,038
Commitments	(12)		

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

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

($000s, except per share amounts)	Note	Three Months Ended March 31 **2016**	 2015
Revenue			
Oil and natural gas sales		**2,301**	4,291
Royalties		**(116)**	(273)
		2,185	4,018
Expenses			
Production		**1,022**	1,361
Transportation		**371**	367
Depletion and depreciation	(4)	**1,354**	1,662
General and administrative		**1,222**	1,238
Share based compensation	(9)	**1,102**	1,415
Finance income		**(153)**	(126)
Finance expense		**40**	51
		4,958	5,968
Loss before taxes		**(2,773)**	(1,950)
Taxes			
Deferred income tax recovery		**-**	(134)
Net loss and comprehensive loss		**(2,773)**	(1,816)
Net loss per share			
Basic and diluted	(10)	**(0.02)**	(0.01)

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

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

($000s)	Shareholders' Capital	Contributed Surplus	Reserve from common-control transaction	Retained Earnings (Deficit)	Total Equity
Balance, December 31, 2014	283,587	1,955	(69,712)	(434)	215,396
Net loss	-	-	-	(1,816)	(1,816)
Share based compensation	-	1,722	-	-	1,722
Balance, March 31, 2015	283,587	3,677	(69,712)	(2,250)	215,302
Balance, December 31, 2015	283,587	8,405	(69,712)	10,978	233,258
Net loss	-	-	-	(2,773)	(2,773)
Share based compensation	-	1,196	-	-	1,196
Reclassification	(69,712)	-	69,712	-	-
Balance, March 31, 2016	213,875	9,601	-	8,205	231,681

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

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

($000s)	Note	Three Months ended March 31 2016	2015
Operating Activities			
Net loss		**(2,773)**	(1,816)
Depletion and depreciation	(4)	**1,354**	1,662
Share based compensation	(9)	**1,102**	1,415
Finance expense		**40**	51
Interest paid		**(6)**	(12)
Deferred income tax recovery		**-**	(134)
Change in non-cash working capital	(11)	**1,009**	(1,619)
		726	(453)
Financing Activities		**-**	-
Investing Activities			
Capital expenditures - property, plant, and equipment	(4)	**(931)**	(9,469)
Capital expenditures - exploration and evaluation assets	(5)	**(3,467)**	(8,180)
Change in non-cash working capital	(11)	**(9,646)**	(7,405)
		(14,044)	(25,054)
Change in cash and cash equivalents		**(13,318)**	(25,507)
Cash and cash equivalents, beginning of period		**53,804**	41,329
Cash and cash equivalents, end of period		**40,486**	15,822

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, including IAS 34, Interim Financial Reporting. The condensed interim financial statements should be read in conjunction with the audited financial statements and related notes for the year ended December 31, 2015.

The condensed interim financial statements were authorized for issuance by the Board of Directors on May 24, 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

The 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, 2015.

3. SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared following the same accounting policies as the annual financial statements for the year ended December 31, 2015. The accounting policies have been applied consistently by the Company to all periods presented in these condensed interim financial statements except as noted below.

On January 1, 2016, the Company adopted the amendments made to IFRS 11 – Joint Arrangements, which provided new guidance on the accounting for the acquisition of an interest in a joint operation that constitutes a business. There was no impact to the Company as a result of adopting the amended standard.

4. PROPERTY, PLANT, AND EQUIPMENT

Cost	Total
Balance, December 31, 2014	105,393
Additions	23,490
Dispositions	(41,411)
Transfer from exploration and evaluation assets	40,726
Change in decommissioning obligation	1,011
Capitalized share based compensation	202
Balance, December 31, 2015	129,411
Additions	**931**
Change in decommissioning obligation	**315**
Capitalized share based compensation	**-**
Balance, March 31, 2016	**130,657**

Accumulated Depletion, Depreciation, and Impairment	Total
Balance, December 31, 2014	15,540
Depletion and depreciation	8,607
Impairment	4,588
Dispositions	(7,877)
Balance, December 31, 2015	20,858
Depletion and depreciation	**1,354**
Balance, March 31, 2016	**22,212**

Net Book Value	Total
December 31, 2014	89,853
December 31, 2015	108,553
March 31, 2016	**108,445**

During the three months ended March 31, 2016, $nil (2015 - $nil) 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 for the three months ended March 31, 2016 included an estimated $69.0 million (2015 - $129.1 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately $1.4 million (2015 - $2.2 million) for the estimated salvage value of production equipment and facilities and approximately $28.8 million (2015 - $18.2 million) of assets under construction and are not subject to depletion.

5. EXPLORATION AND EVALUATION ASSETS

	Total
Balance, December 31, 2014	96,550
Additions	36,767
Dispositions	(3,097)
Transfer to property, plant, and equipment	(40,726)
Impairment	(4,628)
Capitalized share based compensation	879
Balance, December 31, 2015	85,745
Additions	**3,467**
Capitalized share based compensation	**94**
Balance, March 31, 2016	**89,306**

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. All expenditures for the three months ended March 31, 2016 and year ended December 31, 2015 related to Northeast BC.

During the three months ended March 31, 2016, $nil (2015 - $0.2 million) of directly attributable general and administrative costs were capitalized as expenditures on exploration and evaluation assets.

6. CREDIT FACILITY

The Company has a $10.0 million revolving operating demand loan credit facility with a Canadian chartered bank. The revolving 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. At March 31, 2016, $nil had been drawn on the revolving credit facility. The $10.0 million borrowing base is subject to a set-off and security agreement in which $10.0 million from the Company's bank account is withheld from use. At March 31, 2016, the Company had outstanding letters of guarantee of $1.1 million which reduce the amount that can be borrowed under the credit facility and have been set-off from the Company's bank account and classified as restricted cash. The next review of the revolving credit facility by the bank is scheduled on or before June 1, 2016.

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 credit facility less current liabilities excluding any current portion drawn on the credit facility. The Company was compliant with this covenant at March 31, 2016.

7. 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 2% per year) required to settle the decommissioning obligations is approximately $11.4 million which is estimated to be incurred over the next 40 years. At March 31, 2016, a risk-free rate of 1.9% (December 31, 2015 – 2.0%) was used to calculate the net present value of the decommissioning obligations.

	Three Months Ended March 31, 2016	Year Ended December 31, 2015
Balance, beginning of period	**6,673**	7,286
Provisions incurred	**-**	466
Provisions settled	**-**	(90)
Dispositions	**-**	(1,673)
Revisions in estimated cash flows	**-**	90
Revisions due to change of discount rates	**315**	455
Accretion	**34**	139
Balance, end of period	**7,022**	6,673

8. 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, 2014 and 2015	165,227	283,587
Reclassification of Reserve from common-control transaction	-	(69,712)
Balance, March 31, 2016	**165,227**	**213,875**

In connection with the arrangement on June 12, 2014 involving Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd., the reserve created from the common-control transaction represents the difference between the fair value of the Leucrotta shares issued to existing Crocotta shareholders and the net book value of the acquired assets and assumed liabilities, and has been reclassified to Shareholders' Capital as at March 31, 2016.

9. SHARE BASED COMPENSATION PLANS

Stock options

The Company has authorized and reserved for issuance 16.5 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 March 31, 2016, 8.9 million options were outstanding at an average exercise price of $1.09 per share.

	Number of Options	Weighted Average Exercise Price ($)
Balance, December 31, 2014	4,672	1.29
Granted	4,248	0.87
Forfeited	(25)	0.93
Balance, December 31, 2015	8,895	1.09
Granted	**7**	**0.80**
Balance, March 31, 2016	**8,902**	**1.09**
Exercisable, March 31, 2016	1,566	1.29

During the three months ended March 31, 2016, the Company recognized $0.4 million (2015 - $0.3 million) of share based compensation related to the stock options. At March 31, 2016 there was $1.8 million remaining as unrecognized share based compensation related to the stock options.

Performance Warrants

During the three months ended March 31, 2016 the Company recognized $0.4 million (2015 - $0.6 million) of share based compensation related to the performance warrants. At March 31, 2016 there was $1.2 million remaining as unrecognized share based compensation related to the performance warrants. No new performance warrants were granted during the three months ended March 31, 2016.

Purchase Warrants

During the three months ended March 31, 2016 the Company recognized $0.4 million (2015 - $0.8 million) of share based compensation related to the purchase warrants. At March 31, 2016 there was $1.0 million remaining as unrecognized share based compensation related to the purchase warrants. No new purchase warrants were granted during the three months ended March 31, 2016.

Share based compensation

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:

	March 31, 2016	March 31, 2015
Risk-free interest rate (%)	**0.5**	0.5
Expected life (years)	**3.5**	3.5
Expected volatility (%)	**63.3**	54.6
Expected dividend yield (%)	**-**	-
Forfeiture rate (%)	**5.0**	5.7
Weighted average fair value of options granted ($ per option)	**0.36**	0.37

10. PER SHARE AMOUNTS

At March 31, 2016 there were 8.9 million stock options, 7.7 million purchase warrants and 7.5 million performance warrants that were anti-dilutive.

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

	March 31, 2016	March 31, 2015
Weighted average number of shares - basic	**165,227**	165,227
Dilutive effect of share based compensation plans	**-**	-
Weighted average number of shares - diluted	**165,227**	165,227

11. SUPPLEMENTAL CASH FLOW INFORMATION

	March 31, 2016	March 31, 2015
Restricted cash	**-**	(1,000)
Accounts receivable	**1,147**	(386)
Prepaid expenses and deposits	**83**	94
Accounts payable and accrued liabilities	**(9,867)**	(7,732)
Change in non-cash working capital	**(8,637)**	(9,024)
Relating to:		
Investing	**(9,646)**	(7,405)
Operating	**1,009**	(1,619)
Change in non-cash working capital	**(8,637)**	(9,024)

12. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at March 31, 2016:

	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Office leases	437	585	496	-	-	-	1,518
Firm transportation agreements	1,413	6,147	7,883	7,882	6,425	-	29,750
	1,850	6,732	8,379	7,882	6,425	-	31,268

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

John A. Brussa, B.A., LL.B.
Director

Don Cowie
Director

Kelvin B. Johnston, P.Geol.
Director

Brian Krausert, B.Sc.
Director

Tom J. Medvedic, CA
Director

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LEUCROTTA
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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).