LEUCROTTA
EXPLORATION INC.

# Q32015 FINANCIAL & OPERATING RESULTS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015

## HIGHLIGHTS

- Maintained a cash and working capital balance of $74.7 million at September 30, 2015
- Commenced drilling mid-September the first of three horizontal wells targeting the Lower Montney Turbidite play
- Tied-in the previously drilled Montney Oil well at Mica with production commencing in early October of a restricted rate of approximately 480 boe/d for the first 30 days
- Completed the battery and water handling facility for its Baldonnel oil well at Stoddart which came on production in August at a controlled rate of over 200 bbls/d

Leucrotta commenced active oil and natural gas operations on August 6, 2014 as a result of the closing of an arrangement agreement between Leucrotta, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") whereby Crocotta transferred its oil and natural gas assets located in British Columbia ("BC Assets") to Leucrotta (the "Arrangement"). Long Run acquired all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange for Long Run common shares, Crocotta transferred the BC Assets to Leucrotta and each Crocotta shareholder received 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant.

The financial and operating results below present the historic financial position, results of operations and cash flows of the transferred BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control (carve-out financial statements). The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement.

| **FINANCIAL** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s, except per share amounts) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Oil and natural gas sales** | **972** | 7,586 | (87) | **8,040** | 22,521 | (64) |
| **Funds from (used in) operations**[1] | **(808)** | 3,740 | (122) | **151** | 12,215 | (99) |
| Per share - basic and diluted | **(0.01)** | 0.03 | (133) | **-** | .011 | (100) |
| **Net (loss) earnings** | **(3,086)** | 199 | (1,651) | **26,617** | 3,261 | 716 |
| Per share - basic and diluted | **(0.02)** | - | (100) | **0.16** | 0.03 | 433 |
| **Capital expenditures and acquisitions** | **7,876** | 31,295 | (75) | **29,693** | 67,634 | (56) |
| **Proceeds from property dispositions** | **-** | - | - | **79,342** | - | 100 |
| **Working capital** | | | | **74,746** | 57,762 | 29 |
| **Common shares outstanding (000s)** | | | | | | |
| Weighted average - basic and diluted | **165,227** | 128,186 | 29 | **165,227** | 113,220 | 46 |
| End of period - basic | | | | **165,227** | 165,227 | - |
| End of period - diluted | | | | **185,074** | 180,377 | 3 |

(1) Funds from (used in) operations, funds from (used in) operations per share and operating netback 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 operating activities.

| OPERATING RESULTS [2] | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Daily production** | | | | | | |
| Oil and NGLs (bbls/d) | **157** | 325 | (52) | **261** | 339 | (23) |
| Natural gas (mcf/d) | **2,244** | 12,548 | (82) | **6,964** | 10,224 | (32) |
| Oil equivalent (boe/d) | **531** | 2,416 | (78) | **1,422** | 2,043 | (30) |
| **Revenue** | | | | | | |
| Oil and NGLs ($/bbl) | **45.00** | 79.72 | (44) | **45.06** | 87.14 | (48) |
| Natural gas ($/mcf) | **1.55** | 4.51 | (66) | **2.54** | 5.18 | (51) |
| Oil equivalent ($/boe) | **19.89** | 34.12 | (42) | **20.71** | 40.37 | (49) |
| **Royalties** | | | | | | |
| Oil and NGLs ($/bbl) | **7.65** | 4.42 | 73 | **5.68** | 2.92 | 95 |
| Natural gas ($/mcf) | **0.14** | 0.29 | (52) | **0.07** | 0.22 | (68) |
| Oil equivalent ($/boe) | **2.85** | 2.13 | 34 | **1.37** | 1.57 | (13) |
| **Production expenses** | | | | | | |
| Oil and NGLs ($/bbl) | **20.83** | 6.65 | 213 | **10.11** | 6.78 | 49 |
| Natural gas ($/mcf) | **0.92** | 1.11 | (17) | **1.20** | 1.13 | 6 |
| Oil equivalent ($/boe) | **10.06** | 6.65 | 51 | **7.72** | 6.77 | 14 |
| **Transportation expenses** | | | | | | |
| Oil and NGLs ($/bbl) | **9.24** | 5.01 | 84 | **4.03** | 3.39 | 19 |
| Natural gas ($/mcf) | **0.43** | 0.25 | 72 | **0.30** | 0.19 | 58 |
| Oil equivalent ($/boe) | **4.56** | 1.95 | 134 | **2.22** | 1.53 | 45 |
| **Operating netback [1]** | | | | | | |
| Oil and NGLs ($/bbl) | **7.28** | 63.64 | (89) | **25.24** | 74.05 | (66) |
| Natural gas ($/mcf) | **0.06** | 2.86 | (98) | **0.97** | 3.64 | (73) |
| Oil equivalent ($/boe) | **2.42** | 23.39 | (90) | **9.40** | 30.50 | (69) |
| Depletion and depreciation ($/boe) | **(14.29)** | (11.23) | 27 | **(8.68)** | (11.39) | (24) |
| Asset impairment ($/boe) | **(19.29)** | - | 100 | **(2.43)** | - | 100 |
| General and administrative expenses ($/boe) | **(24.36)** | (4.49) | 443 | **(9.95)** | (4.07) | 144 |
| Share based compensation ($/boe) | **(25.71)** | (3.25) | 691 | **(11.07)** | (1.93) | 474 |
| Finance expenses ($/boe) | **(0.75)** | (2.17) | (65) | **(0.50)** | (4.60) | (89) |
| Finance income ($/boe) | **5.49** | - | 100 | **1.16** | - | 100 |
| Gain on sale of assets ($/boe) | **-** | - | - | **117.82** | - | 100 |
| Deferred tax recovery (expense) ($/boe) | **13.40** | (1.36) | (1,085) | **(27.19)** | (2.66) | 922 |
| **Net (loss) earnings ($/boe)** | **(63.09)** | 0.89 | (7,189) | **68.56** | 5.85 | 1,072 |

(1) Funds from (used in) operations, funds from (used in) operations per share and operating netback 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 operating activities.

(2) "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.

**PRESIDENT'S MESSAGE**

In Q3 2015, Leucrotta approved a $20 million capital budget to start the delineation and development of its large liquids-rich Montney project located in the greater Dawson area of northeast BC. The project mainly targets the Lower Montney Turbidite play that is being successfully developed by Leucrotta and other operators along an emerging trend.

The Montney drilling program that entailed 3 horizontal and 2 vertical wells commenced in mid-September with all 3 horizontals expected to be completed by the end of 2015. Two of the horizontal wells are significant step-out locations that could help prove up the reserve potential of material portions of Leucrotta's acreage. Leucrotta expects to have results of the first two wells disseminated into the market in early to mid-December.

As at the end of Q3 2015, Leucrotta maintained a cash and working capital balance of approximately $75 million plus has approximately $20 million of newly fabricated gas plant equipment that is anticipated to be sold over the next 12 months.

During the quarter, Leucrotta tied-in the previously drilled Montney Oil well at Mica with production commencing in early October. In the first 30 days, the well produced at a restricted average rate of 320 bbls/d of light oil and 1.0 mmcf/d of gas for a total of approximately 480 boe/d (previously tested for 30 days at 447 boe/d). The production performance to date of this well has exceeded our expectations. Leucrotta also completed the battery and water handling facility for its Baldonnel oil well at Stoddart which came on production in August. Leucrotta experienced various mechanical issues with the well, but produced at a controlled rate of over 200 bbls/d when on-stream. Further data is required to determine the actual capability and long term production curve for the well, but Management is very encouraged with the initial results.

Production and netbacks for Q3 2015 were significantly lower than average due to material pipeline disruptions in northeast BC. Q4 2015 production and pricing will also be affected by the extended pipeline disruptions; however, pricing will be substantially alleviated on December 1, 2015 when Leucrotta's firm service pipeline and marketing contract begins.

Production was also affected given Leucrotta shut in production at times due to pricing. Given significant financial and operating flexibility, Leucrotta will continue to execute its business plan of systematically delineating and developing its large Montney resource base located primarily in northeast BC.

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

November 23, 2015

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, 2015 and the audited financial statements and MD&A for the year ended December 31, 2014. 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") applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting and 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 net (loss) earnings plus non-cash items (depletion and depreciation, share based compensation, non-cash finance expenses, asset impairment, gain on sale of assets, and deferred income taxes) and excludes 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 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 earnings (loss) per boe under the heading "Operating Netback".

### COMMON-CONTROL TRANSACTION

On June 12, 2014, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") entered into an arrangement agreement (the "Arrangement") whereby Long Run would acquire all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange for Long Run common shares, Crocotta transferred its oil and natural gas assets located in British Columbia, Canada ("BC Assets") to Leucrotta and each Crocotta shareholder received 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant (one whole warrant being an "Arrangement Warrant"). On August 6, 2014 the holders of common shares of Crocotta approved the Arrangement.

In addition to the BC assets being transferred from Crocotta to Leucrotta, any debt of Crocotta in excess of an aggregate of $100 million, transaction costs in excess of $5.0 million, and certain approved capital expenditures were also transferred. The amount of debt transferred from Crocotta was $15.3 million. Leucrotta commenced active oil and natural gas operations with the transfer of the BC Assets upon close of the Arrangement on August 6, 2014.

Since the shareholders of Leucrotta and Crocotta upon the close of the Arrangement were the same, this transaction was deemed a common-control transaction. Financial and Operational Results below present the historic financial position, results of operations and cash flows of Crocotta's BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control. The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement.

### UPDATE

In Q3 2015, Leucrotta approved a $20 million capital budget to start the delineation and development of its large liquids-rich Montney project located in the greater Dawson area of northeast BC. The project mainly targets the Lower Montney Turbidite play that is being successfully developed by Leucrotta and other operators along an emerging trend.

The Montney drilling program that entailed 3 horizontal and 2 vertical wells commenced in mid-September with all 3 horizontals expected to be completed by the end of 2015. Two of the horizontal wells are significant step-out locations that could help prove up the reserve potential of material portions of Leucrotta's acreage. Leucrotta expects to have results of the first two wells disseminated into the market in early to mid-December.

As at the end of Q3 2015, Leucrotta maintained a cash and working capital balance of approximately $75 million plus has approximately $20 million of newly fabricated gas plant equipment that is anticipated to be sold over the next 12 months.

During the quarter, Leucrotta tied-in the previously drilled Montney Oil well at Mica with production commencing in early October. In the first 30 days, the well produced at a restricted average rate of 320 bbls/d of light oil and 1.0 mmcf/d of gas for a total of approximately 480 boe/d (previously tested for 30 days at 447 boe/d). The production performance to date of this well has exceeded our expectations. Leucrotta also completed the battery and water handling facility for its Baldonnel oil well at Stoddart which came on production in August. Leucrotta experienced various mechanical issues with the well, but produced at a controlled rate of over 200 bbls/d when on-stream. Further data is required to determine the actual capability and long term production curve for the well, but Management is very encouraged with the initial results.

Production and netbacks for Q3 2015 were significantly lower than average due to material pipeline disruptions in northeast BC. Q4 2015 production and pricing will also be affected by the extended pipeline disruptions; however, pricing will be substantially alleviated on December 1, 2015 when Leucrotta's firm service pipeline and marketing contract begins.

Production was also affected given Leucrotta shut in production at times due to pricing. Given significant financial and operating flexibility, Leucrotta will continue to execute its business plan of systematically delineating and developing its large Montney resource base located primarily in northeast BC.

**SUMMARY OF FINANCIAL RESULTS**

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($000s, except per share amounts) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Oil and natural gas sales** | **972** | 7,586 | (87) | **8,040** | 22,521 | (64) |
| **Funds from (used in) operations** | **(808)** | 3,740 | (122) | **151** | 12,215 | (99) |
| Per share - basic and diluted | **(0.01)** | 0.03 | (133) | **-** | 0.11 | (100) |
| **Net (loss) earnings** | **(3,086)** | 199 | (1,651) | **26,617** | 3,261 | 716 |
| Per share - basic and diluted | **(0.02)** | - | (100) | **0.16** | 0.03 | 433 |
| **Total assets** | | | | **263,791** | 224,063 | 18 |
| **Total long-term liabilities** | | | | **6,819** | 6,154 | 11 |
| **Working capital** | | | | **74,746** | 57,762 | 29 |

The Company experienced a significant reduction in oil and natural gas sales and funds from (used in) operations for the first nine months of 2015 compared to the same period in 2014 due to the very large decline of oil, NGLs, 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. Net earnings in 2015 was also impacted by the sale of the oil and natural gas properties and equipment as the Company recorded a gain on sale of $45.7 million thus significantly increasing net earnings for the nine months ended September 30, 2015 over 2014.

Working capital has increased at September 30, 2015 compared to September 30, 2014 as the result of the sale of the oil and natural gas properties and equipment partially offset by capital expenditures. As at September 30, 2015, the Company has spent approximately $20.1 million on gas plant equipment. Due to the rapid decline and ongoing volatility of oil, NGLs, and natural gas commodity prices, the Company has engaged in a marketing process to sell this gas plant equipment once fabrication is complete.

| **PRODUCTION** | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Average Daily Production | | | | | | |
| Oil and NGLs (bbls/d) | **157** | 325 | (52) | **261** | 339 | (23) |
| Natural gas (mcf/d) | **2,244** | 12,548 | (82) | **6,964** | 10,224 | (32) |
| Combined (boe/d) | **531** | 2,416 | (78) | **1,422** | 2,043 | (30) |

Daily production for the third quarter of 2015 decreased 78% to 531 boe/d from 2,416 boe/d for the comparative quarter in 2014. The decrease in production was due to the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 partially offset by new light oil production from Stoddart, BC. The sold properties were producing approximately 1,300 boe/d. This also impacted the year-to-date production which decreased 30% to 1,422 boe/d from 2,043 boe/d.

Leucrotta's production profile for the third quarter of 2015 saw an increase in liquids weighting over the second quarter of 2015. The Q3 2015 weighting was 70% natural gas (83% Q2 2015) and 30% oil and NGLs (17% Q2 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 new light oil production from Stoddart, BC.

| **REVENUE** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Oil and NGLs | **652** | 2,385 | (73) | **3,215** | 8,073 | (60) |
| Natural gas | **320** | 5,201 | (94) | **4,825** | 14,448 | (67) |
| Total | **972** | 7,586 | (87) | **8,040** | 22,521 | (64) |
| | | | | | | |
| Average Sales Price | | | | | | |
| Oil and NGLs ($/bbl) | **45.00** | 79.72 | (44) | **45.06** | 87.14 | (48) |
| Natural gas ($/mcf) | **1.55** | 4.51 | (66) | **2.54** | 5.18 | (51) |
| Combined ($/boe) | **19.89** | 34.12 | (42) | **20.71** | 40.37 | (49) |

Revenue totaled $1.0 million for the third quarter of 2015, down 87% from $7.6 million for the comparative quarter in 2014. The decrease in revenue was due to significant declines in oil, NGLs, and natural gas commodity prices as well as decreased production from the sale of oil and natural gas properties and equipment in Q2 2015.

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** | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Oil and NGLs** | | | | | | |
| Corporate price ($CDN/bbl) | **45.00** | 79.72 | (44) | **45.06** | 87.14 | (48) |
| Canadian light sweet ($CDN/bbl) | **55.09** | 97.71 | (44) | **59.09** | 100.53 | (41) |
| West Texas Intermediate ("WTI") ($US/bbl) | **46.43** | 97.17 | (52) | **51.00** | 99.61 | (49) |
| **Natural gas** | | | | | | |
| Corporate price ($CDN/mcf) | **1.55** | 4.51 | (66) | **2.54** | 5.18 | (51) |
| AECO price ($CDN/mcf) | **2.91** | 4.03 | (28) | **2.78** | 4.78 | (42) |
| **Exchange rate** | | | | | | |
| $US/$CAD exchange rate | **0.7642** | 0.9185 | (17) | **0.7948** | 0.9138 | (13) |

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.

The Company's corporate average oil and NGLs prices were 81.7% and 76.3% of Canadian light sweet prices for the three and nine months ended September 30, 2015, respectively, down from 81.6% and 86.7% for the comparative periods in 2014. The oil and NGLs prices for first nine months of 2014 were abnormally high as propane prices were receiving a higher than normal premium over their historic prices and, in fact, were priced very close to WTI and actually above the Canadian light sweet oil price in January 2014.

Corporate average natural gas prices were 53.3% and 91.4% of AECO price for the three and nine months ended September 30, 2015, respectively, down from 111.9% and 108.4% for the respective comparative periods in 2014. The decrease in the Company's corporate natural gas price compared to AECO was due to the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 which had the Company's firm transportation and pricing contract. This left a large portion of the Company's natural gas sales priced on an interruptible basis off indexes other than AECO and were significantly lower than AECO due to service interruptions on infrastructure and resulting capacity issues in northeast BC affecting many producers. The Company has a new firm transportation and pricing contract commencing December 1, 2015 which will alleviate the negative pricing issue. Even though natural gas prices received were very low, production was kept on to pay for fixed costs and to produce the oil and NGLs which had higher netbacks.

Leucrotta's liquids mix during the third quarter of 2015 was approximately 81% oil, condensate and pentanes, 7% butane and 12% propane. The third quarter of 2015 increased its weighting of oil, condensate and pentanes over Q2 2015 in which the liquids mix was 63% oil, condensate and pentanes, 12% butane and 25% propane. The increase was due new light oil production from Stoddart, BC and also the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 which was liquids-rich natural gas.

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) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Oil and NGLs | **110** | 132 | (17) | **405** | 270 | 50 |
| Natural gas | **29** | 340 | (91) | **127** | 608 | (79) |
| Total | **139** | 472 | (71) | **532** | 878 | (39) |
| | | | | | | |
| Average Royalty Rate (% of sales) | | | | | | |
| Oil and NGLs | **16.9** | 5.5 | 207 | **12.6** | 3.3 | 282 |
| Natural gas | **9.1** | 6.5 | 40 | **2.6** | 4.2 | (38) |
| Combined | **14.3** | 6.2 | 131 | **6.6** | 3.9 | 69 |

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 third quarter of 2015, oil, NGLs, and natural gas royalties totaled $0.1 million (14.3% of revenue) compared to $0.5 million (6.2% of revenue) for the comparative quarter in 2014. Year-to-date in 2015, oil, NGLs, and natural gas royalties totaled $0.5 million (6.6% of revenue) compared to $0.9 million (3.9% of revenue) for the comparative period in 2014.

Oil and NGLs royalties have increased to 16.9% and 12.6% for the three and nine months ended September 30, 2015, respectively, from 5.5% and 3.3% in the comparative periods in 2014. The increase in oil and NGLs royalties is due to new light oil production from Stoddart, BC.

Natural gas royalties were 9.1% and 2.6% for the three and nine months ended September 30, 2015, respectively, compared to 6.5% and 4.2% in the comparative periods in 2014. Natural gas royalties as a percentage of revenues was down for the nine month period in 2015 due to declining natural gas prices, declining well production rates, and also increased gas cost allowance from capital expenditures all factoring into the sliding scale calculation resulting in lower royalty rates. Q3 2015 increased over Q2 2015 due to the lack of firm transportation and pricing contract resulting in lower realized prices for the Company than prices used to calculate royalties and hence a higher Company royalty rate on revenue.

| **PRODUCTION EXPENSES** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Oil and NGLs ($/bbl) | **20.83** | 6.65 | 213 | **10.11** | 6.78 | 49 |
| Natural gas ($/mcf) | **0.92** | 1.11 | (17) | **1.20** | 1.13 | 6 |
| Combined ($/boe) | **10.06** | 6.65 | 51 | **7.72** | 6.77 | 14 |

Per unit production expenses increased to $10.06/boe and $7.72/boe for the three and nine months ended September 30, 2015, respectively, from $6.65/boe and $6.77/boe in the comparative periods in 2014. 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 including non-core properties acquired in the third quarter of 2014. The significant increase in oil and NGLs production expenses was also due to new light oil production from Stoddart, BC 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 September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Oil and NGLs ($/bbl) | **9.24** | 5.01 | 84 | **4.03** | 3.39 | 19 |
| Natural gas ($/mcf) | **0.43** | 0.25 | 72 | **0.30** | 0.19 | 58 |
| Combined ($/boe) | **4.56** | 1.95 | 134 | **2.22** | 1.53 | 45 |

Transportation expenses are mainly third-party pipeline tariffs incurred to deliver production to the purchasers at main hubs. Transportation costs increased to $4.56/boe and $2.22/boe for the three and nine months ended September 30, 2015, respectively, compared to $1.95/boe and $1.53/boe for the comparative periods in 2014. The increase was mainly due to higher transportation fees charged by natural gas purchasers starting in November 2014, higher transportation costs associated with production from the properties acquired during the third quarter of 2014, transportation costs associated with new light oil production from Stoddart, BC and also some unutilized transportation which is expected to be alleviated in Q4 2015 once production increases from the tie-in of additional wells and some of the unutilized transportation taken by other producers.

| OPERATING NETBACK | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Oil and NGLs ($/bbl)** | | | | | | |
| Revenue | **45.00** | 79.72 | (44) | **45.06** | 87.14 | (48) |
| Royalties | **(7.65)** | (4.42) | 73 | **(5.68)** | (2.92) | 95 |
| Production expenses | **(20.83)** | (6.65) | 213 | **(10.11)** | (6.78) | 49 |
| Transportation expenses | **(9.24)** | (5.01) | 84 | **(4.03)** | (3.39) | 19 |
| Operating netback | **7.28** | 63.64 | (89) | **25.24** | 74.05 | (66) |
| **Natural gas ($/mcf)** | | | | | | |
| Revenue | **1.55** | 4.51 | (66) | **2.54** | 5.18 | (51) |
| Royalties | **(0.14)** | (0.29) | (52) | **(0.07)** | (0.22) | (68) |
| Production expenses | **(0.92)** | (1.11) | (17) | **(1.20)** | (1.13) | 6 |
| Transportation expenses | **(0.43)** | (0.25) | 72 | **(0.30)** | (0.19) | 58 |
| Operating netback | **0.06** | 2.86 | (98) | **0.97** | 3.64 | (73) |
| **Combined ($/boe)** | | | | | | |
| Revenue | **19.89** | 34.12 | (42) | **20.71** | 40.37 | (49) |
| Royalties | **(2.85)** | (2.13) | 34 | **(1.37)** | (1.57) | (13) |
| Production expenses | **(10.06)** | (6.65) | 51 | **(7.72)** | (6.77) | 14 |
| Transportation expenses | **(4.56)** | (1.95) | 134 | **(2.22)** | (1.53) | 45 |
| Operating netback | **2.42** | 23.39 | (90) | **9.40** | 30.50 | (69) |

During the three and nine months ended September 30, 2015, Leucrotta generated an operating netback of $2.42/boe and $9.40/boe, respectively, down significantly from $23.39/boe and $30.50/boe for the comparative periods in 2014. The decrease was mainly due to the significant declines in oil, NGLs, and natural gas prices as well as increased production expenses and transportation costs. The increase in production expenses and transportation costs were a reflection of the increased oil and NGLs weighting in the Company's production mix due to new light oil production in Stoddart, BC and the sale of oil and natural gas properties and equipment during the second quarter of 2015. Also contributing to the low netbacks in Q3 2015 was the significant decrease in the Company's corporate natural gas price compared to AECO caused by the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 which had the Company's firm transportation and pricing contract. This left a large portion of the Company's natural gas sales priced on an interruptible basis off indexes other than AECO and were significantly lower than AECO due to service interruptions on infrastructure and resulting capacity issues in northeast BC affecting many producers. The Company has a new firm transportation and pricing contract commencing December 1, 2015 which will alleviate the negative pricing issue. Even though natural gas netbacks were essentially breakeven, production was kept on to pay for fixed costs and to produce the oil and NGLs which had higher netbacks.

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

| | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| ($/boe) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| **Operating netback (non-GAAP)** | **2.42** | 23.39 | (90) | **9.40** | 30.50 | (69) |
| Depletion and depreciation | **(14.29)** | (11.23) | 27 | **(8.68)** | (11.39) | (24) |
| Asset impairment | **(19.29)** | - | 100 | **(2.43)** | - | 100 |
| General and administrative expenses | **(24.36)** | (4.49) | 443 | **(9.95)** | (4.07) | 144 |
| Share based compensation | **(25.71)** | (3.25) | 691 | **(11.07)** | (1.93) | 474 |
| Finance expenses | **(0.75)** | (2.17) | (65) | **(0.50)** | (4.60) | (89) |
| Finance income | **5.49** | - | 100 | **1.16** | - | 100 |
| Gain on sale of assets | **-** | - | - | **117.82** | - | 100 |
| Deferred tax recovery (expense) | **13.40** | (1.36) | (1,085) | **(27.19)** | (2.66) | 922 |
| **Net earnings (GAAP)** | **(63.09)** | 0.89 | (7,189) | **68.56** | 5.85 | 1,072 |

| DEPLETION AND DEPRECIATION | Three Months Ended September 30 | | | Nine Months Ended September 30 | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Depletion and depreciation ($000s) | **699** | 2,497 | (72) | **3,368** | 6,354 | (47) |
| Depletion and depreciation ($/boe) | **14.29** | 11.23 | 27 | **8.68** | 11.39 | (24) |

The Company calculates depletion on property, plant, and equipment mainly based on proved plus probable reserves. Some facilities in Stoddart, BC., where the production and reserves do not represent the useful life of the assets, are depreciated over twenty years. Depletion and depreciation for the three and nine months ended September 30, 2015 was $14.29/boe and $8.68/boe, respectively, compared to $11.23/boe and $11.39/boe for the comparative periods in 2014. The increase in Q3 2015 was mainly due to the new light oil project in Stoddart, BC in which oil properties typically carry higher depletion rates per boe and also due to depleting the first exploratory well. The decrease for the nine months ended September 30, 2015 from the comparative period in 2014 was due to an increase in proved plus probable reserves for 2015. The overall depletion rate should decrease over time as more wells are expected to be added to both the Montney play at Dawson, BC and the Baldonnel play at Stoddart, BC.

**IMPAIRMENT OF ASSETS**

During the three and nine months ended September 30, 2015, the Company incurred $0.9 million (2014 - $nil) of impairment related to non-core lands which were soon to be expiring and of which the Company had no future plans to develop those lands.

| **GENERAL AND ADMINISTRATIVE** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| G&A expenses (gross) | **1,336** | 1,019 | 31 | **4,225** | 2,629 | 61 |
| G&A capitalized | **(113)** | - | 100 | **(282)** | (96) | 194 |
| G&A recoveries | **(32)** | (21) | 52 | **(79)** | (262) | (70) |
| G&A expenses (net) | **1,191** | 998 | 19 | **3,864** | 2,271 | 70 |
| G&A expenses ($/boe) | **24.36** | 4.49 | 443 | **9.95** | 4.07 | 144 |

General and administrative expenses ("G&A") were $1.2 million and $3.9 million for the three and nine months ended September 30, 2015, respectively, compared to $1.0 million and $2.3 million for the comparative periods in 2014. The increase in 2015 over 2014 is due to G&A for prior periods up to August 6, 2014 being allocated to the BC Assets from total Crocotta G&A based on the percentage of capital expenditures related to the BC Assets relative to the overall capital expenditures of Crocotta. Capital expenditures on the BC Assets were significantly lower in prior periods resulting in lower G&A allocations. This allocation is not reflective of the Company's G&A after August 6, 2014. Per boe G&A was high in Q3 2015 due to the sale of oil and natural gas properties and equipment in Northeast BC during Q2 2015 resulting in spreading approximately the same gross G&A costs over a lower production volume.

| **SHARE BASED COMPENSATION** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Share based compensation ($000s) | **1,257** | 724 | 74 | **4,297** | 1,076 | 299 |
| Share based compensation ($/boe) | **25.71** | 3.25 | 691 | **11.07** | 1.93 | 474 |

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 increased to $1.3 million ($25.71/boe) for the third quarter of 2015 from $0.7 million ($3.25/boe) for the comparative quarter in 2014. Share based compensation expense increased to $4.3 million ($11.07/boe) for the first nine months of 2015 from $1.1 million ($1.93/boe) in 2014. The significant increase in 2015 was due to the warrants issued in Q3 2014 and stock options issued in Q4 2014.

| **FINANCE EXPENSES** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Interest expense | **3** | 464 | (99) | **88** | 2,526 | (97) |
| Accretion of decommissioning obligations | **34** | 17 | 100 | **107** | 40 | 168 |
| Finance expenses | **37** | 481 | (92) | **195** | 2,566 | (92) |
| Finance expenses ($/boe) | **0.75** | 2.17 | (65) | **0.50** | 4.60 | (89) |

Interest expense relates mainly to prior periods up to August 6, 2014 before the Company raised cash from share issuances. The amounts were estimated by applying Crocotta's average interest rate on bank debt for each period to the net investment in BC Assets. Equity in the BC Assets is shown as a net investment in place of Shareholders' Equity because a direct ownership by shareholders in the BC Assets did not exist. All excess cash flows are assumed to be distributed to Crocotta and all cash flow deficiencies and capital expenditures are assumed to be funded by Crocotta through the net investment.

Accretion expense has increased with new wells being drilled over the past year and property acquisitions in Q3 2014.

**FINANCE INCOME**

For the three and nine months ended September 30, 2015, finance income totaled $0.3 million and $0.5 million, respectively. This amount was $nil for the comparative quarters in 2014. Finance income relates to interest earned on cash in the bank.

**DEFERRED INCOME TAXES**

The deferred income tax recovery on loss before taxes for the three months ended September 30, 2015 was $0.7 million compared to a deferred income tax expense on earnings before taxes of $0.3 million for the comparative period in 2014.

The deferred income tax expense on earnings before taxes for the year ended September 30, 2015 was $10.6 million compared to $1.5 million for the comparative period in 2014. The significant increase in deferred income tax expense for the year ended September 30, 2015 compared to 2014 relates mainly to the large gain on sale of assets recorded in the second quarter of 2015.

Estimated tax pools at September 30, 2015 total approximately $173.2 million (December 31, 2014 - $223.0 million).

## FUNDS FROM (USED IN) OPERATIONS

Funds used in operations for the third quarter of 2015 was $0.8 million ($0.01 per basic and diluted share) compared to funds from operations of $3.7 million ($0.03 per basic and diluted share) for the comparative quarter in 2014. Year-to-date 2015 funds from operations was $0.2 million ($nil per basic and diluted share) compared to $12.2 million ($0.11 per basic and diluted share) in 2014. The significant decrease was mainly due to the large decline in oil, NGLs, and natural gas commodity prices combined with lower production due to the sale of certain oil and natural gas properties and equipment in Q2 2015.

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

| | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Cash flow from operating activities (GAAP) | **(460)** | 3,409 | (113) | **2,206** | 12,491 | (82) |
| Add back (deduct): | | | | | | |
| Decommissioning expenditures | **57** | - | 100 | **57** | - | 100 |
| Change in non-cash working capital | **(405)** | 331 | (222) | **(2,112)** | (276) | 665 |
| Funds from (used in) operations (non-GAAP) | **(808)** | 3,740 | (122) | **151** | 12,215 | (99) |

## NET (LOSS) EARNINGS

For the three months ended September 30, 2015 the Company incurred a net loss of $3.1 million compared to net earnings of $0.2 million for the comparative period in 2014. The change was mainly the result of decreased production due to the sale of oil and gas properties and equipment in Q2 2015 and a significant decline in oil, NGLs, and natural gas commodity prices.

For the nine month period ended September 30, 2015 net earnings increased dramatically to $26.6 million from $3.3 million for the comparative period in 2014. The large increase in 2015 was mainly the result of the significant gain on the sale of oil and gas properties and equipment which was partially offset by the decline in production resulting from the sale, a significant decline in oil, NGLs, and natural gas commodity prices and increased share based compensation.

| **CAPITAL EXPENDITURES** | **Three Months Ended September 30** | | | **Nine Months Ended September 30** | | |
|---|---|---|---|---|---|---|
| ($000s) | **2015** | 2014 | % Change | **2015** | 2014 | % Change |
| Property acquisitions | **-** | 27,802 | (100) | **-** | 31,604 | (100) |
| Land | **62** | 501 | (88) | **423** | 22,148 | (98) |
| Drilling, completions, and workovers | **2,116** | 116 | 1,724 | **8,650** | 7,876 | 10 |
| Equipment | **5,399** | 2,516 | 115 | **20,065** | 5,534 | 263 |
| Geological and geophysical | **251** | 302 | (17) | **507** | 414 | 22 |
| Office equipment | **48** | 58 | (17) | **48** | 58 | (17) |
| Total expenditures | **7,876** | 31,295 | (75) | **29,693** | 67,634 | (56) |
| | | | | | | |
| Property dispositions | **-** | - | - | **79,342** | - | 100 |

During the third quarter of 2015 the Company had capital expenditures of $7.9 million compared to capital expenditures of $31.3 million for the comparative quarter in 2014. Year-to-date in 2015 the Company had capital expenditures of $29.7 million compared to capital expenditures of $67.6 million in 2014.

During the first nine months of 2015 the Company spent the majority of its expenditures on gas plant equipment and its Montney play at Dawson, BC and Baldonnel play at Stoddart, BC. In Q1 2015, the Company completed and tested its light oil Montney well and tested the step-out Montney natural gas well in Dawson, BC. In Q3 2015, the Company drilled an exploration well at east Dawson, BC. Throughout the year, the Company spent money on infrastructure and facilities at Stoddart, BC for the Baldonnel light oil play. The gas plant expenditures totaled $14.1 million during the first nine months of 2015 for a total of $20.1 million spent on the project to date. Due to the rapid decline and ongoing volatility of oil, NGLs, and natural gas commodity prices, the Company has engaged in a marketing process to sell this gas plant equipment once fabrication is complete.

During the second quarter of 2015 the Company sold a portion of its oil and natural gas properties and equipment located in Dawson, BC for a cash consideration of $79.3 million. The sold assets were producing approximately 1,300 boe/d.

The first nine months of 2014 was concentrated on further accumulating land positions in the Montney at Dawson, BC and the Baldonnel at Stoddart, BC.

## 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, 2015** | December 31, 2014 | % Change |
|---|---|---|---|
| Current assets | **84,721** | 45,105 | 88 |
| Less: | | | |
| Current liabilities | **(9,975)** | (20,102) | (50) |
| Working capital | **74,746** | 25,003 | 199 |

At September 30, 2015, the Company had working capital of $74.7 million and $nil had been drawn on the revolving credit facility. The large increase in working capital from December 31, 2014 stems mainly from the sale of oil and gas properties and equipment for $79.3 million during the second quarter of 2015 partially offset by capital expenditures.

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 September 30, 2015, $nil had been drawn on the revolving credit facility. At September 30, 2015, the Company had outstanding letters of guarantee of $5.7 million which reduce the amount that can be borrowed under the credit facility, which have subsequently been reduced to $1.0 million. Subsequent to September 30, 2015, the bank completed its semi-annual review of the Company's borrowing base, and the lender confirmed the $10.0 million borrowing base subject to a set-off and security agreement in which $10.0 million from the Company's bank account is withheld from use. The next review of the revolving credit facility by the bank is scheduled on or before June 1, 2016.

During the first quarter of 2015, the Company deposited $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. As at September 30, 2015, the margin account holds $3.2 million of securities of Leucrotta common shares and a margin payable of $945 thousand. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. Throughout 2014 and 2015, 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 September 30, 2015.

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 obtain a $25.0 million credit facility and raise $93.3 million during 2014 in connection with the Arrangement to commence operations with the BC Assets transferred from Crocotta. Further financial flexibility was obtained with the sale of oil and gas properties and equipment for $79.3 million partially offset by the reduction of the credit facility from $25.0 million to $10.0 million as a result of the disposition. 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 September 30, 2015:

| ($000s) | **Total** | **Less than One Year** | **One to Three Years** | **After Three Years** |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | 9,975 | 9,975 | - | - |
| Decommissioning obligations | 6,819 | - | - | 6,819 |
| Office leases | 1,810 | 583 | 1,177 | 50 |
| Plant and equipment | 1,647 | 1,647 | - | - |
| Firm transportation agreements | 78,853 | 6,420 | 32,376 | 40,057 |
| Total contractual obligations | 99,104 | 18,625 | 33,553 | 46,926 |

Subsequent to September 30, 2015, the Company reduced its firm transportation by $50.0 million from $78.9 million to $28.9 million.

## 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) | **September 30, 2015** | November 23, 2015 |
|---|---|---|
| Voting common shares | **165,227** | 165,227 |
| Warrants | **15,150** | 15,150 |
| Stock options | **4,697** | 6,796 |
| Total | **185,074** | 187,173 |

## SUMMARY OF QUARTERLY RESULTS

| | **Q3 2015** | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|---|---|---|---|---|---|---|---|---|
| Average Daily Production | | | | | | | | |
| Oil and NGLs (bbls/d) | **157** | 243 | 387 | 486 | 325 | 337 | 357 | 305 |
| Natural gas (mcf/d) | **2,244** | 7,320 | 11,428 | 12,309 | 12,548 | 9,330 | 8,753 | 8,387 |
| Combined (boe/d) | **531** | 1,463 | 2,291 | 2,538 | 2,416 | 1,892 | 1,815 | 1,703 |
| ($000s, except per share amounts) | | | | | | | | |
| Oil and natural gas sales | **972** | 2,777 | 4,291 | 6,801 | 7,586 | 7,068 | 7,825 | 5,062 |
| Funds from (used in) operations | **(808)** | (207) | 1,166 | 2,995 | 3,740 | 3,626 | 4,848 | 2,430 |
| Per share - basic and diluted | **(0.01)** | - | 0.01 | 0.02 | 0.03 | 0.03 | 0.05 | 0.02 |
| Net earnings (loss) | **(3,086)** | 31,519 | (1,816) | (171) | 199 | 887 | 2,175 | 333 |
| Per share - basic and diluted | **(0.02)** | 0.19 | (0.01) | - | - | 0.01 | 0.02 | - |

The Company had experienced significant increases in production over the previous two years prior to 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. In 2015, 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 also 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.

## 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.

## 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 as 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.

*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, 2015, 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 two 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 September 30, 2015, $1.6 million (73%) of the Company's outstanding accounts receivable were current. During the period ended September 30, 2015, 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 each fabricated component to create more financial flexibility. At September 30, 2015 the Company has expended a total of $20.1 million on this project. The Company had also committed to firm transportation over five years for a total of $78.9 million. With the decline of commodity prices and resulting delay of the gas plant project, it is unlikely the Company fulfills all of the firm transportation commitment itself. Subsequent to September 30, 2015, the Company reduced its firm transportation by $50.0 million from $78.9 million to $28.9 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 the fabricated gas plant components and firm transportation capacity. 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.**
**Statements of Financial Position**
(unaudited)

| ($000s) | Note | September 30 2015 | December 31 2014 |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | | **81,231** | 41,329 |
| Restricted cash | (4) | **1,000** | - |
| Accounts receivable | | **2,229** | 3,391 |
| Prepaid expenses and deposits | | **261** | 385 |
| | | **84,721** | 45,105 |
| Property, plant, and equipment | (6) | **85,493** | 89,853 |
| Exploration and evaluation assets | (7) | **92,856** | 96,550 |
| Deferred income taxes | | **721** | 11,276 |
| | | **179,070** | 197,679 |
| | | **263,791** | 242,784 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | | **9,975** | 20,102 |
| Decommissioning obligations | (9) | **6,819** | 7,286 |
| | | **16,794** | 27,388 |
| **Shareholders' Equity** | | | |
| Shareholders' capital | (10) | **283,587** | 283,587 |
| Contributed surplus | | **6,939** | 1,955 |
| Reserve from common-control transaction | | **(69,712)** | (69,712) |
| Retained earnings (deficit) | | **26,183** | (434) |
| | | **246,997** | 215,396 |
| | | **263,791** | 242,784 |

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

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

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| ($000s, except per share amounts) | **Note** | **2015** | 2014 | **2015** | 2014 |
| **Revenue** | | | | | |
| Oil and natural gas sales | | **972** | 7,586 | **8,040** | 22,521 |
| Royalties | | **(139)** | (472) | **(532)** | (878) |
| | | **833** | 7,114 | **7,508** | 21,643 |
| **Expenses** | | | | | |
| Production | | **492** | 1,478 | **2,995** | 3,775 |
| Transportation | | **223** | 434 | **860** | 856 |
| Depletion and depreciation | (6) | **699** | 2,497 | **3,368** | 6,354 |
| Asset impairment | (7) | **943** | - | **943** | - |
| General and administrative | | **1,191** | 998 | **3,864** | 2,271 |
| Share based compensation | (11) | **1,257** | 724 | **4,297** | 1,076 |
| Gain on sale of assets | (5) | **-** | - | **(45,736)** | - |
| Finance income | | **(268)** | - | **(450)** | - |
| Finance expense | | **37** | 481 | **195** | 2,566 |
| | | **4,574** | 6,612 | **(29,664)** | 16,898 |
| (Loss) earnings before taxes | | **(3,741)** | 502 | **37,172** | 4,745 |
| **Taxes** | | | | | |
| Deferred income tax (recovery) expense | | **(655)** | 303 | **10,555** | 1,484 |
| Net (loss) earnings and comprehensive (loss) earnings | | **(3,086)** | 199 | **26,617** | 3,261 |
| Net (loss) earnings per share | | | | | |
| Basic and diluted | (12) | **(0.02)** | - | **0.16** | 0.03 |

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

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

| ($000s) | Shareholders' Capital | Net Investment in BC Assets | Contributed Surplus | Reserve from common-control transaction | Retained Earnings (Deficit) | Total Equity |
|---|---|---|---|---|---|---|
| Balance, January 1, 2014 | - | 80,139 | 1,824 | - | - | 81,963 |
| Net earnings (loss) | - | 3,524 | - | - | (263) | 3,261 |
| Net contributions from Crocotta Energy Inc. | - | 28,252 | - | - | - | 28,252 |
| Deferred tax adjustment | - | 13,259 | - | - | - | 13,259 |
| Exercise of Crocotta Energy Inc. stock options | 2,314 | - | (2,314) | - | - | - |
| Assumption of Crocotta Energy Inc. debt | - | (14,973) | - | - | - | (14,973) |
| Issue of share capital | 283,253 | (110,201) | - | (69,341) | - | 103,711 |
| Share issue costs, net of tax | (1,869) | - | - | - | - | (1,869) |
| Share based compensation | - | - | 1,115 | - | - | 1,115 |
| Balance, September 30, 2014 | 283,698 | - | 625 | (69,341) | (263) | 214,719 |
| | | | | | | |
| Balance, January 1, 2015 | 283,587 | - | 1,955 | (69,712) | (434) | 215,396 |
| Net earnings | - | - | - | - | 26,617 | 26,617 |
| Share based compensation | - | - | 4,984 | - | - | 4,984 |
| Balance, September 30, 2015 | 283,587 | - | 6,939 | (69,712) | 26,183 | 246,997 |

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

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

| ($000s) | Note | Three Months Ended September 30 2015 | 2014 | Nine Months Ended September 30 2015 | 2014 |
|---|---|---|---|---|---|
| **Operating Activities** | | | | | |
| Net (loss) earnings | | **(3,086)** | 199 | **26,617** | 3,261 |
| Depletion and depreciation | (6) | **699** | 2,497 | **3,368** | 6,354 |
| Asset impairment | (7) | **943** | - | **943** | - |
| Share based compensation | (11) | **1,257** | 724 | **4,297** | 1,076 |
| Finance expense | | **37** | 481 | **195** | 2,566 |
| Interest paid | | **(3)** | (464) | **(88)** | (2,526) |
| Gain on sale of assets | (5) | **-** | - | **(45,736)** | - |
| Deferred income tax (recovery) expense | | **(655)** | 303 | **10,555** | 1,484 |
| Decommissioning expenditures | (9) | **(57)** | - | **(57)** | - |
| Change in non-cash working capital | (13) | **405** | (331) | **2,112** | 276 |
| | | **(460)** | 3,409 | **2,206** | 12,491 |
| **Financing Activities** | | | | | |
| Repayment of debt assumed from Crocotta Energy Inc. | | **-** | (14,973) | **-** | (14,973) |
| Net contributions from (distributions to) Crocotta Energy Inc. | | **-** | (1,037) | **-** | 28,252 |
| Issuance of shares | | **-** | 93,297 | **-** | 93,297 |
| Share issue costs | | **-** | (2,509) | **-** | (2,509) |
| | | **-** | 74,778 | **-** | 104,067 |
| **Investing Activities** | | | | | |
| Capital expenditures - property, plant, and equipment | (6) | **(3,107)** | (4,703) | **(15,984)** | (15,138) |
| Capital expenditures - exploration and evaluation assets | (7) | **(4,769)** | (16,178) | **(13,709)** | (42,082) |
| Disposition of oil and natural gas properties and equipment | (5) | **-** | - | **79,342** | - |
| Change in restricted cash | (4) | **-** | - | **(1,000)** | - |
| Change in non-cash working capital | (13) | **2,195** | 412 | **(10,953)** | (1,620) |
| | | **(5,681)** | (20,469) | **37,696** | (58,840) |
| Change in cash and cash equivalents | | **(6,141)** | 57,718 | **39,902** | 57,718 |
| Cash and cash equivalents, beginning of period | | **87,372** | - | **41,329** | - |
| Cash and cash equivalents, end of period | | **81,231** | 57,718 | **81,231** | 57,718 |

*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".

On June 12, 2014, Crocotta Energy Inc. ("Crocotta") and Long Run Exploration Ltd. ("Long Run") entered into an arrangement agreement (the "Arrangement") whereby Long Run would acquire all of the issued and outstanding common shares of Crocotta in exchange for 0.415 of a common share of Long Run. Immediately prior to the exchange of Crocotta shares for Long Run shares, Crocotta issued 1.0 common share of Leucrotta and 0.2 of a Leucrotta common share purchase warrant (one whole warrant being an "Arrangement Warrant") to each shareholder of Crocotta. On August 6, 2014 the holders of common shares of Crocotta approved the Arrangement.

In connection with the Arrangement, Crocotta transferred its oil and natural gas assets located in British Columbia, Canada ("BC Assets") to Leucrotta along with any net debt of Crocotta in excess of the aggregate of $100 million, transaction costs in excess of $5.0 million, and certain approved capital expenditures. Leucrotta commenced active oil and natural gas operations with the transfer of the BC Assets upon close of the Arrangement on August 6, 2014.

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 were authorized for issuance by the Board of Directors on November 23, 2015.

### (b) Basis of measurement

The condensed interim financial statements present the historic financial position, results of operations and cash flows of the transferred BC Assets for all prior periods up to and including August 6, 2014 on a carve-out basis as if they had operated as a stand-alone entity subject to Crocotta's control (carve-out financial statements). The financial position, results of operations and cash flows from June 10, 2014 (the date of incorporation of Leucrotta) to August 6, 2014 include both the BC Assets and Leucrotta on a combined basis and from August 6, 2014 forward include the actual historical results of Leucrotta after assuming the BC Assets upon close of the Arrangement. The carve-out financial statements have been prepared by management in accordance with IFRS.

### (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, 2014.

## 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, 2014. The accounting policies have been applied consistently by the Company to all periods presented in these condensed interim financial statements.

## 4. RESTRICTED CASH

During the nine months ended September 30, 2015, the Company deposited $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. As at September 30, 2015, the margin account holds $3.2 million of securities of Leucrotta common shares and a margin payable of $945 thousand. The cross-guarantee is intended to be temporary in nature and will be removed as soon as practicable. Throughout 2014 and 2015, 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.

## 5. DISPOSITION OF OIL AND NATURAL GAS PROPERTIES AND EQUIPMENT

During the nine months ended September 30, 2015, the Company sold a portion of its assets located in the Greater Dawson area in Northeast British Columbia for a cash consideration of approximately $79.3 million. The sold assets were producing approximately 1,300 boe/d.

| **Book value of net assets disposed** | |
|---|---|
| Property, plant, and equipment | 31,565 |
| Exploration and evaluation assets | 3,097 |
| Decommissioning obligations | (1,056) |
| | 33,606 |
| **Consideration** | |
| Cash | 79,342 |
| Gain on sale of assets | 45,736 |

## 6. PROPERTY, PLANT, AND EQUIPMENT

| **Cost** | **Total** |
|---|---|
| Balance, January 1, 2014 | 70,474 |
| Business acquisition | 2,723 |
| Additions | 26,492 |
| Transfer from exploration and evaluation assets | 790 |
| Change in decommissioning obligation estimates | 4,768 |
| Capitalized share based compensation | 146 |
| Balance, December 31, 2014 | 105,393 |
| Additions | **15,984** |
| Dispositions | **(39,311)** |
| Transfer from exploration and evaluation assets | **13,959** |
| Change in decommissioning obligation estimates | **539** |
| Capitalized share based compensation | **91** |
| **Balance, September 30, 2015** | **96,655** |

| **Accumulated Depletion, Depreciation, and Impairment** | **Total** |
|---|---|
| Balance, January 1, 2014 | 7,718 |
| Depletion and depreciation | 7,822 |
| Balance, December 31, 2014 | 15,540 |
| Depletion and depreciation | **3,368** |
| Dispositions | **(7,746)** |
| **Balance, September 30, 2015** | **11,162** |

| **Net Book Value** | **Total** |
|---|---|
| January 1, 2014 | 62,756 |
| December 31, 2014 | 89,853 |
| **September 30, 2015** | **85,493** |

During the three and nine months ended September 30, 2015 and 2014 there was no directly attributable general and administrative costs that were capitalized as expenditures on property, plant, and equipment.

### Depletion and depreciation

The calculation of depletion and depreciation expense for the three months ended September 30, 2015 included an estimated $82.6 million (2014 - $72.0 million) for future development costs associated with proved plus probable undeveloped reserves and excluded approximately $2.5 million (2014 - $2.2 million) for the estimated salvage value of production equipment and facilities and approximately $23.8 million (2014 - $nil) of assets under construction.

## 7. EXPLORATION AND EVALUATION ASSETS

| | Total |
|---|---|
| Balance, January 1, 2014 | 22,948 |
| Business acquisition | 13,339 |
| Additions | 61,206 |
| Transfer to property, plant, and equipment | (790) |
| Lease expiries | (406) |
| Capitalized share based compensation | 253 |
| Balance, December 31, 2014 | 96,550 |
| Additions | **13,709** |
| Dispositions | **(3,097)** |
| Transfer to property, plant, and equipment | **(13,959)** |
| Impairment | **(943)** |
| Capitalized share based compensation | **596** |
| **Balance, September 30, 2015** | **92,856** |

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 and nine months ended September 30, 2015 and year ended December 31, 2014 related to Northeast BC.

During the three and nine months ended September 30, 2015, approximately $0.1 million (2014 - $nil) and $0.3 million (2014 - $0.3 million), respectively, of directly attributable general and administrative costs were capitalized as expenditures on exploration and evaluation assets.

During the three and nine months ended September 30, 2015, the Company incurred $0.9 million (2014 - $nil) of impairment related to non-core lands which were soon to be expiring and of which the Company had no future plans to develop those lands.

Lease expiries for the nine months ended September 30, 2015 were $nil. Lease expiries of $0.4 million for the year ended December 31, 2014 have been included in depletion and depreciation on the statement of operations and comprehensive (loss) earnings.

## 8. CREDIT FACILITY

During the nine months ended September 30, 2015, in conjunction with the disposition of certain oil and natural gas properties and equipment (see note 5), the Company revised its revolving operating demand loan credit facility with a Canadian chartered bank to $10.0 million. 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 September 30, 2015, $nil had been drawn on the revolving credit facility. At September 30, 2015, the Company had outstanding letters of guarantee of $5.7 million which reduce the amount that can be borrowed under the credit facility, which have subsequently been reduced to $1.0 million. Subsequent to September 30, 2015, the bank completed its semi-annual review of the Company's borrowing base, and the lender confirmed the $10.0 million borrowing base subject to a set-off and security agreement in which $10.0 million from the Company's bank account is withheld from use. 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 fully compliant with this covenant at September 30, 2015.

## 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 2% per year) required to settle the decommissioning obligations is approximately $12.2 million which is estimated to be incurred over the next 42 years. At September 30, 2015, a risk-free rate of 2.1% (December 31, 2014 – 2.2%) was used to calculate the net present value of the decommissioning obligations.

| | Nine Months Ended September 30, 2015 | Year Ended December 31, 2014 |
|---|---|---|
| Balance, beginning of period | **7,286** | 1,546 |
| Provisions incurred | **121** | 588 |
| Provisions settled | **(57)** | - |
| Acquisitions | **-** | 892 |
| Dispositions | **(1,056)** | - |
| Revaluation of liabilities acquired | **-** | 2,582 |
| Revisions in estimated cash flows | **47** | 887 |
| Revisions due to change of discount rates | **371** | 711 |
| Accretion | **107** | 80 |
| **Balance, end of period** | **6,819** | 7,286 |

Revaluation of liabilities acquired during the year ended December 31, 2014 is the revaluation of acquired decommissioning obligations using the risk-free discount rate. At the date of acquisition, the acquired decommissioning obligations were fair valued using a credit-adjusted discount rate.

## 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.

As at September 30, 2015 and December 31, 2014 there were 165.2 million common shares outstanding.

## 11. 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 September 30, 2015, 4.7 million options were outstanding at an average exercise price of $1.29 per share.

| | Number of Options | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, January 1, 2014 | - | - |
| Granted | 4,672 | 1.29 |
| **Balance, December 31, 2014** | 4,672 | 1.29 |
| Granted | **50** | **0.93** |
| Forfeited | **(25)** | **0.93** |
| **Balance, September 30, 2015** | **4,697** | **1.29** |

During the three and nine months ended September 30, 2015, the Company recognized $0.4 million (2014 - $nil) and $1.1 million (2014 - $nil), respectively, of share based compensation related to the stock options. At September 30, 2015 there was $1.2 million remaining as unrecognized share based compensation related to the stock options.

### Performance Warrants

During the three and nine months ended September 30, 2015, the Company recognized $0.6 million (2014 - $0.3 million) and $1.9 million (2014 - $0.3 million), respectively, of share based compensation related to the performance warrants. At September 30, 2015 there was $2.2 million remaining as unrecognized share based compensation related to the performance warrants. No new performance warrants were granted during the three and nine months ended September 30, 2015.

### Purchase Warrants

During the three and nine months ended September 30, 2015, the Company recognized $0.5 million (2014 - $0.3 million) and $2.1 million (2014 - $0.3 million), respectively, of share based compensation related to the purchase warrants. At September 30, 2015 there was $1.6 million remaining as unrecognized share based compensation related to the purchase warrants. No new purchase warrants were granted during the three and nine months ended September 30, 2015.

### 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.

No stock options were granted during the three months ended September 30, 2015. The fair value of the stock options granted during the nine months ended September 30, 2015 were estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

| | Nine Months Ended September 30, 2015 |
|---|---|
| Risk-free interest rate (%) | **0.5** |
| Expected life (years) | **3.5** |
| Expected volatility (%) | **54.6** |
| Expected dividend yield (%) | **-** |
| Forfeiture rate (%) | **5.7** |
| Weighted average fair value of options granted ($ per option) | **0.37** |

## 12. PER SHARE AMOUNTS

For the purposes of computing per share amounts, the number of shares outstanding for the periods prior to the Arrangement is deemed to be the number of shares issued by the Company to the shareholders of Crocotta upon closing of the Arrangement. For the period after the Arrangement, the number of shares outstanding in the computation of per share amounts is the total issued shares of the Company on August 6, 2014 and the shares issued subsequent to August 6, 2014. At September 30, 2015 there were 4.7 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) earnings per share calculations:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Weighted average number of shares - basic | **165,227** | 128,186 | **165,227** | 113,220 |
| Dilutive effect of share based compensation plans | **-** | - | **-** | - |
| Weighted average number of shares - diluted | **165,227** | 128,186 | **165,227** | 113,220 |

## 13. SUPPLEMENTAL CASH FLOW INFORMATION

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Accounts receivable | **(580)** | (1,238) | **1,162** | (769) |
| Prepaid expenses and deposits | **(77)** | (55) | **124** | (5) |
| Accounts payable and accrued liabilities | **3,257** | 1,374 | **(10,127)** | (570) |
| Change in non-cash working capital | **2,600** | 81 | **(8,841)** | (1,344) |
| Relating to: | | | | |
| Investing | **2,195** | 412 | **(10,953)** | (1,620) |
| Operating | **405** | (331) | **2,112** | 276 |
| Change in non-cash working capital | **2,600** | 81 | **(8,841)** | (1,344) |

## 14. COMMITMENTS

The following is a summary of the Company's contractual obligations and commitments at September 30, 2015:

| | 2015 | 2016 | 2017 | 2018 | 2019 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| Office leases | 146 | 583 | 585 | 496 | - | - | 1,810 |
| Plant and equipment | 1,647 | - | - | - | - | - | 1,647 |
| Firm transportation agreements | 672 | 8,348 | 15,355 | 19,227 | 19,228 | 16,023 | 78,853 |
| | 2,465 | 8,931 | 15,940 | 19,723 | 19,228 | 16,023 | 82,310 |

## 15. SUBSEQUENT EVENT

Subsequent to September 30, 2015, the Company reduced its firm transportation by $50.0 million from $78.9 million to $28.9 million.

# **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
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

## Bank

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

## Transfer Agent

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

## Legal Counsel

Gowling Lafleur Henderson LLP
1600, 421 - 7th Avenue SW
Calgary, Alberta T2P 4K9

## Auditors

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

## Independent Engineers

GLJ Petroleum Consultants Ltd.
4100, 400 - 3rd Avenue SW
Calgary, Alberta T2P 4H2

LEUCROTTA


**Leucrotta Exploration Inc.**

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P 403 705 4525
F 403 705 4526

Robert J. Zakresky, President & CEO
P 403 705 4525

Nolan Chicoine, VP Finance & CFO
P 403 705 4525


## 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).

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