

**Form 51-901F Securities Act (British Columbia)**  
**YANGARRA RESOURCES INC.**

**Issuer Details**

Mailing Address: 1530, 715 – 5 Avenue S.W.      Quarter Ended: December 31, 2003  
Calgary, Alberta T2P 2X6      Date of Report: March 26, 2004

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**CERTIFICATE**

The following three schedules required to complete this year end are attached and the disclosure contained therein has been approved by the Board of Directors of the Issuer:

Schedule A: Financial Statements  
Schedule B: Supplementary Information  
Schedule C: Management Discussion and Analysis

Director's Signature: "James G. Evaskevich"      Date signed: March 26, 2004  
James G. Evaskevich

Director's Signature: "G.A. Bowerman"      Date signed: March 26, 2004  
G.A. (Gord) Bowerman

**Form 51-901F Securities Act (British Columbia)  
YANGARRA RESOURCES INC.**

**SCHEDULE A: FINANCIAL STATEMENTS**

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**YANGARRA RESOURCES INC.**

**SCHEDULE B: SUPPLEMENTARY INFORMATION**

1. Analysis of expenses and deferred costs – Refer to Schedule A
2. Related party transactions – Refer to Schedule A
3. Summary of securities issued and options granted during the period – Refer to Schedule A
4. Summary of securities as at the end of the reporting period – Refer to Schedule A
5. List the names of the directors and officers as at the date this report is signed and filed:

Officers

James G. Evaskevich, President & CEO  
Jacobus (Jake) Pronk, COO & Chairman of the Board  
John F.K Aihoshi, Chief Financial Officer & VP Finance  
Robert Weir, VP Engineering

Directors

James G. Evaskevich  
G.A. (Gord) Bowerman  
Douglas Stuve  
Jake Pronk  
Robert Weir

## **SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS**

For the years ended December 31, 2003 and 2002

The following information has been prepared by management and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2003 and 2002. Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil.

### ***Highlights of 2003***

- The Corporation consolidated its shares four to one and changed its name from Ayrex Resources Ltd. to Yangarra Resources Inc. ("Yangarra").
- The successful completion of four financings resulted in gross proceeds of \$8.9 million.
- A bank credit facility was secured to provide up to \$ 2.5 million.
- A farm-in arrangement in the Medicine Hat area in southeastern Alberta and a joint venture agreement in the Ferrier area in central Alberta, firmly establish the Corporation's primary exploration and development direction.
- Capital expenditures on resource properties and facilities totaled \$9.0 million in 2003 compared to \$176,000 in 2002.
- Production commenced during the last 10 days of December and net sales were 140 BOE per day.
- At December 31, 2003 Sproule Engineering evaluated the Corporation's total proved plus probable reserves to have a net present value before income taxes discounted @10% of 18.0 million. At the end of the previous year, the Corporation had zero reserve value.
- At December 31, 2003 undeveloped land was valued \$2.1 million compared to \$67,200 at the end of 2002.
- Net earnings in 2003 were \$384,780 compared to a loss in 2002 of \$834,761.
- At December 31, 2003 Yangarra was without bank debt.
- Finding and development costs at December 31, 2003 with future capital included were \$12.93 per BOE proven and \$8.92 per BOE proven plus probable.

### ***Natural gas revenues***

Gross revenues increased in 2003 to \$52,356 from \$2,152 in 2002 due to this year's success in establishing productive core areas. Production from 19 shallow

gas wells in the Medicine Hat area commenced in late December 2003 and net sales were 140 BOE per day. December gas prices averaged \$6.01 per thousand cubic feet ("Mcf").

### ***Production expenses***

Production expenses increased in 2003 to \$37,424 from \$12,326 due primarily to start-up costs associated with bringing 19 new wells on-stream. Since 2003 only saw partial production at the year-end, it is still premature to calculate and analyze any meaningful per barrel of equivalent data.

### ***General and administrative costs***

General and administrative costs, after operating recoveries, increased 133 % this year to \$167,367 from \$71,820 last year. Until July 1, 2003 Yangarra (formerly Ayrex Resources Ltd.) was a small operation searching for exploration and development opportunities, in which the Corporation would not be the operator. Under this regime, costs were minimal and consulting services were limited to part-time administrators and an "office sharing" satisfied physical location.

Commencing July 1, 2003 the commitment to grow Yangarra included leasing office space with the necessary equipment, capable of accommodating up to ten oil and gas specialists to achieve the Corporation's goals. Rent expense in 2003 increased to \$43,000 compared to \$2,150 in 2002. Consulting fees increased to \$85,050 compared to \$24,250 in the prior year. Legal and accounting fees totaled \$52,750 due to increased corporate activities including new financings and joint venture agreements. Costs associated with investor relations, engineering and business valuations were also higher as each professional organization diligently complied with changing securities rules and regulations.

Cost recoveries related to capital project administration were \$91,400 compared to none last year. No general and administrative cost indirectly associated with exploration or development was capitalized in either 2003 or 2002.

### ***Depletion, depreciation and site restoration***

Depletion and depreciation expense totaled \$30,400 in 2003 compared to \$719,824 in 2002. A comparison of this year's depletion rate of \$12.98 per BOE to that of last year will be significantly skewed since last year's depletion expense included a ceiling test impairment of \$707,800.

## **Taxes**

A future tax recovery of \$1,154,516 was recorded in 2003 earnings (2002 - \$178,872). The income tax recovery differs from the amount that would be expected by applying the current tax rates for the following reasons:

	2003	2002
Earnings (loss) before taxes	\$ (769,736)	\$ (1,013,633)
Expected tax expense at 40.79% (2002 – 42.42%)	(313,975)	(429,983)
Tax effect of expenses not deductible for tax purposes:		
Resource loss	20,632	8,959
Stock based compensation	239,029	-
Valuation allowance from the prior year	(1,127,253)	242,152
Other	27,051	-
<b>Future income tax recovery</b>	<b>\$ (1,154,516)</b>	<b>\$ (178,872)</b>

## **Net earnings (loss)**

In 2003, the loss before taxes was \$769,700, a 24 percent improvement over the \$1.0 million loss in 2002. The 2002 net loss before taxes included a \$707,800 impairment from the ceiling test.

This year's results reflect net earnings of \$ 384,780 that include a future income tax recovery of \$1.1 million compared to a net loss for 2002 of \$834,761 that included a future income tax recovery of \$179,000.

## **Capital**

Property and equipment balance at December 31, 2002	\$ 175,956
Additions	8,992,385
Depletion and depreciation	(29,509)
<b>Property and equipment balance at December 31, 2003</b>	<b>\$ 9,138,832</b>

## Exploration and development expenditures

	2003	2002
Land	\$ 2,436,810	\$ 76,419
Geological and geophysical	560,135	14,514
Drilling and completion	4,078,600	274,243
Plant and facilities	1,872,496	32,855
Other Assets	44,344	
<b>Total Exploration and Development</b>	<b>\$ 8,992,385</b>	<b>\$ 498,031</b>

## Expenditures by Area

	Land	Geological & Geophysical	Drilling & Completion	Plant & Facilities	Other	Total
Medicine Hat	1,122,338	20,793	3,005,747	1,817,809		5,966,687
Ferrier	764,793		978,200			1,742,993
Paradise	678,222	69,270	29,851			777,343
Smoky Heights	56,320		361			56,681
Other	41,122	229,528	29,899		148,132	448,681
<b>Total</b>	<b>2,662,795</b>	<b>319,591</b>	<b>4,044,058</b>	<b>1,817,809</b>	<b>148,132</b>	<b>8,992,385</b>

## Drilling Activity

	Drilling & Producing		Abandoned or suspended		Work in Progress	
	Gross	Net	Gross	Net	Gross	Net
Medicine Hat	19.0	9.5			2.0	1.0
Ferrier					2.0	1.0
Paradise					1.0	0.5
Smoky Heights						
Other						
<b>Total</b>	<b>19.0</b>	<b>9.5</b>	<b>0</b>	<b>0</b>	<b>5.0</b>	<b>2.5</b>

## Liquidity and capital resources

At December 31, 2003, Yangarra's market value of common shares was \$21,858,600 based on the December 31 price of \$1.20 per share.

At December 31, 2003 the Corporation's working capital deficiency was \$506,400, up 133 percent from the \$217,600 deficit in 2002. At year-end, there was \$2.5 million of unused bank line still available. Details of this credit facility are explained in note 7 of the financial statements.

## Reserves

Yangarra retained the independent engineering firm of Sproule Associates Limited to evaluate the Corporation's reserve properties at January 1, 2004. The Audit Committee has recommended acceptance of the Sproule reserve estimates for the purposes of the Annual Report.

Reserves reconciliation	Crude oil and liquids (Mstb)			Natural gas (Bcf)			Barrel equivalent (6:1)(MBbl)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
Total at Jan 1, 2003	0	0	0	0	0	0	0	0	0
Development	85.4	35.6	121.0	5.5	4.4	9.9	1,000	770	1,770
Production	0	0	0	(0.01)	-	(0.01)	1.7	-	1.7
<b>Total at Dec 31, 2003</b>	<b>85.4</b>	<b>35.6</b>	<b>121.0</b>	<b>5.5</b>	<b>4.4</b>	<b>9.9</b>	<b>998.3</b>	<b>770</b>	<b>1768.3</b>

Sproule used the following pricing assumptions in the escalated reserves pricing case.

Pricing assumptions	WTI (\$US/Bbl)	Edmonton Reference Price (\$Cdn/Bbl)	AECO-C Spot Price (\$Cdn/MMBTU)
2004	29.63	37.99	6.04
2005	26.80	34.24	5.36
2006	25.76	32.87	4.80
2007	26.14	33.37	4.91

### Summary of reserve value – escalated prices

Reserves category	NGL MSTB		Sales Gas MMcf		BOE MSTB		Net Present Value		
	Gross	Net	Gross	Net	Gross	Net	Undisc	10%	15%
Proved producing	0	0	1,133	1,014	188.9	169.0	3,355	2,643	2,404
Proved undeveloped	128.3	85.4	5,469	4,463	1039.8	829.3	12,928	7,431	5,850
Total Proved	128.3	85.4	6,602	5,477	1228.7	998.3	16,283	10,074	8,254
Probable	53.2	35.6	5,197	4,428			14,424	7,995	6,348
Total proved plus probable	181.5	121.0	11,799	9,905	1228.7	998.3	30,709	18,068	14,602

Gross reserves are the total of the Company's working and/or royalty interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties by others.

Net asset value (\$0000, except per share data)	2003	2002
Proved plus probable reserves at 10%	18,068	0
Value of undeveloped land	2,100	67
Working capital (deficiency)	(506)	(218)
Net asset value	19,662	(151)
Common shares outstanding (thousands)	18,216	3,337
Net asset value per share	1.08	(0.05)

### **Business Risks**

Yangarra is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services. Yangarra employs highly qualified people, uses sound operating and business practices, and evaluates all potential and existing wells using the latest applicable technology. Yangarra complies with government regulations and has in place an up-to-date emergency response plan. Environment and safety policies and standards are adhered to. Liabilities for future abandonment and restoration costs are assessed and provided for

annually. Yangarra maintains property and liability insurance coverage, as well as directors and officers liability insurance. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

## ***Outlook***

Subsequent to the year-end, Yangarra has drilled five successful gas wells in the Ferrier area of central Alberta. These wells have a combined 10.9 million cubic feet of gas behind pipe (net 3.1 million cubic feet) with 45 barrels/million feet of associated liquids (net 139 barrels). A gas plant capable of 10.0 million cubic feet a day (expandable to 15.0 million cubic feet/day) is under construction and will be onstream in April/04. Seven additional wells are planned for 2004 and two oil plays are being pursued on the property.

In Medicine Hat, optimization is underway with a water handling and injection system scheduled for late spring. This system will cut operating costs significantly as this project has high water rates. Gas flow optimization is ongoing and management is encouraged by the results to date. A plant expansion and 30 additional wells are planned for Q4.

Exploration is continuing at Paradise and Smokey Heights. Management will decide on the future of these projects when more wells have been drilled. Results to date are encouraging.

Yangarra's balance sheet is strong with a \$3.6 million dollar financing announced in March/04 with projected cash flow and debt capacity large enough to support a forecast \$14.7 million dollar capital budget for 2004.