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Yangarra Announces Second Quarter 2014 Financial and Operating Results

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Yangarra Resources Ltd. ("Yangarra" or the "Company") (TSX:YGR) announces its financial and operating results for the three and six months ended June 30, 2014.

Second Quarter Highlights

Production for the quarter was 2,606 boe/d (51% oil and NGL's), a 32% increase from the same period in 2013. The production was negatively impacted by turn-around season at various third party facilities in Central Alberta. A total of 60,000 boe (650 boe/d for the quarter) of production, representing almost \$3 million of cash flow, was shut in while the various facilities were under repair.

- Oil and gas sales including royalty income were \$14.1 million with funds flow from operations of \$8.2 million (\$0.15 per share - basic). This was an 82% and 26% increase from the same period in 2013, respectively with the spread in funds flow from operations between the two periods primarily a result of the monthly settlement of commodity contracts.
- Earnings before interest, taxes, depletion & depreciation, amortization and changes in the fair value of commodity contracts ("EBITDA") was \$8.6 million, compared with \$6.8 million in the same period of 2013.
- Operating costs were \$6.92 per boe and transportation costs were \$1.88 per boe, an increase of 7% and 46%, respectively, from the same period in 2013.
- Operating netback of \$38.23 per boe, a 5% decrease from the \$40.30 per boe reported in the same period of 2013. Field net backs (operating netback excluding commodity contracts) were \$47.04 an increase of 31% from the same period in 2013.
- G&A costs of \$1.36 per boe, which is a 31% decrease from the second quarter of 2013.
- Royalties were 7% of oil and gas revenue (6% when the commodity contracts are excluded).
- Total capital expenditures were \$19.4 million.
 - The Company successfully drilled or participated in 9 gross (4.8 net) wells during the second quarter of 2014 and the Company expects to drill a total of 6 gross (5.5 net) wells in the third quarter.
- As at June 30, 2014, the Company had current bank debt and working capital deficit, excluding fair value of commodity contracts and non-cash flow-through share premium obligations, of \$41.0 million compared to \$44.6 million at December 31, 2013.
 - The annualized second quarter debt to cash flow ratio was 1.3 : 1.
- Graduated from the TSX Venture Exchange to the Toronto Stock Exchange on June 27, 2014.
- Completed a 3 to 1 Share Consolidation on May 30, 2014.

Operations Update

Cardium

During the first half of 2014 the Company drilled 4.0 gross (4.0 net) wells in South Willesden Green; however, third party facility constraints only allowed full production from these wells as of June 1, 2014 upon commissioning of additional compression. The wells were drilled with 1 mile laterals, 18 stage open-hole completions using slick water frack's and 540 tonnes of sand per well with resin coated sand tailed into each stage to reduce crushing. Average cost per well to drill and complete was \$2.7 million and the average IP-30 for the four wells was 195 boe/d (65% Oil and NGL's). The internal type curve IP-30 is 190 boe/d (75% Oil and NGL's). No further Cardium wells are planned in this area by the Company this year.

In South Ferrier, Yangarra continued its strategy of drilling where it has gas processing capacity (100% owned Cow Lake 16-2-38-8W5 facility) by drilling 3.0 gross (2.2 net) wells during the second quarter. Costs were slightly higher than normal at \$3.5 million for drill and complete as the wells were drilled over breakup (approximately \$200,000 incremental costs per well). On the third well the Company performed a 24 stage completion rather than an 18 stage completion and is evaluating the impact of the incremental stages. The average IP-30 for the three wells was 367 boe/d (60% Oil and NGL's). The IP-30 on the internal type curve is 321 boe/d (75% Oil and NGL's). Yangarra's Cow Lake facility transports natural gas to the Keyera Strachan plant for deep cut NGL processing; however the Strachan plant was down for 29 days from May 22 until June 18, 2014. The Company has no further drilling plans until 2015 in this area as the Cow Lake plant is at capacity.

In Central Willesden Green, the Company drilled a total of 4 gross (3.9 net) wells during the first half of 2014, utilizing the normal two well pad strategy. Two of the wells were on-stream at the end of March and two were on-stream in July. The first pair were completed with 18 stage fracks and the second pair with 24 stage fracks using a zipper approach of alternating stages between the two wells on the pad. Due to screen out, only 12 stages in each of the second pad wells were zipper fracked and the balance of the stages were performed sequentially. At this point it is too early to determine if the incremental stages or the zipper frack will result in a material improvement to overall well economics. Average cost per well to drill and complete was \$2.6 million and the average IP-30 for the four wells was 230 boe/d (85% Oil and NGL's), the internal type curve IP-30 is 190 boe/d (75% Oil and NGL's). Due to mono-bore drilling, the size of the tubing is limited to 2 3/8" and consequently the size of the bottom hole pump ("BHP") is limited to 150 bbl/d. Fluid levels are still very high on all four wells and as a result the Company expects shallower declines than normal. These wells produce into the Company facility (50% WI) at 2-4-42-7W5 with the liquids rich natural gas then sent to Centrica's deep cut Ferrier plant for NGL recovery. The Centrica plant was down for a turn-around for one week during May. An additional four wells are planned for this area in 2014 by the Company.

In North Willesden Green, Yangarra participated in 6.0 gross (1.0 net) wells during the first half of 2014 with the wells currently on test and expected to be on-stream shortly. Yangarra plans to drill 4 gross (2.5 net) additional wells in the area in the second half of 2014. The Company is also participating in the construction of a 50.0 mmcf/d compression facility (5.54 % working interest) which is scheduled to be commissioned in October of 2014. Two of the planned wells will produce into the new facility and two will produce into an existing third party facility.

Glauconite

The Company commenced drilling on a two well pad targeting the Glauconite oil window in the Medicine River area (39-5W5) late in the second quarter of 2014. Drilling was completed on the second well August 4th and completion operations commenced on the two wells August 6th. Upon evaluation of the well production results, two more wells are planned for 2014.

Duvernay Update

Yangarra's strategy is to wait for industry to de-risk the play and to continue the lands to 2020 in the most economical manner possible. The Company will use the \$5.0 million of flow through funds that were raised in 2013 to fund the continuation drilling in 2014. A drilling rig has been contracted by the Company that is currently drilling a Duvernay well nearby for another operator. Two locations are ready to license and long lead materials have been acquired. The Company's first location will be confirmed prior to mobilizing the rig in order to leverage the most recent industry results.

North Block 54 sections (54 net)

Yangarra has conducted an in-depth review of its acreage, using geo-chemical, petro-physical and geo-mechanical analyses of offset wells and proprietary reservoir studies. The Company estimates that the Duvernay in the northern block has a net pay ranging from 20 to 24 meters thick, is over-pressured (~19 kPa/m), in the liquids rich window and likely naturally fractured. The Company further estimates that OGIP ("Original Gas in Place") for this block ranges between 40 and 50 Bcf per section together with significant condensate and NGL volumes.

South Block 7 sections (7 net)

The South block has been reviewed by the Company and delineated by several horizontal wells drilled by senior operators immediately adjacent to the Company's acreage. The Company has estimated a net pay of 35 meters, in an over-pressured reservoir (~20 kPa/meter) and liquids rich fairway. The Company estimates that OGIP ("Original Gas in Place") for this block ranges between 70 and 100 Bcf per section together with significant condensate and NGL volumes.

Guidance Update

The Company expects second half production of 3,900 boe/d and cash flow of \$26 million, however due to the turn-arounds in the second quarter the full year production is now forecast to be 3,300 boe/d with cash flow of \$47 million.

Future Drilling Inventory and Well Economics

The Company revised its future drilling inventory in the Cardium and Glauconite to account for recent property acquisitions.

Cardium		
Locations	147 gross (107 net)	
Locations booked in 2013 Reserve Report	35 gross (29 net)	
Drill, Complete and Equipping	\$2.7 million – \$3.2 million	Average: \$2.9 million
NPV10 ⁽¹⁾ (\$90/bbl & \$4.00/mcf)	\$2.4 million – \$4.7 million	Average: \$3.3 million
IRR – Half cycle before tax	67% – 172%	Average: 106%
Payout	8 months – 16 months	Average: 13 months

(1) Present value of future cash-flow, discounted at 10%, net of Drill, Complete and Equipping costs.

Glaucosite

Locations	41 gross (34 net)	
Locations booked in 2013 Reserve Report	11 gross (8 net)	
Drill, Complete and Equipping	\$3.0 million – \$3.5 million	Average: \$3.3 million
NPV10 (\$90/bbl & \$4.00/mcf) ⁽¹⁾	\$2.9 million – \$6.3 million	Average: \$3.7 million
IRR – Half cycle before tax	75% – 188%	Average: 122%
Payout	8 months – 13 months	Average: 11 months

(1) Present value of future cash-flow, discounted at 10%, net of Drill, Complete and Equipping costs.

Financial Summary

	2014		2013	Six Months Ended	
	Q2	Q1	Q2	2014	2013
Statements of Comprehensive Income (Loss)					
Petroleum & natural gas sales and royalty income	\$ 14,106,137	\$ 16,008,396	\$ 7,747,389	\$ 29,571,278	\$ 14,265,770
Net income (loss) for the period (before tax)	\$ 3,821,726	\$ 1,202,068	\$ 2,923,438	\$ 5,023,794	\$ 2,530,152
Net income (loss) for the period	\$ 2,851,233	\$ 719,450	\$ 2,082,942	\$ 3,570,683	\$ 1,823,518
Net income (loss) per share - basic and diluted	\$ 0.05	\$ 0.03	\$ 0.05	\$ 0.07	\$ 0.04
Statements of Cash Flow					
Funds flow from (used in) operating activities	\$ 8,180,361	\$ 10,459,692	\$ 6,480,689	\$ 18,640,053	\$ 11,294,871
Funds flow from (used in) operating activities per share - basic and diluted	\$ 0.15	\$ 0.21	\$ 0.16	\$ 0.36	\$ 0.03
Cash from (used in) operating activities	\$ 6,386,075	\$ 6,008,779	\$ 8,183,515	\$ 12,394,854	\$ 12,636,393
Statements of Financial Position					
Property and equipment	\$ 187,940,259	\$ 171,336,343	\$ 130,846,089	\$ 187,940,259	\$ 130,846,089
Total assets	\$ 212,513,340	\$ 195,777,835	\$ 144,353,167	\$ 212,513,340	\$ 144,353,167
Working Capital (deficit), excluding MTM on commodity contracts and flow-through premium obligation	\$ 41,022,416	\$ 55,822,090	\$ 39,989,839	\$ 41,022,416	\$ 39,989,839
Non-Current Liabilities	\$ 19,289,460	\$ 18,246,628	\$ 13,197,200	\$ 19,289,460	\$ 13,197,200
Shareholders equity	\$ 126,644,146	\$ 97,025,179	\$ 81,826,383	\$ 126,644,146	\$ 81,826,383
Weighted average number of shares - basic	53,558,093	49,136,780	40,570,574	51,359,650	40,570,574
Weighted average number of shares diluted	55,898,461	50,108,392	40,574,059	51,359,650	40,570,574

Company Netbacks (\$/boe)

	2014		2013	Six Months Ended	
	Q2	Q1	Q2	2014	2013
Sales Price	\$ 58.53	\$ 62.37	\$ 42.52	\$ 60.51	\$ 41.33
Royalty income	0.97	1.25	2.01	1.11	2.13
Royalty expense	(3.66)	(3.73)	(1.52)	(3.69)	(1.56)
Production costs	(6.92)	(6.49)	(5.84)	(6.70)	(6.88)
Transportation costs	(1.88)	(1.32)	(1.29)	(1.59)	(1.13)
Field operating netback	47.04	52.08	35.88	49.63	33.89
Commodity contract settlement	(8.81)	(6.85)	4.42	(7.80)	3.60
Operating netback	38.23	45.23	40.30	41.83	37.49
G&A and other (excludes non-cash items)	(1.36)	(1.30)	(1.96)	(1.33)	(2.23)
Finance expenses	(2.78)	(3.33)	(2.00)	(3.06)	(2.11)
Cash flow netback	34.10	40.60	36.34	37.44	33.14
Depletion and depreciation	(16.41)	(16.53)	(18.38)	(16.47)	(18.31)
Accretion	(0.17)	(0.16)	(0.13)	(0.17)	(0.22)
Stock-based compensation	(0.46)	(1.63)	(1.15)	(1.06)	(0.61)
Unrealized gain (loss) on financial instruments	(0.94)	(17.50)	(0.63)	(9.46)	(6.67)
Deferred income tax	(4.09)	(1.92)	(4.61)	(2.97)	(2.05)
Net Income netback	\$ 12.03	\$ 2.86	\$ 11.43	\$ 7.31	\$ 5.29

Operations Summary

Net petroleum and natural gas production, pricing and revenue are summarized below:

	2014		2013	Six Months Ended	
	Q2	Q1	Q2	2014	2013
Daily production volumes					
Natural gas (mcf/d)	7,306	7,572	5,915	7,438	5,505
Oil (bbl/d)	1,003	1,036	492	1,019	497
NGL's (bbl/d)	309	413	339	361	315
Royalty income					
Natural gas (mcf/d)	302	359	832	329	766
Oil (bbl/d)	1	0	1	1	2
NGL's (bbl/d)	26	25	49	25	48
Combined (boe/d 6:1)	2,606	2,796	2,005	2,700	1,906
Revenue					
Petroleum & natural gas sales - Gross	\$ 13,876,299	\$ 15,694,979	\$ 7,747,389	\$ 29,571,278	\$ 14,265,770
Royalty income	229,838	313,417	366,609	543,255	735,947
Commodity contract settlement	(2,088,038)	(1,723,339)	805,711	(3,811,377)	1,236,128
Total sales	12,018,099	14,285,057	8,919,709	26,303,156	16,237,845
Royalty expense	(867,916)	(937,556)	(276,865)	(1,805,472)	(537,957)
Petroleum & natural gas sales - Net	11,150,183	13,347,501	8,642,844	\$ 24,497,684	\$ 15,699,888
Change in fair value of contracts	(222,122)	(4,403,102)	(114,736)	\$ (4,625,224)	\$ (2,300,219)
Total Revenue - Net of royalties	\$ 10,928,061	\$ 8,944,399	\$ 8,528,108	\$ 19,872,460	\$ 13,399,669

Working Capital Summary

The following table summarizes the change in working capital during the six months ended June 30, 2014 and year ended December 31, 2013:

	2014		2013	
Working capital (deficit) - beginning of period ⁽¹⁾	\$	(36,794,243)	\$	(36,301,842)
Funds flow from operating activities		18,640,053		25,648,666
Additions to of property and equipment & E&E Assets		(41,434,437)		(47,485,106)
Issuance of shares		26,371,337		13,593,273
Issuance of Subordinated Debt		(7,786,632)		7,786,632
Other Debt		(18,494)		(35,866)
Working capital (deficit) - end of period ⁽¹⁾	\$	(41,022,416)	\$	(36,794,243)
Subordinated Debt Outstanding	\$	-	\$	(7,786,632)
Total Debt	\$	(41,022,416)	\$	(44,580,875)
Credit facility limit	\$	70,000,000	\$	45,000,000
Subordinated debt facility limit	\$	20,000,000	\$	20,000,000

(1) Excludes fair value of commodity contracts and non-cash flow through premium obligations

Capital Spending

Capital spending is summarized as follows:

	2014		2013	Six Months Ended	
	Q2	Q1	Q2	2014	2013
Cash Additions					
Land, acquisitions and lease rentals	\$ 1,037,155	\$ 972,133	\$ (226,665)	\$ 2,009,288	\$ 833,615
Drilling and completion	15,973,721	18,373,738	1,190,051	34,347,461	9,226,916
Geological and geophysical	368,657	320,228	135,526	688,884	169,204
Equipment	2,056,234	2,324,948	2,724,863	4,381,182	4,604,677
Other Asset Additions	9,462	(1,839)	(115,174)	7,622	136,780
	\$ 19,445,229	\$ 21,989,208	\$ 3,708,601	\$ 41,434,437	\$ 14,971,192
Exploration & evaluation assets additions	\$ -	\$ -	\$ -	\$ 2,461,506	\$ -

Corporate Presentation

An updated corporate presentation is available on the Company's website. www.yangarra.ca

Disclosure Items

The Company's financial statements, notes to the financial statements and management's discussion and analysis have been filed on SEDAR (www.sedar.com) and are available on the Company's website (www.yangarra.ca).

For further information, please contact James Evaskevich, President & CEO 403-262-9558.

Natural gas has been converted to a barrel of oil equivalent (Boe) using 6,000 cubic feet (6 Mcf) of natural gas equal to one barrel of oil (6:1), unless otherwise stated. The Boe conversion ratio of 6 Mcf to 1 Bbl is based on an energy equivalency conversion method and does not represent a value equivalency; therefore Boe's may be misleading if used in isolation. References to natural gas liquids ("NGLs") in this news release include condensate, propane, butane and ethane and one barrel of NGLs is considered to be equivalent to one barrel of crude oil equivalent (Boe). One ("BCF") equals one billion cubic feet of natural gas. One ("Mmcf") equals one million cubic feet of natural gas. Operating netbacks are calculated as revenue from all products less operating costs.

Forward looking information

Certain information regarding Yangarra set forth in this news release, including management's assessment of future plans, operations and operational results may constitute forward-looking statements under applicable securities law and necessarily involve risks associated with oil and gas exploration, production, marketing and transportation such as loss of market, volatility of prices, currency fluctuations, imprecision of reserves estimates, environmental risks, competition from other producers and ability to access sufficient capital from internal and external sources. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements.

All reference to \$ (funds) are in Canadian dollars.