Yangarra Resources Ltd.
Management's Discussion and Analysis
For the year ended December 31, 2021 and 2020

Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the December 31, 2021 audited consolidated financial statements, together with the accompanying notes.

Yangarra Resources Ltd. (the "Company" or "Yangarra") is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6.

Additional information about Yangarra filed with Canadian securities commissions is available on-line at www.sedar.com.

The MD&A has been prepared using information that is current to March 3, 2022.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.

BOE Presentation

Production information is commonly reported in units of barrel of oil equivalent ("BOE"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of BOE may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Non–IFRS and Additional IFRS Measures

This document contains "funds flow from operations", which is an additional IFRS measure. The Company uses funds flow from operations as a key measure to demonstrate the Company's ability to generate funds to repay debt and fund future capital investment. This document also contains the terms "net debt or adjusted working capital (deficit)" and "netbacks", which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

<u>Funds flow from operations</u>

Yangarra's determination of funds flow from operations ("FFO") and funds flow from operations per share may not be comparable to that reported by other companies. Management uses funds flow from operations to analyze operating performance and leverage and considers funds flow from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. Funds flow from operations is calculated using cash from operating activities before changes in non-cash working capital and decommissioning costs incurred. Yangarra presents funds flow from operations per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of income per share.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

The following table reconciles funds flow from operations to cash from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Cash from operating activities	$ 36,835	$ 19,192	$ 91,266	$ 44,271
Decommissioning costs incurred	416	389	881	389
Changes in non-cash working capital	(4,826)	(7,121)	(1,226)	(41)
Funds flow from operations	$ 32,425	$ 12,460	$ 90,921	$ 44,619

Netbacks

The Company considers corporate netbacks to be a key measure as they demonstrate Yangarra's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, field operating, funds flow from operations and net income(loss) netbacks. Operating netback is calculated as the average sales price of its commodities (including realized gains on financial instruments) less royalties, operating costs and transportation expenses. Field operating netback subtracts the realized gains on financial instruments, funds flow from operations netback starts with the operating netback and further deducts general and administrative costs, finance expense and adds finance income. To calculate the net income (loss) netback, Yangarra takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. There are no IFRS measures that are reasonably comparable to corporate netbacks.

Funds flow from operations margins and operating margins

Funds flow from operations margins and operating margins are calculated as the ratio of funds flow from operations netbacks to sales price and operating netback to sales price, respectively.

Adjusted net debt

Adjusted net debt, which represent current assets less current liabilities, excluding current derivative financial instruments, are used to assess efficiency, liquidity and the general financial strength of the Company. There is no IFRS measure that is reasonably comparable to net debt or adjusted working capital (deficit) surplus.

	Dec 31, 2021	Dec 31, 2020
Bank Debt	$ 195,422	$ 200,273
Accounts receivable	(27,536)	(18,691)
Prepaid expenses and inventory	(5,022)	(5,055)
Accounts payable and accrued liabilities	33,930	20,887
Adjusted net Debt	$ 196,794	$ 197,414

Adjusted earnings before interest, taxes, depletion and depreciation, amortization

Adjusted earnings before interest, taxes, depletion and depreciation, amortization ("Adjusted EBITDA") which represents EBITDA, excluding changes in the fair value of interest rate and commodity contracts, are used to assess efficiency, liquidity and the general financial strength of the Company.

For the year ended December 31, 2021 and 2020 (000’s, CDN dollars, except per share and per unit)

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Net income for the Period	$ 19,644	$ 4,276	$ 50,014	$ 4,847
Finance	1,713	3,191	8,389	15,406
Deferred tax expense	5,903	1,478	15,199	2,542
Depletion and depreciation	8,714	6,779	27,187	30,257
Change in fair value of commodity contracts	(965)	(807)	139	(312)
Adjusted EBITDA	$ 35,009	$ 14,917	$ 100,928	$ 52,740

Working capital (deficit) surplus

Working capital (deficit) surplus is the total of current assets less the total of current liabilities and is used to assess efficiency, liquidity and the general financial strength of the Company

Forward-looking Statements

Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive from such events.

Overview

Yangarra is a junior oil and gas company engaged in the exploration, development and production of natural gas and oil with operations in Western Canada, with a main focus on the Cardium in Central Alberta, where the Company has extensive infrastructure and land holdings. Yangarra is dedicated to creating value for its shareholders through its commitment to a clear business strategy and performance objectives. The Company's strategy is to increase the value of its corporate assets through the drill bit and by assembling a large, focused land base in Central Alberta that features high-quality, long-life light oil and liquids-rich gas reserves. The Company has assembled a significant future drilling inventory and will strive to grow this inventory through drilling, geology and strategic acquisitions.

2021 Highlights

- Average Production of 8,931 boe/d (46% liquids), a decrease of 10% from 2020
- Oil and gas sales were $140.3 million, an increase of 64% from 2020
- Funds flow from operations of $90.9 million ($1.06 per share - basic) an increase of 104% from 2020
- Adjusted EBITDA (which excludes changes in derivative financial instruments) was $100.9 million ($1.18 per share - basic)
- Net income of $50.0 million ($0.58 per share - basic, $65.2 million before tax), resulting in a net income margin of 36%
- Return on capital employed of 11.4% (Earnings before interest and taxes divided by (Total assets minus current liabilities))
- Operating costs were $6.70/boe (including $1.10/boe of transportation costs)
- Operating netbacks, which include the impact of commodity contracts, were $32.27 per boe
- Operating margins were 75% and funds flow margins were 67%
- G&A costs of $0.90/boe
- Royalties were 6% of oil and gas revenue
- Capital expenditures (including $0.4 million of land) were $88 million
- Net debt (which excludes the current derivative financial instruments) was $196.8 million
- Retained earnings of $159 million
- Decommissioning liabilities of $13.8 million (discounted)

Fourth Quarter Highlights

- Average production of 10,060 boe/d (44% liquids) during the quarter, a 10% increase from the same period in 2020
- Oil and gas sales were $47.4 million, an increase of 106% from the same period in 2020
- Funds flow from operations of $32.4 million ($0.38 per share – basic), an increase of 161% from the same period in 2020

- Adjusted EBITDA (which excludes changes in derivative financial instruments) was $35.0 million ($0.42 per share - basic)
- Net income of $19.6 million ($0.23 per share – basic, $25.5 million before tax), an increase of 344% from the same period in 2020
- Operating costs were $7.41/boe (including $1.09/boe of transportation costs)
- Field operating netbacks were $40.26/boe
- Operating netbacks, which include the impact of commodity contracts, were $39.32/boe
- Operating margins were 77% and funds flow from operations margins were 68%
- G&A costs of $1.09/boe
- Royalties were 7% of oil and gas revenue
- All in cash costs were $16.48/boe
- Capital expenditures were $26.4 million
- Net Debt to fourth quarter annualized funds flow from operations was 1.5 : 1

Operations Update

The Company started the development of a 14-well pad at West Ferrier in Q4 2021. As a result of improved drilling times and cost efficiencies, the initial 6 (3.0 net) 1.0-mile wells were drilled at a faster pace than expected and the wells were placed onstream by mid February. The remaining wells on the pad are 100% wells. Four additional wells were drilled on the pad while completion operations were underway on the first six wells. Completions are underway on the next four wells. The final four wells on the pad are scheduled to be drilled in Q2 due to lease logistics.

The drilling rig is currently drilling four 100% wells on an eight well pad in the Cow Lake area, the balance of the pad will be drilled in Q3 due to water access scheduling.

As activity increases in western Canada, the impact on accessing services and raw materials is resulting in a rapid inflationary environment. Yangarra's past strategic build-out of the Company's oil-field services group has helped mitigate these pressures. Yangarra expects to maintain a tight cost structure on drilling and completions operations with some potential inflation on raw material purchases.

ESG Report

Yangarra announced the publication of its inaugural ESG report in February 2022 (www.yangarra.ca). The Company is on-track with all emissions reduction targets and ESG standards remain a core principle of Yangarra's operations.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Financial Information

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Statements of Income and Comprehensive Income				
Petroleum & natural gas sales	$ 47,405	$ 23,064	$ 140,289	$ 85,699
Income before tax	$ 25,547	$ 5,754	$ 65,213	$ 7,389
Net income	$ 19,644	$ 4,276	$ 50,014	$ 4,847
Net income per share - basic	$ 0.23	$ 0.05	$ 0.58	$ 0.06
Net income per share - diluted	$ 0.22	$ 0.05	$ 0.56	$ 0.06
Statements of Cash Flow				
Funds flow from operations	$ 32,425	$ 12,460	$ 90,921	$ 44,619
Funds flow from operations per share - basic	$ 0.38	$ 0.15	$ 1.06	$ 0.52
Funds flow from operations per share - diluted	$ 0.36	$ 0.15	$ 1.02	$ 0.52
Cash from operating activities	$ 36,835	$ 19,192	$ 91,266	$ 44,271
Statements of Financial Position				
Property and equipment	$ 627,948	$ 563,290	$ 627,948	$ 563,290
Total assets	$ 683,469	$ 609,989	$ 683,469	$ 609,989
Working capital (deficit) surplus	$ (3,729)	$ 10	$ (3,729)	$ 10
Adjusted net debt	$ 196,794	$ 197,379	$ 196,794	$ 197,379
Shareholders equity	$ 364,959	$ 312,260	$ 364,959	$ 312,260
Weighted average number of shares - basic	86,449	85,380	85,892	85,380
Weighted average number of shares - diluted	90,636	85,588	89,376	85,783

Business Environment

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Realized Pricing (Including realized commodity contracts)				
Light Crude Oil ($/bbl)	$ 89.49	$ 55.13	$ 78.24	$ 47.64
NGL ($/bbl)	$ 51.54	$ 24.32	$ 45.11	$ 18.45
Natural Gas ($/mcf)	$ 4.67	$ 2.64	$ 3.75	$ 2.28
Realized Pricing (Excluding commodity contracts)				
Light Crude Oil ($/bbl)	$ 89.49	$ 55.13	$ 82.01	$ 47.59
NGL ($/bbl)	$ 51.61	$ 24.43	$ 45.10	$ 18.49
Natural Gas ($/mcf)	$ 4.95	$ 2.75	$ 3.87	$ 2.34
Oil Price Benchmarks				
West Texas Intermediate ("WTI") (US$/bbl)	$ 77.45	$ 42.66	$ 67.65	$ 39.40
Edmonton Par ($/bbl)	$ 91.70	$ 50.24	$ 79.80	$ 45.34
Edmonton Par to WTI differential (US$/bbl)	$ (4.67)	$ (4.01)	$ (3.89)	$ (5.54)
Natural Gas Price Benchmarks				
AECO gas ($/mcf)	$ 4.41	$ 2.64	$ 3.49	$ 2.23
Foreign Exchange				
Canadian Dollar/U.S. Exchange	0.79	0.77	0.80	0.75

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Crude oil prices increased by 72% for the year ended December 31, 2021, with the West Texas Intermediate ("**WTI**") reference price averaging US$67.65/bbl compared with US$39.40/bbl in the same period in 2020 due to the resurgence of world-wide demand. Demand for crude oil is generally tied to global economic growth, but is also influenced by factors such as infrastructure, political instability, market uncertainty, weather conditions and government regulations.

Edmonton par differentials to WTI narrowed in the year ended December 31, 2021 when compared to the same period in 2020, moving from a US$5.54/bbl differential in 2020 to US$3.89/bbl in 2021. In the year ended December 31, 2021 the CDN/US foreign exchange rate was 0.80 compared to 0.75 for in 2020. The Edmonton par reference price is denominated in Canadian dollars so the change in the foreign exchange rate has increased the Edmonton par price relative to WTI. Edmonton par is the closest reference price point for Yangarra's oil and therefore is the closest proxy to realized pricing.

When compared to 2020, realized pricing on oil increased by 72%, excluding commodity contracts, and increased by 64% when the effects of commodity contracts are included.

When compared to 2020, liquids pricing increased by 144%, due to large increases in propane and condensate pricing in 2021.

AECO natural gas prices increased from $2.23/mcf in 2020 to $3.49/mcf in 2021.

When compared to 2020, realized pricing on natural gas increased by 65%, excluding commodity contracts, and increased by 64% when the effects of commodity contracts are included.

Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Daily production volumes				
Natural Gas (mcf/d)	33,774	30,322	29,092	32,404
Light Crude Oil (bbl/d)	2,744	2,269	2,373	2,611
NGL's (bbl/d)	1,687	1,846	1,709	1,876
Combined (BOE/d 6:1)	10,060	9,169	8,931	9,888
Revenue				
Petroleum & natural gas sales - Gross	$ 47,405	$ 23,064	$ 140,289	$ 85,699
Realized gain (loss) on commodity contract settlement	(872)	(323)	(4,529)	(658)
Total sales	46,533	22,741	135,760	85,041
Royalty expense	(3,287)	(1,283)	(8,722)	(4,213)
Total Revenue - Net of royalties	$ 43,246	$ 21,458	$ 127,038	$ 80,828

Total sales increased by 60% in 2021 to $136 million from $85.0 million in 2020. The increase is attributable to:

- a 82% increase in average product prices
- a 10% decrease in production (on a boe basis)

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Company Netbacks ($/BOE)

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Sales price	$51.22	$ 27.34	$ 43.04	$ 23.68
Royalty expense	(3.55)	(1.52)	(2.68)	(1.16)
Production costs	(6.32)	(5.02)	(5.60)	(5.26)
Transportation costs	(1.09)	(1.03)	(1.10)	(1.06)
Field operating netback	**40.26**	**19.77**	**33.66**	**16.20**
Realized gain (loss) on commodity contract settlement	(0.94)	(0.38)	(1.39)	(0.18)
Operating netback	**39.32**	**19.39**	**32.27**	**16.02**
G&A	(1.09)	(0.89)	(0.90)	(0.65)
Cash Finance expenses	(3.53)	(3.73)	(2.52)	(4.21)
Depletion and depreciation	(9.42)	(8.04)	(8.34)	(8.36)
Non Cash - Finance expenses	1.67	(0.06)	(0.05)	(0.05)
Abandonment Expenses	-	(0.21)	-	(0.05)
Stock-based compensation	(0.40)	(0.61)	(0.41)	(0.74)
Unrealized gain (loss) on financial instruments	1.04	0.96	(0.04)	0.09
Deferred income tax	(6.38)	(1.75)	(4.66)	(0.70)
Net Income netback	**$ 21.21**	**$ 5.06**	**$ 15.35**	**$ 1.35**

The overall average price earned by the Company was higher when compared to the year ended December 31, 2020 as Oil and NGL pricing were higher during the year due to the recovery of world-wide demand as the effects of COVID progressed.

Operating netbacks increased by 102% for the year ended December 31, 2021 due to the pricing changes.

Royalty Expense

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Royalty expense	$ 3,287	$ 1,283	$ 8,722	$ 4,213
Per BOE	$ 3.55	$ 1.52	$ 2.68	$ 1.16
As a % of sales (including commodity contracts)	7%	6%	6%	5%
As a % of sales (excluding commodity contracts)	7%	6%	6%	5%

For 2021 royalties increased to $8,722 or 6% as a percentage of sales. The increase is a result of higher royalty rates for wells not on the C* royalty program due to increased commodity pricing.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Production and Transportation Costs

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Production costs	$ 5,849	$ 4,231	$ 18,254	$ 19,043
Per BOE	$ 6.32	$ 5.02	$ 5.60	$ 5.26
Transportation costs	$ 1,013	$ 867	$ 3,599	$ 3,820
Per BOE	$ 1.09	$ 1.03	$ 1.10	$ 1.06
Combined ($/BOE)	$ 7.41	$ 6.04	$ 6.70	$ 6.32

Production and transportation costs increased by 6% on a per boe basis when compared to 2020 due to the reduced production for 2021. On a dollar basis operating costs decreased by 4%. The fourth quarter per boe operating costs were higher than the same period in 2020 due to unseasonably cold weather in December.

Depletion and depreciation

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Depletion and depreciation	$ 8,714	$ 6,779	$ 27,187	$ 30,257
Per BOE	$ 9.42	$ 8.04	$ 8.34	$ 8.36

Depletion and depreciation increased in the year ended December 31, 2021 due to a decrease in production. On a per boe basis, depletion remained flat when compared 2020 due to stable finding and development costs in 2021.

General and administrative expenses ("G&A")

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Gross G&A expenses	$ 1,387	$ 967	$ 4,278	$ 3,123
G&A recoveries	(381)	(212)	(1,343)	(763)
Net G&A expenses	$ 1,006	$ 755	$ 2,935	$ 2,360
Per BOE	$ 1.09	$ 0.89	$ 0.90	$ 0.65

G&A increased by 24% on a net basis and increased by 37% on a gross basis when compared to 2020 due lower costs in 2020 as a result of the government wage subsidy program. G&A increased by 38% on a boe basis.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Other expenses

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Finance				
Cash interest and finance expense	$ 2,915	$ 2,884	$ 11,329	$ 10,986
Accretion on lease obligations	51	215	203	223
Realized interest rate contract settlement	297	-	802	(28)
Change in fair value of interest rate contracts	(1,735)	(55)	(4,584)	3,742
Accretion of decommissioning liability	49	38	161	183
Accretion of debt issue costs	136	109	478	300
	$ 1,713	$ 3,191	$ 8,389	$ 15,406
Share-based compensation	$ 370	$ 515	$ 1,322	$ 2,692

Interest and financing fees include interest on the revolving operating demand loan (the average amount drawn in 2021 was $198 million), servicing charges on the demand loan and the change in fair value of the interest rate contracts.

The Company had the following interest rate contracts in place as at December 31, 2021:

- Pay a floating rate to receive a 1.94% fixed rate on $40 million (April 2021-April 2025)
- Pay a floating rate to receive a 1.42% fixed rate on $40 million (April 2021-April 2025)
- Pay a floating rate to receive a 1.39% fixed rate on $20 million (April 2021-April 2025)

The fair value of the interest rate contracts at December 31, 2021 was a net asset of $364 (2020 - net liability of $3,376).

For the year ended December 31, 2021, if interest rates (including the effect of the interest rate contract) had been 1% lower with all other variables held constant, net income would have been $1,978 (2020 - $1,985) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

During the year ended December 31, 2021, the Company granted options to purchase 2,026 (2020 – 6,680) common shares, with 50% vesting immediately and 50% vesting one year after the grant date. The fair value of the options was estimated at $1,317 (2020 - $1,737) using the Black-Scholes option pricing model.

Commodity price risk contracts

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Realized gain (loss) on commodity contract settlement	$ (872)	$ (323)	$ (4,529)	$ (658)
Change in fair value of commodity contracts	965	807	(139)	312
	$ 93	$ 484	$ (4,668)	$ (346)

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

As at December 31, 2021 the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price
Propane					
2022	200 bbl/d	Jan – Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Plus USD 0.0025/Gallon

As the Company had a limited number of derivatives in place as at December 31, 2021 the sensitivity of the fair value of a 10 percent volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the consolidated statement of income and comprehensive income.

Deferred Taxes

	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Deferred tax expense	$ 5,903	$ 1,478	$ 15,199	$ 2,542

Yangarra did not pay income taxes in 2021 and does not expect to pay income taxes in 2022 or into the near future as it has sufficient tax pools to cover taxable income. Deferred tax expense is higher in the 2021 periods than in the 2020 periods due to the increased use of tax pools to offset higher expected taxable income in the 2021 periods.

	Rate %	Year Ended 2021	Year Ended 2020
Canadian oil and gas property expenses	10	$ 23,420	$ 25,640
Canadian development expenses	30	235,041	227,745
Canadian exploration expenses	100	19,719	19,349
Undepreciated capital costs	10-30	42,208	46,025
Non-capital losses (various expiry dates)	100	1,031	1,031
		$ 321,419	$ 319,790

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Liquidity and Capital Resources

The following table summarizes the change in adjusted net debt during the year ended December 31, 2021 and 2020:

	Three months ended December 31, 2021	Year ended December 31, 2021	Year ended December 31, 2020
Adjusted net debt - beginning of period	$ (201,811)	$ (197,414)	$ (187,711)
Funds flow from operations	32,425	90,921	45,524
Additions to property and equipment	(26,624)	(88,153)	(51,093)
Decommissioning costs incurred	(416)	(881)	(389)
Additions to E&E Assets	(212)	(387)	(426)
Issuance of shares	510	1,132	-
Other	(666)	(2,012)	(3,319)
Adjusted net debt - end of period	$ (196,794)	$ (196,794)	$ (197,414)
Credit facility limit	$ 210,000	$ 210,000	$ 210,000

As at December 31, 2021, the maximum amount available under the syndicated credit facility was $210 million (2020 – $210 million) comprised of a $185 million (2020 – $185 million) extendable revolving term credit facility and a $25 million (2020 – $25 million) operating facility. The amount available under these facilities is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors as determined by the syndicate of lending institutions (the "Borrowing Base"). If the total advances made under the credit facilities are greater than the re-determined Borrowing Base, the Company has 60 days to repay any shortfall. The maturity date of the facility is May 29, 2023 (the "Maturity Date") and the next Borrowing Base review is scheduled for May 29, 2022. The Maturity Date may be extended for 364-day periods pursuant to delivery of a request for extension by the Company within certain time periods specified in the syndicated credit facility agreement.

As at December 31, 2021, the $195,422 (2020 – $200,273) reported amount of bank debt was comprised of $11,564 (2020 – $16,240) drawn on the operating facility, $184,373 (2020 – $184,501) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $515 (2020 – $468).

The Company is subject to a single financial covenant requiring an adjusted working capital ratio above 1:1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility and excluding unrealized commodity contracts). The Company was in compliance with this covenant as at December 31, 2021 and December 31, 2020. The facility is secured by a general security agreement over all assets of the Company.

The total standby fees range, depending on the debt to EBITDA ratio, between 200 bps to 400 bps on bank prime borrowings and between 300 bps and 500 bps on bankers' acceptances. The undrawn portion of the credit facility is subject to a standby fee in the range of 75 bps to 125 bps. During the year ended December 31, 2021, the weighted average effective interest rate for the bank debt was approximately 5.28 % (2020 – 5.06%).

The Company intends to fund the 2022 budget with cash flow from operations and availability on the revolving operating demand loan.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Capital Spending

Cash additions	2021 Q4	2020 Q4	Year Ended 2021	Year Ended 2020
Land, acquisitions and lease rentals	$ (89)	$ (75)	$ 54	$ 324
Drilling and completion	23,994	14,030	77,991	44,816
Geological and geophysical	114	134	547	640
Equipment	2,349	753	8,872	4,226
Other asset additions	255	347	689	1,087
	$ 26,623	$ 15,189	$ 88,153	$ 51,093
Exploration & evaluation assets	$ 212	$ -	$ 387	$ 426

Outlook

Yangarra has a $105 million capital budget for 2022 which will keep one drilling rig fully utilized for the balance of the year.

Decommissioning Liabilities

As at December 31, 2021, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $16,179 for which $13,796 has been recorded using a discount rate of 0.22% - 1.98% an inflation rate of 2% and an estimated weighted average timing of cash flows of 6.9 years.

Off Balance Sheet Arrangements

There were no off-balance sheet arrangements.

Share Capital

Details of changes in the number of outstanding equity instruments are detailed in the following table:

	Common Shares	Stock Options
Balance - December 31, 2020	85,380	8,208
Grant of options	-	2,026
Forfeited options	-	(678)
Exercise of options	1,269	(1,269)
Balance -December 31, 2021 and the date of this MD&A	86,649	8,287

Contingency

In the normal conduct of operations, there are other pending claims by and against the Company. Litigation is subject to many uncertainties, and the outcome of individual matters is not predictable with assurance. In the opinion of management, based on the advice and information provided by its legal counsel, the final determination of these other litigations will not materially affect the Company's financial position or results of operations.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Contractual Obligations and Commitments

As at December 31, 2021 the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years
Accounts payable and accrued liabilities	$ 33,930	$ 33,930	$ 33,930	$ -	$ -
Bank debt	195,422	196,073	-	196,073	-
Lease obligations	4,725	5,879	2,353	1,966	1,560
Other liabilities	589	589	-	-	589
Interest rate contracts	257	257	79	79	99
Commodity contracts	11	11	11	-	-
	$ 234,934	$ 236,739	$ 36,373	$ 198,118	$ 2,248

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. A substantial portion of the Company's accounts receivable are with natural gas and liquids marketers and partners on joint operations in the oil and gas industry and are subject to normal industry credit risks.

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at December 31, 2021, the maximum credit exposure is the carrying amount of the accounts receivable of $27,536 (2020 – $18,691). The maximum exposure to credit risk for accounts receivable as at December 31, 2021 and 2020 by type of customer was:

	December 31, 2021	December 31, 2020
Natural gas and liquids marketers	$ 16,186	$ 8,632
Partners on joint operations	8,638	8,150
Other	2,712	1,909
	$ 27,536	$ 18,691

As at December 31, 2021 and 2020, the Company's receivables are aged as follows:

	December 31, 2021	December 31, 2020
Under 30 days	$ 18,453	$ 10,156
30 to 60 days	50	148
60 to 90 days	888	237
Over 90 days	8,145	8,150
	$ 27,536	$ 18,691

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

Capital Resources

The Company's objective when managing capital is to maintain a flexible capital structure which will allow it to execute its capital expenditure program, which includes expenditures in oil and gas activities which may or may not be successful. Therefore, the Company monitors the level of risk incurred in its capital expenditures to balance the proportion of debt and equity in its capital structure.

The Company considers its capital structure to include shareholders equity and debt:

	December 31, 2021	*December 31, 2020*
Shareholders' equity	$ 364,959	$ 312,260
Bank debt	$ 195,422	$ 200,273

The Company monitors capital based on annual cash from operations before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs. In order to maintain or adjust the capital structure, the Company considers its forecasted cash from operations before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank debt available from the Company's lender, the level of bank debt that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At December 31, 2021 and December 31, 2020, the Company's capital structure was subject to the banking covenants. No changes were made to the capital policy in 2021.

Selected Quarterly Financial Information

	2021 Q4($)	2021 Q3($)	2021 Q2($)	2021 Q1($)
Petroleum & natural gas sales	47,405	35,880	28,529	28,475
Net income	19,644	13,500	7,753	9,117
Net income per share – basic (1)	0.23	0.16	0.09	0.11
Net income per share – diluted (1)	0.22	0.15	0.09	0.10
Funds flow from operations	32,425	24,126	17,240	17,091
Funds flow from operations per share – basic (1)	0.38	0.28	0.20	0.20
Funds flow from operations per share –diluted (1)	0.36	0.27	0.19	0.19
Capital expenditures (including E&E)	26,836	23,515	19,602	18,587

(1) Sum of quarterly per share figures may not add to annual per share figures due to rounding.

For the year ended December 31, 2021 and 2020 (000's, CDN dollars, except per share and per unit)

	2020 Q4 ($)	2020 Q3($)	2020 Q2($)	2020 Q1($)
Petroleum & natural gas sales	23,064	18,910	16,290	27,435
Net income (loss)	4,847	537	(2,801)	2,835
Net income (loss) per share – basic (1)	0.05	0.01	(0.03)	0.03
Net income (loss) per share – diluted (1)	0.05	0.01	(0.03)	0.03
Funds flow from operations	11,493	10,038	7,795	15,293
Funds flow from operations per share – basic (1)	0.15	0.12	0.09	0.18
Funds flow from operations per share –diluted (1)	0.15	0.12	0.09	0.18
Capital expenditures (including E&E)	15,004	9,997	1,084	25,434

(1) Sum of quarterly per share figures may not add to annual per share figures due to rounding.

Quarterly activities

Fluctuations in quarterly revenues, net income and funds flow from operations over the last eight quarters are due primarily to the volatility in commodity prices and changes in sales volumes due to production growth and declines tied to the timing of drilling activity. The Company has focused capital expenditures on drilling and completions. As a result of lower commodity pricing in early to mid-2020 due to the Saudi Arabia/Russia price war and the impact of COVID-19, the Company ceased capital expenditures in February 2020 resulting in a decline in production for Q1 and Q2 2020. Drilling and completion operations resumed in Q3 2020 and commodity pricing improved in the latter part of 2020 and into 2021.

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing light crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact; and credit risk of non-payment for sales contracts and joint venture partners. Other than the risks described herein (including the risks and uncertainties listed in the Forward-Looking Statements section in this MD&A) the Company is also subject to the risk factors set forth in the most recently filed AIF of the Company available on SEDAR which can be accessed at www.sedar.com

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on reservoirs where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an asset retirement obligation that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities are discussed in further detail under "Critical Accounting Estimates" below, as well as in note 7 to the Company's Consolidated Financial Statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As at December 31, 2021, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules adopted by the Canadian securities regulatory authorities, was carried out under the supervision and with the participation of Management, including the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that, as at December 31, 2021, the design and operation of the Company's disclosure controls and procedures were effective in meeting all regulatory filing requirements.

Internal control over financial reporting means a process designed by, or under the supervision of, an issuer's certifying officers, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's Generally Accepted Accounting Procedures ("GAAP") and includes those policies and procedures that:

(a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer;

(b) are designed to provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

(c) are designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial reports;

Management is responsible for establishing and maintaining adequate internal controls over financial reporting.

Management has conducted an evaluation of its internal controls over financial reporting and determined that as at December 31, 2021 the controls were effective to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external reporting purposes. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated Internal Control-Integrated Framework ("2013 Framework") replacing the Internal Control - Integrated Framework (1992). The control framework Yangarra's officers used to design the Company's ICFR is the 2013 Framework.

During the period beginning on October 1, 2021 and ending on December 31, 2021, there were no material changes to the Company's internal controls over financial reporting, and the CEO and CFO have filed certifications with the Canadian securities regulators regarding the Company's 2021 public filing documents.

Critical Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no changes to the Company's critical accounting judgments and estimates during the year ended December 31, 2021. Refer to Note 2 of the Company's December 31, 2021 audited consolidated financial statements.