yangarra resources ltd.

Yangarra Resources Ltd.
Condensed Interim Consolidated Financial Statements
For three months ended March 31, 2022 and 2021

(in thousands of Canadian dollars)

		March 31, 2022 (unaudited)		December 31, 2021 (audited)
Assets				
Current				
Accounts receivable *(note 10a)*	$	**32,688**	$	27,536
Prepaid expenses and inventory		**4,806**		5,022
Commodity contracts *(note 10c iii)*		**40**		–
Interest rate contracts *(note 10c i)*		–		191
Total current assets		**37,534**		32,749
Non-current				
Property and equipment *(note 2)*		**640,305**		627,948
Exploration and evaluation assets		**22,416**		22,342
Interest rate contracts *(note 10c i)*		–		430
Total assets	$	**700,255**	$	683,469
Liabilities				
Current				
Accounts payable and accrued liabilities *(note 10b)*	$	**25,048**	$	33,930
Commodity contracts *(note 10c iii)*		**1,343**		11
Interest rate contracts *(note 10c i)*		–		79
Current portion of decommissioning liability *(note 5)*		**210**		105
Current portion of lease obligations *(note 4)*		**2,256**		2,353
Total current liabilities		**28,857**		36,478
Non-current				
Bank debt *(note 3)*		**190,984**		195,422
Lease obligations *(note 4)*		**1,824**		2,372
Other liabilities		**649**		589
Interest rate contracts *(note 10c i)*		–		178
Decommissioning liability *(note 5)*		**13,312**		13,691
Deferred tax liability		**76,648**		69,780
Total liabilities		**312,274**		318,510
Shareholders' equity				
Share capital *(note 6)*		**178,290**		178,110
Contributed surplus		**28,264**		28,142
Retained earnings		**181,427**		158,707
Total shareholders’ equity		**387,981**		364,959
Total liabilities and shareholders’ equity	$	**700,255**	$	683,469

Contingency (note 14)

Yangarra Resources Ltd.
Condensed Interim Consolidated Statements of Income and Comprehensive Income
For the three months ended March 31
(unaudited, in thousands of Canadian dollars, except per share amounts)

		2022		2021
Revenue				
Petroleum and natural gas sales *(note 13)*	$	**51,428**	$	28,475
Royalties		**(2,605)**		(1,633)
		48,823		26,842
Commodity price risk contracts				
Realized gain (loss) on commodity contract settlement		**11**		(1,845)
Unrealized change in fair value of commodity contracts		**(1,292)**		(1,120)
		47,542		23,877
Expenses				
Production		**4,656**		3,732
Transportation		**1,117**		863
General and administrative		**902**		529
Finance *(note 12)*		**2,515**		290
Share-based compensation *(note 7)*		**157**		224
Depletion and depreciation *(note 2)*		**8,607**		6,320
		17,954		11,958
Income before tax		**29,588**		11,919
Deferred tax expense		**6,868**		2,802
Net income and total comprehensive income	$	**22,720**	$	9,117
Earnings per share *(note 8)*				
Basic	$	**0.26**	$	0.11
Diluted	$	**0.25**	$	0.10

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

(unaudited, in thousands of Canadian dollars)

		2022		2021
Share Capital				
Balance, beginning of period	$	**178,110**	$	176,349
Exercise of stock options *(note 6)*		**122**		113
Contributed surplus transferred on exercise of stock options *(note 6)*		**58**		60
Balance, end of period		**178,290**		176,522
Contributed Surplus				
Balance, beginning of period		**28,142**		27,218
Share-based compensation *(note 7)*		**180**		294
Exercise of stock options *(note 6)*		**(58)**		(60)
Balance, end of period		**28,264**		27,452
Retained Earnings				
Balance, beginning of period		**158,707**		108,693
Net income		**22,720**		9,117
Balance, end of period		**181,427**		117,810
Total Shareholders' Equity	$	**387,981**	$	321,784

Yangarra Resources Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended March 31
(unaudited, in thousands of Canadian dollars)

	2022	2021
Operating		
Net income for the period	$ **22,720**	$ 9,117
Add back non-cash items:		
Unrealized change in fair value of commodity contracts	**1,292**	1,120
Finance expense *(note 12)*	**2,515**	290
Share-based compensation *(note 7)*	**157**	224
Depletion and depreciation *(note 2)*	**8,607**	6,320
Deferred tax expense	**6,868**	2,802
Interest and finance costs paid *(note 12)*	**(2,402)**	(2,782)
Change in non-cash working capital *(note 9)*	**(7,525)**	(4,105)
Net cash flow from operating activities	**32,232**	12,986
Financing		
Exercise of stock options *(note 6)*	**122**	113
Bank debt (repayment) advance *(note 3)*	**(4,576)**	886
Lease obligation repayment *(note 4)*	**(509)**	(425)
Lease interest paid *(note 12)*	**(89)**	(96)
Realized interest rate contract settlement *(note 12)*	**393**	–
Other long-term liabilities advance	**60**	–
Net cash flow (used in) from financing activities	**(4,599)**	478
Investing		
Additions to property and equipment *(note 2)*	**(21,266)**	(18,587)
Additions to exploration and evaluation assets	**(74)**	–
Change in non-cash working capital *(note 9)*	**(6,293)**	5,123
Net cash flow used in investing activities	**(27,633)**	(13,464)
Change in cash	–	–
Cash, beginning of the period	–	–
Cash, end of the period	$ –	$ –

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

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

1. Basis of preparation and statement of compliance and authorization

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.

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Yangarra Resources Corp., after the elimination of intercompany transactions and balances.

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting on a basis consistent with the accounting, estimation and judgement policies described in the Company's audited consolidated financial statements as at and for the year ended December 31, 2021 (the "Annual Financial Statements"). These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments and stock options which are recognized at fair value. All financial information is reported in Canadian dollars, unless otherwise noted. Certain information and disclosures normally included in the notes to the Annual Financial Statements prepared in accordance with International Financial Reported Standards have been condensed or omitted. These condensed interim consolidated financial statements should be read in conjunction with the Annual Financial Statements.

The condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on April 27, 2022.

2. Property and equipment

	Oil and Natural Gas Interests	*Well and Plant Equipment*	*Other Assets*	*Total*
Cost				
Balance, December 31, 2021	$ 712,184	$ 141,291	$ 15,258	$ 868,733
Cash additions	**18,623**	**2,452**	**191**	**21,266**
Share-based compensation *(note 7)*	**23**	–	–	**23**
Decommissioning liability *(note 5)*	**(325)**	–	–	**(325)**
Balance, March 31, 2022	**$ 730,505**	**$ 143,743**	**$ 15,449**	**$ 889,697**
Depletion and depreciation				
Balance, December 31, 2021	$ 214,946	$ 18,328	$ 7,511	$ 240,785
Depletion and depreciation	**7,375**	**582**	**59**	**8,016**
ROU asset depreciation	–	–	**591**	**591**
Balance, March 31, 2022	**$ 222,321**	**$ 18,910**	**$ 8,161**	**$ 249,392**
At December 31, 2021	$ 497,238	$ 122,963	$ 7,747	$ 627,948
At March 31, 2022	**$ 508,184**	**$ 124,833**	**$ 7,288**	**$ 640,305**

At March 31, 2022, all of the Company's properties are pledged as security for the bank debt (see note 3). The calculation of depletion for the three months ended March 31, 2022 included estimated future development costs of $637 million (December 31, 2021 – $658 million) associated with the development of the Company's proved plus probable reserves.

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

2. Property and equipment (continued)

Cash additions for the three months ended March 31, 2022 include $223 (2021 - $360) of recoveries related to the Company's working interest in operated capital expenditure programs on which overhead has been charged in accordance with standard industry operating agreements and $81 (2021 – $78) of capitalized salaries and consulting expenses directly related to geological, drilling and completions.

Included in property and equipment at March 31, 2022 is $4,569 (December 31, 2021 – $5,187) of Right-of-use Asset ("ROU") assets associated with the Company's lease obligations.

3. Bank debt

As at March 31, 2022, the maximum amount available under the syndicated credit facility was $210 million (December 31, 2021 – $210 million) comprised of a $185 million (December 31, 2021 – $185 million) extendable revolving term credit facility and a $25 million (December 31, 2021 – $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.

Balance, December 31, 2021	$	195,422
Repayment		**(4,576)**
Accretion of debt transaction costs		**138**
Balance, March 31, 2022	$	**190,984**

As at March 31, 2022, the $190,984 (December 31, 2021 – $195,422) reported amount of bank debt was comprised of $11,950 (December 31, 2021 – $11,564) drawn on the operating facility, $179,411 (December 31, 2021 – $184,373) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $377 (December 31, 2021 – $515).

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 March 31, 2022 and December 31, 2021. 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 three months ended March 31, 2022, the weighted average effective interest rate for the bank debt was approximately 4.90% (2021 – 5.55%).

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

4. Lease obligations

The Company incurs lease payments related to the oil hauling fleet, operator/crew trucks and the head office. Leases are entered into and exited in coordination with specific business requirements which includes the assessment of the appropriate durations for the related leased asset.

Balance, December 31, 2021	$	**4,725**
Lease payments		**(509)**
Accretion		**(136)**
Balance, March 31, 2022	$	**4,080**
Current	$	**2,256**
Non-current	$	**1,824**

Maturity analysis at March 31, 2022 – contractual undiscounted cash flows		
Less than one year	$	**2,256**
One to six years		**2,995**
Total undiscounted lease obligations		**5,251**
Unrecognized imputed interest		**(1,171)**
Total lease obligation	$	**4,080**

5. Decommissioning liability

The following table presents the reconciliation of the carrying amount of the liability associated with the decommissioning of the Company's property and equipment:

Balance, December 31, 2021	$	**13,796**
Liabilities incurred		**406**
Effect of change in estimates		**(731)**
Accretion		**51**
Balance, March 31, 2022	$	**13,522**
Current	$	**210**
Non-current	$	**13,312**

The current portion of decommissioning liability relates to wells the Company plans to abandon and reclaim in the next 12 months as a result of the grant received under phase 5 of the Alberta Site Rehabilitation Program ("SRP").

The following significant assumptions were used to estimate the decommissioning liability at March 31, 2022:

Undiscounted cash flows	$	**16,687**
Discount rate		**2.27% - 2.40%**
Inflation rate		**2%**
Weighted average expected timing of cash flows		**6.9 years**

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

6. Share capital

Common shares issued

	Number of shares		*Amount*
Balance, December 31, 2021	86,649	$	178,110
Exercise of stock options	**225**		**122**
Contributed surplus transferred on exercise of stock options	**–**		**58**
Balance, March 31, 2022	**86,874**	**$**	**178,290**

7. Share-based compensation

During the three months ended March 31, 2022, the Company granted options to purchase 631 common shares exercisable a weighted average price of $2.47 per share for a period of five years, with 50% vesting one year after the grant date and 50% vesting two years after the grant date. The fair value of the options was estimated at $1.20 (2021 - $0.54) using the Black-Scholes option pricing model.

During the three months ended March 31, 2022, the Company recognized $157 (2021 – $224) of share-based compensation on the condensed interim consolidated statement of income and comprehensive income. During the three months ended March 31, 2022, the Company capitalized $23 (2021 - $70) related to property and equipment.

The following table provides a continuity of stock options outstanding as at:

	Number of stock options	***Weighted – average exercise price***
Balance, December 31, 2021	**8,287**	**$0.86**
Granted	**631**	**2.47**
Exercised	**(225)**	**(0.54)**
Cancelled	**(156)**	**(1.96)**
Balance, March 31, 2022	**8,537**	**$0.97**

The following provides a summary of the stock options outstanding as at March 31, 2022:

Range of exercise price	*Number outstanding*	*Weighted-average remaining contractual life (years)*	*Weighted-average exercise price*	*Number exercisable*	*Weighted-average exercise price*
$ 0.45 – $ 0.49	**60**	**3.50**	**$ 0.45**	**60**	**$ 0.45**
$ 0.50 – $ 1.00	**5,572**	**3.45**	**0.57**	**5,572**	**0.57**
$ 1.01 – $ 1.50	**1,543**	**4.19**	**1.35**	**871**	**1.33**
$ 1.51 – $ 2.00	**518**	**4.63**	**1.66**	**259**	**1.66**
$ 2.00 – $ 2.50	**598**	**4.98**	**2.45**	**–**	**–**
$ 2.51 – $ 3.00	**246**	**0.67**	**2.68**	**213**	**2.65**
	8,537	**3.68**	**$ 0.97**	**6,975**	**$ 0.75**

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

7. Share-based compensation (continued)

The Black-Scholes pricing model was used to estimate the fair value of stock options granted during the three months ended March 31, 2022 based on the following significant assumptions:

Weighted average exercise price per stock option	**$2.47**
Risk-free interest rate	**2.18% - 2.39%**
Expected volatility	**66%**
Weighted average expected life	**4 years**
Forfeiture rate	**5%**
Weighted average fair value per stock option	**$1.20**

8. Earnings per common share

Basic earnings per share was calculated as follows:

For the three months ended March 31		2022		2021
Net income for the period	$	**22,720**	$	9,117
Weighted average number of shares (basic)				
Issued common shares at beginning of period		**86,649**		85,380
Stock options exercised		**23**		37
Weighted average number of common shares - basic		**86,672**		85,417
Net income per share - basic	$	**0.26**	$	0.11

Diluted earnings per share was calculated as follows:

Weighted average number of shares (diluted)				
Weighted average number of shares (basic)		**86,672**		85,416
Effect of outstanding options		**4,763**		1,743
Weighted average number of common shares - diluted		**91,435**		87,159
Net income per share - diluted	$	**0.25**	$	0.10

The average market value of the Company’s shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period that the options were outstanding. For the three months ended March 31, 2022, 845 (2021 – 1,593) options are excluded as they are out-of-the-money based on an average share price of $2.09 (2021 – $1.00) for the period.

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

9. Change in non-cash working capital

For the three months ended March 31		**2022**		2021
Accounts receivable	$	**(5,152)**	$	(4,174)
Prepaid expenses and inventory		**216**		177
Accounts payable and accrued liabilities		**(8,882)**		5,015
	$	**(13,818)**	$	1,018

The changes in non-cash working capital has been allocated to the following activities:

Operating	$	**(7,525)**	$	(4,105)
Investing		**(6,293)**		5,123
	$	**(13,818)**	$	1,018

10. Financial instruments and financial risk management

a. Accounts receivable and credit risk

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at March 31, 2022, the maximum credit exposure is the carrying amount of the accounts receivable of $32,688 (December 31, 2021 – $27,536).

The maximum exposure to credit risk for accounts receivable by type of customer was:

		March 31, 2022		*December 31, 2021*
Natural gas and liquids marketers	$	**22,510**	$	16,186
Partners on joint operations		**9,468**		8,638
Other		**710**		2,712
	$	**32,688**	$	27,536

The Company historically has not experienced any significant collection issues with its natural gas and liquids marketers. The majority of the revenue accruals and receivables from natural gas and liquids marketers were received in April 2022.

The Company's receivables are aged as follows:

As at		***March 31, 2022***		*December 31, 2021*
Under 30 days	$	**23,276**	$	18,453
30 to 60 days		**323**		50
60 to 90 days		**809**		888
Over 90 days		**8,280**		8,145
	$	**32,688**	$	27,536

98% (December 31, 2021 – 99%) of the over 90-day receivables are made up of three (December 31, 2021 – three) industry partners, for which a significant portion of the balances are in dispute (note 14). The Company has performed an analysis of each partner's financial situation and have determined they have the ability to pay.

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

10. Financial instruments and financial risk management (continued)

b. Liquidity risk

As March 31, 2022, 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	$ 25,048	$ 25,048	$ 25,048	$ –	$ –
Bank debt	190,984	191,361	–	191,361	–
Lease obligations	4,080	5,251	2,256	1,679	1,316
Other liabilities	649	649	–	–	649
Commodity contracts	1,343	1,343	1,343	–	–
	$ 222,104	$ 223,652	$ 28,647	$ 193,040	$ 1,965

c. Market risk

The Company has exposure to the following market risks:

i. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its bank debt which bears interest at a floating rate and to mitigate this risk, the Company has entered into interest rate contracts. For the three months ended March 31, 2022, if interest rates had been 1% lower with all other variables held constant, net income would have been $444 (2021 - $461) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount. The Company had no interest rate contracts in place as at March 31, 2022.

ii. Currency risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. All of the Company's petroleum and natural gas sales are denominated in Canadian dollars, however, the underlying market prices in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian and United States dollar. The sensitivity of the fair value of a 10% change in foreign exchange rates would have an immaterial impact the consolidated statements of income and comprehensive income.

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

10. Financial instruments and financial risk management (continued)

c. Market risk (continued)

iii. Commodity price risk

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.

As at March 31, 2022, the Company was committed to the following commodity price risk contracts:

Year	Volume	Term	Reference	Type	Strike Price		Fair Value
Oil							
2022	250 bbl/d	Apr - Jun	CDN - WTI	Swap	CAD $118.75/bbl	$	(86)
2022	500 bbl/d	Apr - Jun	CDN - WTI	Swap	CAD $114.00/bbl	$	(389)
Natural Gas							
2022	2,500 GJ/d	Apr - Oct	AECO - Monthly 5A	Swap	CAD $4.49/GJ	$	(319)
2022	5,000 GJ/d	Apr - Oct	AECO - Monthly 7A	Swap	CAD $4.50/GJ	$	(549)
Propane							
2022	200 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Plus USD 0.0025/Gallon	$	40
Total						**$**	**(1,303)**

As the Company had a limited number of derivatives in place as at March 31, 2022, the sensitivity of the fair value of a 10% volatility in commodity prices would have an immaterial impact on unrealized gains (losses) reported in the consolidated statements of income and comprehensive income.

d. Fair value of financial instruments

The following table summarizes the carrying value and fair value of the Company's risk management assets and liabilities.

		March 31, 2022		*December 31, 2021*	
	Measurement Level	***Carrying Amount***	***Fair Value***	*Carrying Amount*	*Fair Value*
Financial Assets					
Financial assets at fair value through profit or loss:					
Interest rate contracts	2	**$ –**	**$ –**	$ 621	$ 621
Commodity contracts	2	**$ 40**	**$ 40**	$ –	$ –
Financial Liabilities					
Financial liabilities at fair value through profit or loss:					
Interest rate contracts	2	**$ –**	**$ –**	$ 257	$ 257
Commodity contracts	2	**$ 1,343**	**$ 1,343**	$ 11	$ 11

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

10. Financial instruments and financial risk management (continued)

d. Fair value of financial instruments

The fair values of financial instruments have been determined by various valuation methods as defined below:

- Level 1: fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: fair value is based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between levels in the fair value hierarchy for the three months ended March 31, 2022.

11. Capital disclosures

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

		March 31, 2022		*December 31, 2021*
Shareholders' equity	$	**387,981**	$	364,959
Bank debt	$	**190,984**	$	195,422

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.

At March 31, 2022 and December 31, 2021, the Company's capital structure was subject to the banking covenants disclosed in note 3. No changes were made to the capital policy in 2022.

12. Finance expense

For the three months ended March 31		**2022**		2021
Cash interest and finance costs	$	**2,402**	$	2,782
Interest on lease obligations		**89**		96
Realized gain on interest rate contracts		**(393)**		–
Change in fair value of interest rate contracts		**364**		(2,679)
Accretion of decommissioning liability *(note 5)*		**51**		24
Accretion of debt transaction costs *(note 3)*		**138**		110
Accretion of lease obligations *(note 4)*		**(136)**		(43)
	$	**2,515**	$	290

(unaudited, in thousands of Canadian dollars, except per share and per unit amounts)

13. Revenue

The Company derives its revenue from contracts with customers primarily through the transfer of commodities at a point in time representing the following major product types:

For the three months ended March 31		**2022**		2021
Crude Oil	$	**25,499**	$	14,754
Natural Gas		**14,564**		7,930
Natural Gas Liquids		**11,365**		5,791
	$	**51,428**	$	28,475

At March 31, 2022, receivables from contracts with customers, which are included in trade accounts receivable, were $26,055 (December 31, 2021 – $16,620).

14. 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.