**Yangarra Resources Ltd.**
**Management's Discussion and Analysis**
*For the three and nine months ended September 30, 2022 and 2021*

*Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the September 30, 2022 unaudited condensed interim consolidated financial statements and 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 October 31, 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" or "FFO", which is an additional IFRS measure. This document also contains the terms "adjusted 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 FFO and FFO per share may not be comparable to that reported by other companies. Management uses FFO to analyze operating performance and leverage and considers FFO 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. FFO is calculated using cash flow from operating activities before changes in non-cash working capital and decommissioning costs incurred. Yangarra presents FFO per share whereby per share amounts are calculated using weighted average shares outstanding consistent with the calculation of net income per share.*

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

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

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Cash flow from operating activities | $ 47,440 | $ 22,078 | $ 128,988 | $ 54,431 |
| Decommissioning costs incurred | - | 121 | - | 465 |
| Changes in non-cash working capital | (1,838) | 1,927 | 6,398 | 3,561 |
| Funds flow from operations | $ 45,602 | $ 24,126 | $ 135,386 | $ 58,457 |

*Netbacks*

*The Company considers corporate netbacks to be a key measure that demonstrates Yangarra's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, field operating, FFO and net income (loss) netbacks. Operating netback is calculated as the average sales price of its commodities (including realized gains (losses) on financial instruments) less royalties, operating costs and transportation expenses. Field operating netback subtracts realized gains (losses) on financial instruments, FFO 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 (losses) 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.*

*FFO margins and operating margins*

*FFO margins and operating margins are calculated as the ratio of FFO 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 adjusted net debt or adjusted working capital (deficit) surplus.*

| | Sep 30, 2022 | Dec 31, 2021 | Sep 30, 2021 |
|---|---|---|---|
| Bank Debt | $ 153,859 | $ 195,422 | $ 199,332 |
| Accounts receivable | (34,929) | (27,536) | (22,751) |
| Prepaid expenses and inventory | (7,659) | (5,022) | (5,023) |
| Accounts payable and accrued liabilities | 35,925 | 33,930 | 30,253 |
| Adjusted net Debt | $ 147,196 | $ 196,794 | $ 201,811 |

*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.*

*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.

## Third Quarter Highlights

- Funds flow from operations of $45.6 million ($0.52 per share – basic), an increase of 89% from the same period in 2021
- $8 million of adjusted net debt was repaid during the third quarter, $50 million year-to-date 2022
- Oil and gas sales were $62.8 million, an increase of 75% from the same period in 2021
- Adjusted EBITDA was $48.1 million ($0.55 per share - basic), an increase of 81% from the same period in 2021
- Net income of $27.9 million ($0.32 per share) an increase of 107% from the same period in 2021
- Average production of 11,750 boe/d (47% liquids) during the quarter, a 35% increase from the same period in 2021
- Operating costs were $7.41/boe (including $1.15/boe of transportation costs)
- Field operating netbacks were $45.74/boe
- Operating netbacks, which include the impact of commodity contracts, were $45.44/boe
- Operating margins were 78% and funds flow from operations margins were 72%
- G&A costs of $0.78/boe
- Royalties were 8% of oil and gas revenue
- All in cash costs were $15.98/boe
- Capital expenditures were $33.1 million
- Adjusted net debt was $147.2 million
- Adjusted net debt to third quarter annualized funds flow from operations was 0.8 : 1
- Retained earnings of $240 million
- Decommissioning liabilities of $13.8 million (discounted)
    - Less than $1.0 million is required to abandon all non-producing wells
    - Expenditures on abandonments and reclamations of $300,000 for calendar 2022

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

Operations Update

Yangarra drilled 8 wells and completed 8 wells during the third quarter of 2022 with three additional wells in the early stages of flow back after being completed in October. The Company's optimization program continues to advance on legacy wells with corresponding reduced production declines.

Significant improvements have been made to the completions program during 2022. Changes to the program include the types of chemicals used, inter-sleeve spacing optimization, and frack sand intensity. Drilling times continue to be reduced with the resulting savings helping to offset inflationary pressures.

The Company has partnered with its contract drilling rig and frack spread to convert from diesel to bi-fuel (diesel and natural gas), retired much of the natural gas fired pumpjack fleet and replaced with electric motors, converted most production pads to instrument air replacing natural gas, and converted the balance of instrument devices to low-bleed devices. Yangarra is replacing the light truck fleet with more fuel-efficient units. All of these initiatives will result in significantly lower emissions which will reduce or eliminate carbon fees paid by Yangarra under the provincial Tier program.

# Financial Information

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| **Statements of Income and Comprehensive Income** | | | | |
| Petroleum & natural gas sales | $ 62,791 | $ 35,880 | $ 182,764 | $ 92,884 |
| Income before tax | $ 36,193 | $ 17,657 | $ 106,670 | $ 39,666 |
| Net income | $ 27,936 | $ 13,500 | $ 81,287 | $ 30,370 |
| Net income per share - basic | $ 0.32 | $ 0.16 | $ 0.93 | $ 0.35 |
| Net income per share - diluted | $ 0.30 | $ 0.15 | $ 0.88 | $ 0.34 |
| **Statements of Cash Flow** | | | | |
| Funds flow from operations | $ 45,602 | $ 24,126 | $ 135,386 | $ 58,457 |
| Funds flow from operations per share - basic | $ 0.52 | $ 0.28 | $ 1.55 | $ 0.68 |
| Funds flow from operations per share - diluted | $ 0.49 | $ 0.27 | $ 1.47 | $ 0.65 |
| Cash flow from operating activities | $ 47,440 | $ 22,078 | $ 128,988 | $ 54,431 |
| Weighted average number of shares - basic | 87,951 | 85,637 | 87,244 | 85,527 |
| Weighted average number of shares - diluted | 92,609 | 89,098 | 91,866 | 88,675 |

| | September 30, 2022 | December 31, 2021 |
|---|---|---|
| **Statements of Financial Position** | | |
| Property and equipment | $ 682,645 | $ 627,948 |
| Total assets | $ 751,485 | $ 683,469 |
| Working capital (deficit) surplus | $ 4,253 | $ (3,729) |
| Adjusted net debt | $ 147,196 | $ 196,794 |
| Shareholders equity | $ 448,140 | $ 364,959 |

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

## Business Environment

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| **Realized Pricing (Including realized commodity contracts)** | | | | |
| Light Crude Oil ($/bbl) | $ 116.44 | $ 84.78 | $ 118.26 | $ 71.26 |
| NGL ($/bbl) | $ 56.35 | $ 51.13 | $ 64.93 | $ 42.97 |
| Natural Gas ($/mcf) | $ 4.61 | $ 3.71 | $ 5.63 | $ 3.37 |
| **Realized Pricing (Excluding commodity contracts)** | | | | |
| Light Crude Oil ($/bbl) | $ 116.44 | $ 84.90 | $ 120.37 | $ 76.58 |
| NGL ($/bbl) | $ 56.28 | $ 51.06 | $ 64.81 | $ 42.94 |
| Natural Gas ($/mcf) | $ 4.71 | $ 3.81 | $ 5.79 | $ 3.43 |
| **Oil Price Benchmarks** | | | | |
| West Texas Intermediate ("WTI") (US$/bbl) | $ 93.18 | $ 70.62 | $ 98.68 | $ 64.83 |
| Edmonton Par ($/bbl) | $ 116.64 | $ 81.39 | $ 123.39 | $ 75.83 |
| Edmonton Par to WTI differential (US$/bbl) | $ (3.37) | $ (6.02) | $ (2.44) | $ (4.24) |
| **Natural Gas Price Benchmarks** | | | | |
| AECO gas ($/mcf) | $ 3.95 | $ 3.41 | $ 5.04 | $ 3.18 |
| **Foreign Exchange** | | | | |
| Canadian Dollar/U.S. Exchange | 0.77 | 0.79 | 0.78 | 0.80 |

Crude oil prices increased by 32% for Q3 2022, with the West Texas Intermediate ("WTI") reference price averaging US$93.18/bbl compared with US$70.62/bbl in the same period in 2021. For the nine months ended September 30, 2022, WTI prices were up 52% averaging US$98.68/bbl. 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, government regulations, the COVID-19 demand impact and the Russia/Ukraine war.

Edmonton par differentials to WTI narrowed in Q3 2022 when compared to Q3 2021, moving from a US$6.02/bbl differential in Q3 2021 to US$3.37/bbl in Q3 2022. In the nine months ended September 30, 2022, Edmonton par differentials narrowed from US$4.24/bbl to US$2.44/bbl. 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.

In Q3 2022, the US/CDN foreign exchange rate was 0.77 compared to 0.79 in Q3 2021 and was 0.78 for the nine months ended September 30, 2022 compared to 0.80 for the same period in 2021.

When compared to the three and nine months ended September 30, 2021, realized pricing on oil earned in the 2022 periods increased by 37% and 57%, respectively, excluding commodity contracts, and increased by 37% and 66%, respectively, when the effects of commodity contracts are included. The increase in oil pricing is a direct result of increased WTI pricing and narrowing differentials.

When compared to the three and nine months ended September 30, 2021, liquids pricing earned in the 2022 periods increased by 10%, and 51%, respectively, due to higher condensate pricing which is linked to oil prices and higher butane pricing which is set by mid-streamers.

AECO natural gas prices increased for the three and nine months ended September 30, 2022 by 16% to $3.95/mcf and by 58% to $5.04/mcf as compared to the 2021 periods.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

When compared to the three and nine months ended September 30, 2021, realized pricing on natural gas earned in the 2022 periods increased by 24% and 69%, respectively, excluding commodity contracts, and increased by 24% and 67%, respectively, when the effects of commodity contracts are included.

## Results of Operations

### Net petroleum and natural gas production, pricing and revenue

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| **Daily production volumes** | | | | |
| Natural Gas (mcf/d) | 37,214 | 27,965 | 35,938 | 27,515 |
| Light Crude Oil (bbl/d) | 3,248 | 2,274 | 2,705 | 2,250 |
| NGL's (bbl/d) | 2,300 | 1,776 | 2,094 | 1,715 |
| Combined (BOE/d 6:1) | 11,750 | 8,710 | 10,789 | 8,550 |
| **Revenue** | | | | |
| Petroleum & natural gas sales - Gross | $ 62,791 | $ 35,880 | $ 182,764 | $ 92,884 |
| Realized gain (loss) on commodity contract settlement | (325) | (267) | (3,026) | (3,657) |
| Total sales | 62,466 | 35,613 | 179,738 | 89,227 |
| Royalty expense | (5,333) | (2,539) | (13,543) | (5,435) |
| Total Revenue - Net of royalties | $ 57,133 | $ 33,074 | $ 166,195 | $ 83,792 |

Total sales in Q3 2022 increased by 75% to $62.5 million from $35.6 million in 2021. The change is attributable to:

- A 32% increase in average product prices
- A 30% increase in production (on a boe basis)
- Realized losses on commodity contracts of $0.3 million in 2022 versus $0.3 million in 2021

Total sales in the nine months ended September 30, 2022 increased by 101% to $179.7 million from $89.2 million in the same period 2021. The change is attributable to:

- A 56% increase in average product prices; and
- A 26% increase in production (on a boe basis)
- Realized losses on commodity contracts of $3.0 million versus $3.7 million in 2021

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

### Company Netbacks ($/BOE)

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Sales price | $ 58.09 | $ 44.78 | $ 62.05 | $ 39.79 |
| Royalty expense | (4.93) | (3.17) | (4.60) | (2.33) |
| Production costs | (6.26) | (5.71) | (5.82) | (5.31) |
| Transportation costs | (1.15) | (0.98) | (1.21) | (1.11) |
| **Field operating netback** | **45.74** | **34.92** | **50.43** | **31.04** |
| Realized gain (loss) on commodity contract settlement | (0.30) | (0.33) | (1.03) | (1.57) |
| **Operating netback** | **45.44** | **34.58** | **49.40** | **29.48** |
| G&A | (0.78) | (0.95) | (0.94) | (0.83) |
| Cash Finance expenses | (2.56) | (3.96) | (2.66) | (2.81) |
| Depletion and depreciation | (9.05) | (7.62) | (9.33) | (7.91) |
| Non Cash - Finance expenses | (0.18) | 0.60 | (0.08) | (0.05) |
| Stock-based compensation | (0.16) | (0.49) | (0.17) | (0.41) |
| Unrealized gain (loss) on financial instruments | 0.76 | (0.12) | 0.00 | (0.47) |
| Deferred income tax | (7.64) | (5.19) | (8.62) | (3.98) |
| **Net Income netback** | **$ 25.84** | **$ 16.85** | **$ 27.60** | **$ 13.02** |

The overall average price earned by the Company during Q3 2022 was higher when compared to Q3 2021 as natural gas prices increased by 24%, oil prices increased by 37% and liquids prices increased by 10%. The average sales price increased by 30% during Q3 2022 when compared to Q3 2021.

Operating netbacks increased by 31% during Q3 2022 and increased by 68% for the nine months ended September 30, 2022 when compared to the same periods in 2021 with higher realized pricing.

Field netbacks increased by 31% during Q3 2022 and increased by 62% for the nine months ended September 30, 2022 with higher realized pricing in 2022 and the impact of realized losses on commodity contracts.

### Royalty Expense

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Royalty expense | $ 5,333 | $ 2,539 | $ 13,543 | $ 5,435 |
| Per BOE | $ 4.93 | $ 3.17 | $ 4.60 | $ 2.33 |
| As a % of sales (including commodity contracts) | 9% | 7% | 8% | 6% |
| As a % of sales (excluding commodity contracts) | 8% | 7% | 7% | 6% |

Royalties increased to $5,333 during Q3 2022 or 8% as a percentage of sales (excluding commodity contact settlements). For the nine months ended September 30, 2022 royalties increased to $13,543 or 7% as a percentage of sales. The increase is a result of increased royalty rates due to higher commodity pricing.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

### Production and Transportation Costs

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Production costs | $ 6,765 | $ 4,573 | $ 17,135 | $ 12,405 |
| Per BOE | $ 6.26 | $ 5.71 | $ 5.82 | $ 5.31 |
| Transportation costs | $ 1,248 | $ 789 | $ 3,559 | $ 2,586 |
| Per BOE | $ 1.15 | $ 0.98 | $ 1.21 | $ 1.11 |
| Combined ($/BOE) | $ 7.41 | $ 6.69 | $ 7.03 | $ 6.42 |

Production and transportation costs increased by 11% on a per boe basis in Q3 2022 and increased by 9% on a per boe basis when compared to the nine months ended September 30, 2021, due to higher costs for materials and labour from the impact of inflation.

### Depletion and depreciation

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Depletion and depreciation | $ 9,779 | $ 6,109 | $ 27,492 | $ 18,473 |
| Per BOE | $ 9.05 | $ 7.62 | $ 9.33 | $ 7.91 |

Depletion and depreciation expense increased in Q3 2022 due to increases in production. On a per boe basis, the depletion rate increased when compared Q3 2021 due to higher finding and development costs in the 2022 reserve base.

### General and administrative expenses ("G&A")

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Gross G&A expenses | $ 1,053 | $ 1,071 | $ 3,675 | $ 2,891 |
| G&A recoveries | (212) | (308) | (913) | (962) |
| Net G&A expenses | $ 841 | $ 763 | $ 2,762 | $ 1,929 |
| Per BOE | $ 0.78 | $ 0.95 | $ 0.94 | $ 0.83 |

G&A during Q3 2022 remained flat on a gross basis and increased marginally on a net basis. When compared to the nine months ended September 30, 2021, G&A increased by 27% on a gross basis due to staffing changes and inflation and increased by 43% on a net basis due to due a higher proportion of overhead recoveries.

On a boe basis, for the three months ended September 30, 2022 G&A decreased by 18% due to the effect of increased production volumes in 2022. For the nine months ended September 30, 2022, G&A increased by 13% on a boe basis due to staffing changes and inflation.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

### Other expenses

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Cash Finance | | | | |
| Cash interest and finance expense | $ 2,677 | $ 2,824 | $ 7,353 | $ 8,415 |
| Lease interest paid | 86 | 88 | 259 | 274 |
| Realized interest rate contract settlement | - | 304 | (393) | 506 |
| Non-Cash Finance | | | | |
| Change in fair value of interest rate contracts | - | (661) | 364 | (2,849) |
| Accretion of decommissioning liability | 106 | 45 | 238 | 112 |
| Accretion of debt issue costs | 102 | 133 | 357 | 342 |
| Accretion on lease obligations | (11) | (39) | (106) | (122) |
| | $ 2,960 | $ 2,694 | $ 8,072 | $ 6,678 |
| Share-based compensation | $ 168 | $ 392 | $ 506 | $ 951 |

Interest and financing fees in Q3 2022 include interest on the revolving operating demand loan (the average amount drawn in Q3 2022 was $159 million), servicing charges on the demand loan and the change in fair value of the interest rate contracts.

For the nine months ended September 30, 2022, if interest rates had been 1% lower with all other variables held constant, net income would have been $1,285 (2021 - $1,473) 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 September 30, 2022.

During the nine months ended September 30, 2022, the Company granted options to purchase 1,318 common shares exercisable at a weighted average price of $2.60 per share for a period of five years with a variety of vesting periods. The fair value of the options was estimated at $1.29 using the Black-Scholes option pricing model.

### Commodity price risk contracts

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Realized gain (loss) on commodity contract settlement | $ (325) | $ (267) | $ (3,026) | $ (3,657) |
| Change in fair value of commodity contracts | 821 | (97) | 1 | (1,104) |
| | $ 496 | $ (364) | $ (3,025) | $ (4,761) |

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

As at September 30, 2022 the Company was committed to the following commodity price risk contracts:

| Year | Volume | Term | Reference | Type | Strike Price |
|---|---|---|---|---|---|
| Natural Gas | | | | | |
| 2022 | 2,500 GJ/d | Apr - Oct | AECO - Monthly 5A | Swap | CAD $4.49/GJ |
| 2022 | 5,000 GJ/d | Apr - Oct | AECO - Monthly 7A | Swap | CAD $4.50/GJ |
| Propane | | | | | |
| 2022 | 200 bbl/d | Jan to 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 September 30, 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.

**Deferred Taxes**

| | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Deferred tax expense | $ 8,257 | $ 4,157 | $ 25,383 | $ 9,296 |

Yangarra did not pay income taxes in 2022 and does not expect to pay income taxes during 2023 as it expects to have sufficient tax pools to cover taxable income. Deferred tax expense is higher in the 2022 periods than in the 2021 periods due to the increased use of tax pools to offset higher expected taxable income in the 2022 period.

## Liquidity and Capital Resources

The following table summarizes the change in adjusted net debt during the nine months ended September 30, 2022 and year ended December 31, 2021:

| | Nine months ended September 30, 2022 | Year ended December 31, 2021 |
|---|---|---|
| Adjusted net debt - beginning of period | $ (196,794) | $ (197,414) |
| Funds flow from operations | 135,386 | 90,921 |
| Additions to property and equipment | (81,322) | (88,153) |
| Decommissioning costs incurred | - | (881) |
| Additions to E&E Assets | (3,888) | (387) |
| Issuance of shares | 1,040 | 1,132 |
| Other | (1,618) | (2,012) |
| Adjusted net debt - end of period | $ (147,196) | $ (196,794) |
| Credit facility limit | $ 210,000 | $ 210,000 |

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

As at September 30, 2022, the maximum amount available under the syndicated credit facility was $210,000 (December 31, 2021 – $210,000) comprised of a $185,000 (December 31, 2021 – $185,000) extendable revolving term credit facility and a $25,000 (December 31, 2021 – $25,000) 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 facility lasts for a 183-day period and will be subject to its next 364-day extension by November 26, 2022. If not extended by November 26, 2022, the Facility will cease to revolve and all outstanding balances will become repayable one year from that date.

As at September 30, 2022, the $153,859 (December 31, 2021 – $195,422) reported amount of bank debt was comprised of $10,149 (December 31, 2021 – $11,564) drawn on the operating facility, $144,130 (December 31, 2021 – $184,373) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $420 (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 September 30, 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 nine months ended September 30, 2022, the weighted average effective interest rate for the bank debt was approximately 6.02% (2021 – 5.42%).

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

## Capital Spending

| Cash additions | 2022 Q3 | 2021 Q3 | Nine Months Ended 2022 | Nine Months Ended 2021 |
|---|---|---|---|---|
| Land, acquisitions and lease rentals | $ 200 | $ 327 | $ 401 | $ 143 |
| Drilling and completion | $ 28,114 | 19,847 | 70,260 | 53,997 |
| Geological and geophysical | $ 164 | 42 | 477 | 433 |
| Equipment | $ 4,345 | 3,136 | 9,604 | 6,522 |
| Other asset additions | $ 273 | 122 | 580 | 434 |
| | $ 33,096 | $ 23,474 | $ 81,322 | $ 61,529 |
| | | | | |
| Exploration & evaluation assets | $ 3,506 | $ 41 | $ 3,888 | $ 175 |

Yangarra drilled 8 wells and completed 8 wells in the third quarter of 2022, the optimization program also continued during the quarter on existing wells. The E&E asset additions are for raw land purchases in the Rocky Mountain House area.

## Outlook

Yangarra has a $110 million capital budget for 2022 which will keep one drilling rig fully utilized for the balance of the year.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

## Decommissioning Liabilities

As at September 30, 2022, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $17,837 for which $13,917 has been recorded using a discount rate of 2.27% - 3.79% an inflation rate of 2% and an estimated weighted average timing of cash flows of 6.3 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, 2021** | 86,649 | 8,287 |
| Grant of options | - | 1,318 |
| Forfeited options | - | (467) |
| Exercise of options | 1,302 | (1,302) |
| **Balance -September 30, 2022 and the date of this MD&A** | 87,951 | 7,836 |

## 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.

## Contractual Obligations and Commitments

As at September 30, 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 | $ 35,925 | $ 35,925 | $ 35,925 | $ - | $ - |
| Bank debt | 153,859 | 154,279 | - | 154,279 | - |
| Lease obligations | 3,582 | 4,513 | 2,189 | 1,233 | 1,091 |
| Other liabilities | 866 | 866 | - | - | 866 |
| Commodity contracts | 33 | 33 | 33 | - | - |
| | $ 194,265 | $ 195,616 | $ 38,147 | $ 155,512 | $ 1,957 |

## 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.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. The maximum exposure to credit risk for the carrying amount of accounts receivable by type of customer was:

| | *September 30, 2022* | *December 31, 2021* |
|---|---|---|
| Natural gas and liquids marketers | $ **23,255** | $ 16,186 |
| Partners on joint operations | **9,514** | 8,638 |
| Other | **2,160** | 2,712 |
| | $ **34,929** | $ 27,536 |

As at September 30, 2022 and December 31, 2021, the Company's receivables are aged as follows:

| | *September 30, 2022* | *December 31, 2021* |
|---|---|---|
| Under 30 days | $ **24,823** | $ 18,453 |
| 30 to 60 days | **323** | 50 |
| 60 to 90 days | **1,443** | 888 |
| Over 90 days | **8,340** | 8,145 |
| | $ **34,929** | $ 27,536 |

## 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:

| | *September 30, 2022* | *December 31, 2021* |
|---|---|---|
| Shareholders' equity | $ 448,140 | $ 364,959 |
| Bank debt | $ 153,859 | $ 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.

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 adjusted 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 September 30, 2022 and December 31, 2021, the Company's capital structure was subject to the banking covenant disclosed in note 3 of the September 30, 2022 unaudited condensed interim consolidated financial statements. No changes were made to the capital policy in 2022.

For the three and nine months ended September 30, 2022 (000's of CDN dollars, except per share and per unit)

## Selected Quarterly Financial Information

| | 2022 Q3($) | 2022 Q2($) | 2022 Q1($) | 2021 Q4($) |
|---|---|---|---|---|
| Petroleum & natural gas sales | 62,791 | 68,545 | 51,428 | 47,405 |
| Net income | 27,936 | 30,631 | 22,720 | 19,644 |
| Net income per share – basic (1) | 0.32 | 0.35 | 0.26 | 0.23 |
| Net income per share – diluted (1) | 0.30 | 0.33 | 0.25 | 0.22 |
| Funds flow from operations | 45,602 | 50,028 | 39,757 | 32,425 |
| Funds flow from operations per share – basic (1) | 0.52 | 0.57 | 0.46 | 0.38 |
| Funds flow from operations per share –diluted (1) | 0.49 | 0.54 | 0.43 | 0.36 |
| Capital expenditures (including E&E) | 36,602 | 27,269 | 21,340 | 26,836 |

| | 2021 Q3 ($) | 2021 Q2 ($) | 2021 Q1 ($) | 2020 Q4 ($) |
|---|---|---|---|---|
| Petroleum & natural gas sales | 35,880 | 28,529 | 28,475 | 23,064 |
| Net income (loss) | 13,500 | 7,753 | 9,117 | 4,847 |
| Net income (loss) per share – basic (1) | 0.16 | 0.09 | 0.11 | 0.05 |
| Net income (loss) per share – diluted (1) | 0.15 | 0.09 | 0.10 | 0.05 |
| Funds flow from operations | 24,126 | 17,240 | 17,091 | 11,493 |
| Funds flow from operations per share – basic (1) | 0.28 | 0.20 | 0.20 | 0.15 |
| Funds flow from operations per share –diluted (1) | 0.27 | 0.19 | 0.19 | 0.15 |
| Capital expenditures (including E&E) | 23,515 | 19,602 | 18,587 | 15,004 |

(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 mid-2020 due impact of COVID-19, the Company ceased capital expenditures in February 2020 resulting in a decline in production for Q2 2020. Drilling and completion operations resumed in Q3 2020 and commodity pricing improved in the latter part of 2020 and have improved significantly in 2022.

## 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 September 30, 2022, 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 September 30, 2022, 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 September 30, 2022 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 July 1, 2022 and ending on September 30, 2022, 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 2022 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 period ended September 30, 2022. Refer to Note 2 of the Company's December 31, 2021 audited consolidated financial statements.