Yangarra Resources Ltd.
Management's Discussion and Analysis
For the year ended December 31, 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 December 31, 2022 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 1, 2023.

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 flow 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 year ended December 31, 2022 and 2021 (in 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 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Cash flow from operating activities	$ 40,676	$ 36,835	$ 169,664	$ 91,266
Decommissioning costs incurred	291	416	291	881
Changes in non-cash working capital	841	(4,826)	7,239	(1,226)
Funds flow from operations	$ 41,808	$ 32,425	$ 177,194	$ 90,921

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 FFO 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 represents 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.

	Dec 31, 2022	Dec 31, 2021
Bank Debt	$ 139,405	$ 199,332
Accounts receivable	(31,950)	(22,751)
Prepaid expenses and inventory	(8,809)	(5,023)
Accounts payable and accrued liabilities	35,718	30,253
Adjusted net Debt	$ 134,364	$ 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 and adjusted 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. Adjusted working capital deficit (surplus) is current assets plus the undrawn availability under the extendable revolving term credit facility, divided by the current liabilities less the drawn portion of the extendable revolving term facility and excluding *unrealized commodity contracts. There is no IFRS measure that is reasonably comparable to adjusted working capital (deficit) surplus.*

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.

2022 Highlights

- Average production of 11,022 boe/d (45% liquids), an increase of 23% from 2021
- Oil and gas sales of $243 million, an increase of 73% from 2021
- Funds flow from operations of $177 million ($1.92 per share – fully diluted) an increase of 95% from 2021
- Adjusted EBITDA of $187 million ($2.03 per share – fully diluted)
- Net income of $106 million ($1.16 per share – fully diluted), resulting in an income margin of 44%
- Return on capital employed of 20.4%
- Operating costs of $7.29/boe (including $1.21/boe of transportation costs)
- Operating netback of $47.64/boe
- Operating margin of 79% and funds flow from operations margin of 73%
- G&A costs of $1.01/boe
- Royalties at 8% of oil and gas revenue
- Capital expenditures of $109 million for 32 wells versus a budget of $110 million for 30 wells
- Adjusted net debt of $134 million, a decrease of $62.4 million from 2021
- Retained earnings of $265 million
- Decommissioning liabilities of $14 million (discounted)
    - Less than $1.0 million is required to abandon all non-producing wells
    - Expenditures on abandonments and reclamations of $0.3 million for calendar 2022

Fourth Quarter Highlights

- Funds flow from operations of $42 million ($0.45 per share – fully diluted), an increase of 29% from the same period in 2021
- $13 million of adjusted net debt repayments
- Oil and gas sales of $60 million, an increase of 27% from the same period in 2021
- Adjusted EBITDA of $45 million ($0.48 per share – fully diluted), an increase of 28% from the same period in 2021

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

- Net income of $25 million ($0.27 per share – fully diluted), an increase of 28% from the same period in 2021
- Average production of 11,712 boe/d (45% liquids), a 16% increase from the same period in 2021
- Operating costs of $7.99/boe (including $1.22/boe of transportation costs)
- Operating netback of $42.84/boe
- Operating margin of 77% and funds flow from operations margin of 69%
- G&A costs of $1.21/boe
- Royalties at 9% of oil and gas revenue
- All in cash costs of $17.19/boe
- Capital expenditures of $28 million
- Adjusted net debt to fourth quarter annualized funds flow from operations of 0.80 : 1

Financial Information

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Statements of Income and Comprehensive Income				
Petroleum & natural gas sales	$ 60,292	$ 47,405	$ 243,056	$ 140,289
Income before tax	$ 31,075	$ 25,547	$ 137,745	$ 65,213
Net income	$ 25,071	$ 19,644	$ 106,358	$ 50,014
Net income per share - basic	$ 0.29	$ 0.23	$ 1.22	$ 0.58
Net income per share - diluted	$ 0.27	$ 0.22	$ 1.16	$ 0.56
Statements of Cash Flow				
Funds flow from operations	$ 41,808	$ 32,425	$ 177,194	$ 90,921
Funds flow from operations per share - basic	$ 0.48	$ 0.38	$ 2.03	$ 1.06
Funds flow from operations per share - diluted	$ 0.45	$ 0.36	$ 1.92	$ 1.02
Cash flow from operating activities	$ 40,675	$ 36,835	$ 169,664	$ 91,266
Weighted average number of shares - basic	87,956	86,449	87,423	85,892
Weighted average number of shares - diluted	92,742	90,636	92,054	89,376

	December 31, 2022	December 31, 2021
Statements of Financial Position		
Property and equipment	$ 701,045	$ 627,948
Total assets	$ 768,058	$ 683,469
Working capital (deficit) surplus	$ (136,920)	$ (3,729)
Adjusted net debt	$ 134,364	$ 196,794
Shareholders equity	$ 473,574	$ 364,959

Business Environment

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Realized Pricing (Including realized commodity contracts)				
Light Crude Oil ($/bbl)	$ 112.53	$ 89.49	$ 116.26	$ 78.24
NGL ($/bbl)	$ 51.64	$ 51.54	$ 61.53	$ 45.11
Natural Gas ($/mcf)	$ 5.25	$ 4.67	$ 5.53	$ 3.75
Realized Pricing (Excluding commodity contracts)				
Light Crude Oil ($/bbl)	$ 112.53	$ 89.49	$ 117.78	$ 82.01
NGL ($/bbl)	$ 51.70	$ 51.61	$ 61.45	$ 45.10
Natural Gas ($/mcf)	$ 5.21	$ 4.95	$ 5.64	$ 3.87
Oil Price Benchmarks				
West Texas Intermediate ("WTI") (US$/bbl)	$ 82.79	$ 77.45	$ 94.41	$ 67.65
Edmonton Par ($/bbl)	$ 107.43	$ 91.70	$ 119.40	$ 79.80
Edmonton Par to WTI differential (US$/bbl)	$ (3.68)	$ (4.67)	$ (2.47)	$ (3.89)
Natural Gas Price Benchmarks				
AECO gas ($/mcf)	$ 4.85	$ 4.41	$ 4.99	$ 3.49
Foreign Exchange				
Canadian Dollar/U.S. Exchange	0.74	0.79	0.77	0.80

Crude oil prices increased by 40% for the year ended December 31, 2022, with the West Texas Intermediate ("**WTI**") reference price averaging US$94.41/bbl compared with US$67.65/bbl in the same period in 2021 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, 2022 when compared to the same period in 2021, moving from a US$3.89/bbl differential in 2021 to US$2.47/bbl in 2022. In the year ended December 31, 2022 the CDN/US foreign exchange rate was 0.77 compared to 0.80 for in 2021. 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 2021, realized pricing on oil increased by 44%, excluding commodity contracts, and increased by 49% when the effects of commodity contracts are included.

When compared to 2021, liquids pricing increased by 36%, due to increases in propane and condensate pricing in 2022.

When compared to 2021, realized pricing on natural gas increased by 46%, excluding commodity contracts, and increased by 47% when the effects of commodity contracts are included, primarily due to the increase in AECO natural gas prices.

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Daily production volumes				
Natural Gas (mcf/d)	38,971	33,774	36,702	29,092
Light Crude Oil (bbl/d)	3,077	2,744	2,798	2,373
NGL's (bbl/d)	2,140	1,687	2,106	1,709
Combined (BOE/d 6:1)	11,712	10,060	11,022	8,931
Revenue				
Petroleum & natural gas sales - Gross	$ 60,292	$ 47,405	$ 243,056	$ 140,289
Realized gain (loss) on commodity contract settlement	106	(872)	(2,920)	(4,529)
Total sales	60,398	46,533	240,136	135,760
Royalty expense	(5,627)	(3,287)	(19,170)	(8,722)
Total Revenue - Net of royalties	$ 54,771	$ 43,246	$ 220,966	$ 127,038

Total sales increased by 73% in 2022 to $240 million from $136 million in 2021. The increase is attributable to:

- a 40% increase in average product prices
- a 23% increase in production (on a boe basis)

Company Netbacks ($/boe)

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Sales price	$ 55.95	$ 51.22	$ 60.42	$ 43.04
Royalty expense	(5.22)	(3.55)	(4.77)	(2.68)
Production costs	(6.77)	(6.32)	(6.07)	(5.60)
Transportation costs	(1.22)	(1.09)	(1.21)	(1.10)
Field operating netback	**42.74**	**40.26**	**48.37**	**33.66**
Realized gain (loss) on commodity contract settlement	0.10	(0.94)	(0.73)	(1.39)
Operating netback	**42.84**	**39.32**	**47.64**	**32.27**
G&A	(1.21)	(1.09)	(1.01)	(0.90)
Cash finance expenses	(2.86)	(3.53)	(2.79)	(2.52)
Depletion and depreciation	(9.44)	(9.42)	(9.36)	(8.34)
Non Cash - finance expenses	(0.41)	1.67	(0.09)	(0.05)
Stock-based compensation	(0.11)	(0.40)	(0.16)	(0.41)
Unrealized gain (loss) on financial instruments	0.03	1.04	0.01	(0.04)
Deferred income tax	(5.57)	(6.38)	(7.80)	(4.66)
Net income netback	**$ 23.26**	**$ 21.21**	**$ 26.44**	**$ 15.34**

The overall average price earned by the Company during 2022 was higher when compared to 2021 as natural gas prices increased by 47%, oil prices increased by 49% and liquids prices increased by 36%. The average sales price increased by 40% during 2022 when compared to 2021.

Operating netbacks increased by 48% during 2022 when compared to 2021 with higher realized pricing.

Field netbacks increased by 44% during 2022 with higher realized pricing in 2022 and the impact of realized losses on commodity contracts.

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Royalty expense	$ 5,627	$ 3,287	$ 19,170	$ 8,722
Per BOE	$ 5.22	$ 3.55	$ 4.77	$ 2.68
As a % of sales (including commodity contracts)	9%	7%	8%	6%
As a % of sales (excluding commodity contracts)	9%	7%	8%	6%

For 2022 royalties increased to $19,170 or 8% as a percentage of sales. The increase is a result of higher royalty rates due to wells paying out under the C* royalty program and due to increased commodity pricing.

Production and Transportation Costs

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Production costs	$ 7,299	$ 5,849	$ 24,434	$ 18,254
Per BOE	$ 6.77	$ 6.32	$ 6.07	$ 5.60
Transportation costs	$ 1,315	$ 1,013	$ 4,874	$ 3,599
Per BOE	$ 1.22	$ 1.09	$ 1.21	$ 1.10
Combined ($/BOE)	$ 7.99	$ 7.41	$ 7.29	$ 6.70

Production and transportation costs increased by 9% on a per boe basis when compared to 2021 due to the increased impact of inflation in 2022. On a dollar basis, operating costs increased by 34% due to increased production. The fourth quarter 2022 per boe operating costs were higher than the same period in 2021 due to harsher cold weather in December 2022.

Depletion and depreciation

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Depletion and depreciation	$ 10,167	$ 8,714	$ 37,659	$ 27,187
Per BOE	$ 9.44	$ 9.42	$ 9.36	$ 8.34

Depletion and depreciation increased in the year ended December 31, 2022 due to an increase in production. On a per boe basis, depletion increased when compared 2021 due to increased finding and development costs in 2022.

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

General and administrative expenses ("G&A")

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Gross G&A expenses	$ 1,727	$ 1,387	$ 5,403	$ 4,278
G&A recoveries	(418)	(381)	(1,331)	(1,343)
Net G&A expenses	$ 1,309	$ 1,006	$ 4,072	$ 2,935
Per BOE	$ 1.21	$ 1.09	$ 1.01	$ 0.90

G&A increased by 39% on a net basis and increased by 26% on a gross basis when compared to 2021 due to increased costs related to an increase in production. G&A increased by 12% in Q4 on a boe basis due to bonuses for field staff during 2022.

Other expenses

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Cash Finance				
Cash interest and finance expense	$ 3,001	$ 2,915	$ 10,393	$ 11,329
Lease interest paid	79	90	340	119
Realized interest rate contract settlement	-	297	(393)	802
Non-Cash Finance				
Change in fair value of interest rate contracts	-	(1,735)	364	(4,542)
Accretion of decommissioning liability	86	49	349	161
Accretion of debt issue costs	117	136	459	478
Accretion on lease obligations	237	(39)	79	42
	$ 3,520	$ 1,713	$ 11,591	$ 8,389
Share-based compensation	$ 121	$ 371	$ 627	$ 1,322

Interest and financing fees include interest on the Company's bank debt (the average amount drawn in 2022 was $167 million), bank debt servicing charges and the change in fair value of the interest rate contracts.

For the year ended December 31, 2022, if interest rates had been 1% lower with all other variables held constant, net income would have been $1,674 (2021 - $1,978) 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, 2022, the Company granted stock options to purchase 1,354 (2021 – 2,026) common shares, with 1/3 vesting each year starting one year after the grant date. The fair value of the stock options was estimated at $1,180 (2021 - $1,317) using the Black-Scholes option pricing model.

Commodity price risk contracts

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Realized gain (loss) on commodity contract settlement	$ 106	$ (872)	$ (2,920)	$ (4,529)
Change in fair value of commodity contracts	35	965	36	(139)
	$ 141	$ 93	$ (2,884)	$ (4,668)

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

As at December 31, 2022, the Company was committed to the following natural gas commodity price risk contract:

Year	Volume	Term	Reference	Type	Strike Price
2023	500 GJ/d	Jan - Dec	AECO - Monthly 7A	Collar	CAD $2.50 - $7.25/GJ
Total					

As the Company had a limited number of derivatives in place as at December 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.

Deferred Taxes

	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Deferred tax expense	$ 6,004	$ 5,903	$ 31,387	$ 15,199

Yangarra did not pay income taxes in 2022 and does not expect to pay income taxes in 2023 or into the near future as it has 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 periods.

	Rate %	Year Ended 2022
Canadian oil and gas property expenses	10	$ 23,665
Canadian development expenses	30	161,117
Undepreciated capital costs	10-30	40,866
Non-capital losses (various expiry dates)	100	34,296
		$ 259,944

For the year ended December 31, 2022 and 2021 (in 000's of 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, 2022 and 2021:

	Year ended December 31, 2022	Year ended December 31, 2021
Adjusted net debt - beginning of period	$ (196,794)	$ (197,414)
Funds flow from operations	177,194	90,921
Additions to property and equipment	(109,354)	(88,153)
Decommissioning costs incurred	(291)	(881)
Additions to E&E Assets	(3,888)	(387)
Issuance of shares	1,077	1,131
Lease obligation repayment	(2,331)	(2,003)
Other	23	(8)
Adjusted net debt - end of period	$ (134,364)	$ (196,794)
Credit facility limit	$ 180,000	$ 210,000

As at December 31, 2022, the maximum amount available under the syndicated credit facility was $180,000 (December 31, 2021 – $210,000) comprised of a $155,000 (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 syndicate of lending institutions' forecast commodity prices, the current economic environment and other factors as determined by the syndicate (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 May 31, 2023. If not extended by May 31, 2023, the Facility will cease to revolve and all outstanding balances will become repayable six months from that date.

As at December 31, 2022, the $139,405 (December 31, 2021 – $195,422) reported amount of bank debt was comprised of $593 (December 31, 2021 – $11,564) drawn on the operating facility, $139,130 (December 31, 2021 – $184,373) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of $318 (December 31, 2021 – $515).

The Company is subject to a single financial covenant requiring an adjusted working capital ratio above 1:1. The Company was in compliance with this covenant as at December 31, 2022 and December 31, 2021. The syndicated credit facility is secured by a general security agreement over all assets of the Company. The total standby fees on the revolving facility 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, 2022, the weighted average effective interest rate for the bank debt was approximately 6.4% (2021 – 5.3%).

The Company intends to fund the 2023 budget with cash flow from operations and availability on the revolving term credit facility.

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

Capital Spending

Cash additions	2022 Q4	2021 Q4	Year Ended 2022	Year Ended 2021
Land, acquisitions and lease rentals	$ 26	$ (89)	$ 427	$ 54
Drilling and completion	26,009	23,994	96,271	77,991
Geological and geophysical	94	114	571	547
Equipment	1,596	2,349	11,200	8,872
Other asset additions	305	255	885	689
	$ 28,030	$ 26,623	$ 109,354	$ 88,153
Exploration & evaluation assets	$ -	$ 212	$ 3,888	$ 387

During 2022, Yangarra drilled 32 wells and continued the optimization program on existing wells. The E&E asset additions in 2022 are for raw land purchases in the Rocky Mountain House area.

Outlook

Yangarra has a $125 million capital budget for 2023 which will keep one drilling rig fully utilized for the year.

Decommissioning Liabilities

As at December 31, 2022, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $18,490 for which $14,081 has been recorded using a discount rate of 2.27% - 4.06% an inflation rate of 2% and an estimated weighted average timing of cash flows of 6.7 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	-	1,354
Forfeited options	-	(526)
Exercise of options	1,336	(1,336)
Balance -December 31, 2022 and the date of this MD&A	87,985	7,779

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

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 December 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	$ 35,718	$ 35,718	$ 35,718	$ -	$ -
Bank debt	139,405	139,825	-	139,825	-
Lease obligations	3,095	3,941	2,092	947	902
Other liabilities	1,018	1,018	-	-	1,018
	$ 179,236	$ 180,502	$ 37,810	$ 140,772	$ 1,920

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, 2022, the maximum credit exposure is the carrying amount of the accounts receivable of $31,950 (2021 – $27,536). The maximum exposure to credit risk for accounts receivable as at December 31, 2022 and 2021 by type of customer was:

	December 31, 2022	December 31, 2021
Natural gas and liquids marketers	$ 19,985	$ 16,186
Partners on joint operations	9,677	8,638
Other	2,288	2,712
	$ 31,950	$ 27,536

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

	December 31, 2022	December 31, 2021
Under 30 days	$ 21,273	$ 18,453
30 to 60 days	486	50
60 to 90 days	1,942	888
Over 90 days	8,249	8,145
	$ 31,950	$ 27,536

For the year ended December 31, 2022 and 2021 (in 000's of 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, 2022	*December 31, 2021*
Shareholders' equity	$ 473,574	$ 364,959
Bank debt	$ 139,405	$ 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 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, 2022 and December 31, 2021, the Company's capital structure was subject to banking covenants. No changes were made to the capital policy in 2022.

Selected Quarterly Financial Information

	2022 Q4($)	2022 Q3($)	2022 Q2($)	2022 Q1($)
Petroleum & natural gas sales	60,292	62,791	68,545	51,428
Net income	25,071	27,936	30,631	22,720
Net income per share – basic (1)	0.29	0.32	0.35	0.26
Net income per share – diluted (1)	0.27	0.30	0.33	0.25
Funds flow from operations	41,808	45,602	50,028	39,757
Funds flow from operations per share – basic (1)	0.48	0.52	0.57	0.46
Funds flow from operations per share –diluted (1)	0.45	0.49	0.54	0.43
Capital expenditures (including E&E)	28,030	36,602	27,269	21,340

For the year ended December 31, 2022 and 2021 (in 000's of CDN dollars, except per share and per unit)

	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.

Quarterly activities

Fluctuations in quarterly revenues, net income and FFO 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 which has resulted in 32 new wells put on production in 2022 and a corresponding increase in petroleum and natural gas sales related to both higher production volumes and commodity prices.

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, 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 Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that, as at December 31, 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 ("ICFR") 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, 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 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, 2022 and ending on December 31, 2022, there were no material changes to the Company's ICFR 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 year ended December 31, 2022. Refer to Note 2 of the Company's December 31, 2022 audited consolidated financial statements.