



**Yangarra Resources Ltd.**  
**Management's Discussion and Analysis**  
*For the three and nine months ended September 30, 2023 and 2022*

# **YANGARRA RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2023 (in 000's of CDN dollars, except per share and per unit)

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*Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the Company's September 30, 2023 unaudited condensed interim consolidated financial statements and 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.sedarplus.ca](http://www.sedarplus.ca).*

*The MD&A has been prepared using information that is current to November 7, 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. Figures that are presented on a boe basis herein are calculated as the total aggregate amount for the period divided by boe production volumes for the period. 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", "netbacks" "adjusted EBITDA" and "capital expenditures", 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. Readers are cautioned that such financial measures should not be construed as alternatives to or more meaningful than the most directly comparable IFRS measures as indicators of the Company's performance.*

### **Funds flow from operations ("FFO")**

*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.*

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

	2023	2022	Nine Months Ended	
	Q3	Q3	2023	2022
Cash flow from operating activities	\$ 25,995	\$ 47,440	\$ 82,235	\$ 128,988
Changes in non-cash working capital	2,999	(1,838)	(763)	6,398
Funds flow from operations	\$ 28,994	\$ 45,602	\$ 81,472	\$ 135,386

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. Field 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. Operating netback starts with Field Operating netback and 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 Operating 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. See “Company Netbacks”, below, for the Company’s calculation of 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 is used to assess efficiency, liquidity and the general financial strength of the Company. We define adjusted net debt to be the sum of our existing credit facilities, trade and other payables, and trade receivables and prepaids. The following table summarizes our calculation of adjusted net debt:*

	Sep 30, 2023	Dec 31, 2022
Bank Debt	\$ 127,073	\$ 139,405
Accounts receivable	(31,872)	(31,950)
Prepaid expenses and inventory	(9,634)	(8,809)
Accounts payable and accrued liabilities	31,357	35,718
Adjusted net Debt	\$ 116,924	\$ 134,364

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 commodity contracts, is used to assess efficiency, liquidity and the general financial strength of the Company.*

Working capital surplus (deficit)

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

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***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.*

# YANGARRA RESOURCES LTD.

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### 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<sup>(1)</sup> of \$29.0 million (\$0.29 per share – diluted), a decrease of 36% from the same period in 2022
- Petroleum and natural gas sales were \$45.4 million, a decrease of 28% from the same period in 2022
- Adjusted EBITDA<sup>(1)</sup> was \$31.6 million (\$0.32 per share – diluted)
- Net income of \$11.5 million (\$0.11 per share – diluted, \$15.2 million before tax), a decrease of 59% from the same period in 2022
- Average production of 12,109 boe/d (39% liquids) during the quarter, a 3% increase from the same period in 2022
- Operating costs were \$8.21/boe (including \$1.68/boe of transportation costs)
- Field operating netbacks<sup>(1)</sup> were \$29.79/boe
- Operating netbacks<sup>(1)</sup>, which include the impact of commodity contracts, were \$29.86/boe
- Operating margins were 73% and funds flow from operations<sup>(1)</sup> margins were 64%
- G&A costs of \$1.10/boe
- Royalties were 7% of oil and gas sales
- All in cash costs were \$14.79/boe
- Capital expenditures were \$25.3million
- Adjusted net debt<sup>(1)</sup> was \$116.9 million
- Adjusted net debt to third quarter annualized funds flow from operations was 1.0: 1
- \$3.0 million of adjusted net debt was repaid during the third quarter
- Retained earnings of \$299.3 million
- Decommissioning liabilities of \$15.2 million (discounted)

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<sup>1</sup> See Non-IFRS and Additional IFRS Measures

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**Operations Update**

Yangarra grew funds flow from operations <sup>(1)</sup> by 29% from last quarter, while maintaining production, despite a number of unplanned and extended 3<sup>rd</sup> party turnarounds. The nine wells brought on stream toward the end of Q3 are currently flowing back, recovering frac fluids.

Drilling costs continue to improve with a reduction of 15-30% in drilling spud to rig release times when compared with previous years, which has mitigated most of the cost escalations experienced over the past 18 months.

Completion techniques are evolving as well, and the Company is evaluating smart dart completions on six wells and three Perf & Plug completions for comparison with the standard coil activated sleeve completions.

Subsequent to the end of Q3, a small tuck-in of a jointly owned property was closed with 75 boe/d of production and 3 (1.25 net) sections of land at a compelling valuation.

**Financial Information**

	2023	2022	Nine Months Ended	
	Q3	Q3	2023	2022
<b>Statements of Income and Comprehensive Income</b>				
Petroleum & natural gas sales	\$ 45,414	\$ 62,791	\$ 132,865	\$ 182,764
Income before tax	\$ 15,157	\$ 36,193	\$ 47,073	\$ 106,670
Net income	\$ 11,487	\$ 27,936	\$ 34,229	\$ 81,287
Net income per share - basic	\$ 0.12	\$ 0.32	\$ 0.37	\$ 0.93
Net income per share - diluted	\$ 0.11	\$ 0.30	\$ 0.35	\$ 0.88
<b>Statements of Cash Flow</b>				
Funds flow from operations	\$ 28,994	\$ 45,602	\$ 81,472	\$ 135,386
Funds flow from operations per share - basic	\$ 0.31	\$ 0.52	\$ 0.88	\$ 1.55
Funds flow from operations per share - diluted	\$ 0.29	\$ 0.49	\$ 0.83	\$ 1.47
Cash flow from operating activities	\$ 25,995	\$ 47,440	\$ 82,235	\$ 128,988
Weighted average number of shares - basic	94,801	87,951	92,644	87,244
Weighted average number of shares - diluted	100,043	92,609	98,050	91,866

	September 30, 2023	December 31, 2022
<b>Statements of Financial Position</b>		
Property and equipment	\$ 751,896	\$ 701,045
Total assets	\$ 819,902	\$ 768,058
Working capital deficit	\$ (483)	\$ (136,920)
Adjusted net debt	\$ 116,924	\$ 134,364
Shareholders equity	\$ 523,399	\$ 473,574

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**Business Environment**

	2023		2022		Nine Months Ended			
	Q3		Q3		2023	2022		
<b>Realized Pricing (Including realized commodity contracts)</b>								
Light Crude Oil (\$/bbl)	\$	105.54	\$	116.44	\$	98.65	\$	118.26
NGL (\$/bbl)	\$	56.47	\$	56.35	\$	49.87	\$	64.93
Natural Gas (\$/mcf)	\$	2.80	\$	4.61	\$	2.92	\$	5.63
<b>Realized Pricing (Excluding commodity contracts)</b>								
Light Crude Oil (\$/bbl)	\$	107.06	\$	116.44	\$	99.11	\$	120.37
NGL (\$/bbl)	\$	54.60	\$	56.28	\$	48.36	\$	64.81
Natural Gas (\$/mcf)	\$	2.81	\$	4.71	\$	2.93	\$	5.79
<b>Oil Price Benchmarks</b>								
West Texas Intermediate ("WTI") (US\$/bbl)	\$	82.30	\$	93.18	\$	77.38	\$	98.68
Edmonton Par (\$/bbl)	\$	107.26	\$	116.64	\$	100.69	\$	123.39
Edmonton Par to WTI differential (US\$/bbl)	\$	(2.32)	\$	(3.37)	\$	(2.53)	\$	(2.44)
<b>Natural Gas Price Benchmarks</b>								
AECO gas (\$/mcf)	\$	2.44	\$	3.95	\$	2.69	\$	5.04
<b>Foreign Exchange</b>								
Canadian Dollar/U.S. Exchange		0.75		0.77		0.74		0.78

Crude oil prices decreased by 12% for Q3 2023, with the West Texas Intermediate ("WTI") reference price averaging US\$82.30/bbl compared with US\$93.18/bbl in the same period in 2022. For the nine months ended September 30, 2023, WTI prices were down 22% averaging US\$77.38/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 2023 when compared to Q3 2022, moving from a US\$3.37/bbl differential in Q3 2022 to US\$2.32/bbl in Q3 2023. In the nine months ended September 30, 2023, Edmonton par differentials widened from US\$2.44/bbl to US\$2.53/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.

When compared to the three and nine months ended September 30, 2022, realized pricing on oil earned in the 2023 periods decreased by 8% and 18%, respectively, excluding commodity contracts, and decreased by 9% and 17%, respectively, when the effects of commodity contracts are included. The decrease in oil pricing is a direct result of decreased WTI pricing and the impact of price differentials.

When compared to the three and nine months ended September 30, 2022, liquids pricing earned in the 2023 periods decreased by 3%, and 25%, respectively, excluding commodity contracts, and remained flat and decreased by 23%, respectively, when the effects of commodity contracts are included, due to lower condensate pricing which is linked to oil prices and lower butane pricing which is set by mid-streamers.

AECO natural gas prices decreased by 38% to \$2.44/mcf for the three months ended September 30, 2023 and by 47% to \$2.69/mcf for the nine months ended September 30, 2023 as compared to the 2022 periods.

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When compared to the three and nine months ended September 30, 2022, realized pricing on natural gas earned in the 2023 periods decreased by 40% and 49%, respectively, excluding commodity contracts, and decreased by 39% and 48%, respectively, when the effects of commodity contracts are included.

**Results of Operations**

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

	2023	2022	Nine Months Ended	
	Q3	Q3	2023	2022
<b>Daily production volumes</b>				
Natural Gas (mcf/d)	44,451	37,214	44,148	35,938
Light Crude Oil (bbl/d)	2,138	3,248	2,416	2,705
NGL's (bbl/d)	2,563	2,300	2,433	2,094
Combined (BOE/d 6:1)	12,109	11,750	12,207	10,789
<b>Revenue</b>				
Petroleum & natural gas sales	\$ 45,414	\$ 62,791	\$ 132,865	\$ 182,764
Realized gain (loss) on commodity contract settlement	78	(325)	548	(3,026)
Total sales	45,492	62,466	133,413	179,738
Royalty expense	(3,087)	(5,333)	(11,729)	(13,543)
Total Revenue - Net of royalties	\$ 42,405	\$ 57,133	\$ 121,684	\$ 166,195

Total sales in Q3 2023 decreased by 27% to \$45.5 million from \$62.5 million in 2022. The change is attributable to:

- A 30% decrease in average product prices
- A 3% increase in production (on a boe basis)
- Realized gains on commodity contracts of \$0.1 million in Q3 2023 versus losses of \$0.3 million in Q3 2022

Total sales in the nine months ended September 30, 2023 decreased by 26% to \$133.4 million from \$180.0 million in the same period 2022. The change is attributable to:

- A 36% decrease in average product prices; and
- A 13% increase in production (on a boe basis)
- Realized gains on commodity contracts of \$0.5 million versus losses of \$3.0 million in 2022



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**Company Netbacks (\$/boe)**

	2023		2022		Nine Months Ended			
	Q3		Q3		2023	2022		
Sales price	\$	40.76	\$	58.09	\$	39.87	\$	62.05
Royalty expense		(2.77)		(4.93)		(3.52)		(4.60)
Production costs		(6.53)		(6.26)		(6.69)		(5.82)
Transportation costs		(1.68)		(1.15)		(1.50)		(1.21)
<b>Field operating netback</b>		<b>29.78</b>		<b>45.74</b>		<b>28.16</b>		<b>50.43</b>
Realized gain (loss) on commodity contract settlement		0.07		(0.30)		0.16		(1.03)
<b>Operating netback</b>		<b>29.85</b>		<b>45.44</b>		<b>28.32</b>		<b>49.40</b>
G&A		(1.10)		(0.78)		(1.25)		(0.94)
Cash finance expenses		(2.77)		(2.56)		(2.77)		(2.66)
Depletion and depreciation		(9.14)		(9.05)		(9.02)		(9.33)
Non Cash - finance expenses		(0.27)		(0.18)		(0.11)		(0.08)
Stock-based compensation		(0.37)		(0.16)		(0.39)		(0.17)
Unrealized gain (loss) on financial instruments		(2.59)		0.76		(0.66)		0.00
Deferred income tax		(3.29)		(7.64)		(3.85)		(8.62)
<b>Net income netback</b>	\$	<b>10.32</b>	\$	<b>25.84</b>	\$	<b>10.27</b>	\$	<b>27.60</b>

The overall average price earned by the Company in Q3 2023 was lower when compared to Q3 2022 as natural gas prices decreased by 39%, oil prices decreased by 9% and liquids prices remained flat. The average sales price decreased by 30% in Q3 2023 when compared to 2022.

Operating netbacks decreased by 34% in Q3 2023 and decreased by 43% for the nine months ended September 30, 2023 when compared to the same periods in 2022 due to higher realized pricing earned 2022.

Field netbacks decreased by 35% in Q3 2023 and decreased by 44% for the nine months ended September 30, 2023 with higher realized pricing in 2022 and the impact of realized losses on commodity contracts.

**Royalty**

	2023		2022		Nine Months Ended			
	Q3		Q3		2023	2022		
Royalty expense	\$	3,087	\$	5,333	\$	11,729	\$	13,543
Per BOE	\$	2.77	\$	4.93	\$	3.52	\$	4.60
As a % of sales (including commodity contracts)		7%		9%		9%		8%
As a % of sales (excluding commodity contracts)		7%		8%		9%		7%

Royalties decreased to \$3,087 during Q3 2023 or 7% as a percentage of sales (excluding commodity contact settlements) as a result of lower commodity pricing. For the nine months ended September 30, 2023 royalties decreased to \$11,729 or 9% as a percentage of sales. The increase in royalties as a percentage of sales is a result of more wells moving off the Alberta C-Star program in 2023.

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**Production and Transportation Costs**

	2023		2022		Nine Months Ended	
	Q3		Q3		2023	2022
Production costs	\$	7,271	\$	6,765	\$	22,299
Per BOE	\$	6.53	\$	6.26	\$	6.69
Transportation costs	\$	1,873	\$	1,248	\$	4,983
Per BOE	\$	1.68	\$	1.15	\$	1.50
Combined (\$/BOE)	\$	8.21	\$	7.41	\$	8.19

Production and transportation costs increased by 11% on a per boe basis in Q3 2023 and increased by 17% on a per boe basis when compared to the nine months ended September 30, 2022, due to higher costs to satisfy increased regulatory compliance burdens during 2023.

**Depletion and depreciation**

	2023		2022		Nine Months Ended	
	Q3		Q3		2023	2022
Depletion and depreciation	\$	10,182	\$	9,779	\$	30,053
Per BOE	\$	9.14	\$	9.05	\$	9.02

Depletion and depreciation expense increased in Q3 2023 due to increases in production. On a per boe basis, the depletion rate has remained relatively flat when compared to 2022.

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

	2023		2022		Nine Months Ended	
	Q3		Q3		2023	2022
Gross G&A expenses	\$	1,320	\$	1,053	\$	4,920
G&A recoveries		(89)		(212)		(754)
Net G&A expenses	\$	1,231	\$	841	\$	4,166
Per BOE	\$	1.10	\$	0.78	\$	1.25

G&A during Q3 2023 increased by 25% on a gross basis due to the cost of staffing changes to handle the increased regulatory requirements and increased by 46% on a net basis due to lower recoveries when compared to three months ended September 30, 2022. When compared to the nine months ended September 30, 2022, G&A increased by 34% on a gross basis due to the staffing changes and increased by 51% on a net basis due to due lower recoveries.

On a boe basis, for the three and nine months ended September 30, 2023, G&A increased by 42% and 33% due to the cost of staffing changes offset by the effect of increased production volumes in 2023.

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**Other expenses**

	2023		2022	
	Q3		Q3	
			Nine Months Ended	
			2023	2022
<b>Cash Finance</b>				
Cash interest and finance expense	\$	3,036	\$	2,677
Lease interest paid		52		85
Realized interest rate contract settlement		-		-
<b>Non-Cash Finance</b>				
Change in fair value of interest rate contracts		-		-
Accretion of decommissioning liability		129		106
Accretion of debt issue costs		182		102
Accretion on lease obligations		(13)		(10)
	\$	3,386	\$	2,960
			\$	9,605
			\$	8,072
Share-based compensation	\$	416	\$	168
			\$	1,301
			\$	506

Interest and financing fees include interest on the Company’s bank debt (the average amount drawn in Q3 2023 was \$132,000), bank debt servicing charges and the change in fair value of the interest rate contracts.

For the nine months ended September 30, 2023, if interest rates had been 1% lower with all other variables held constant, net income would have been \$972 (2022 - \$1,285) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

On January 2, 2023, the Company implemented a Restricted Share Unit (“RSU”) program. In the RSU program’s initial grant, the Company issued 1,590 RSUs that vest equally over 3 years with the last tranche vesting on January 2, 2026. The RSUs are exercisable in either cash or shares at the option of the Company. As it is the Company’s intention to settle in shares, the RSUs are treated as share-based compensation with a value on the date of issue of \$2.67 per RSU.

With the commencement of the RSU program, the Company will no longer issue any new options under the Stock Option plan. All previously issued stock options will continue to vest and expire as per the agreements in place when they were originally issued.

During the nine months ended September 30, 2023, the Company recognized \$1,301 (2022 – \$506) of share-based compensation in the condensed interim consolidated statements of income and comprehensive income. During the nine months ended September 30, 2023, the Company capitalized \$1,273 (2022 - \$348) of share-based compensation to property and equipment.

**Commodity price risk contracts**

	2023		2022	
	Q3		Q3	
			Nine Months Ended	
			2023	2022
Realized gain (loss) on commodity contract settlement	\$	78	\$	(325)
Change in fair value of commodity contracts		(2,889)		821
	\$	(2,811)	\$	496
			\$	(1,656)
			\$	(3,025)

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As at September 30, 2023 the Company was committed to the following commodity price risk contracts:

<b>Year</b>	<b>Volume</b>		<b>Term</b>	<b>Reference</b>	<b>Type</b>	<b>Strike Price</b>
<u>Natural Gas</u>						
2023	500	GJ/d	Jan - Dec	AECO - 7A	Collar	CAD \$2.50 - \$7.25/GJ
2023	7,000	GJ/d	Oct	AECO - 7A	Collar	CAD \$1.25 - \$2.50/GJ
2023	4,500	GJ/d	Oct	AECO - 7A	Collar	CAD \$1.40 - \$2.26/GJ
2023	5,700	GJ/d	Jul - Oct	AECO - 7A	Put	CAD \$1.50
2023	2,700	GJ/d	Jul - Oct	AECO - 7A	Put	CAD \$1.50
2023	6,500	GJ/d	Nov - Dec	AECO - 7A	Put	CAD \$1.50
2023/2024	6,000	GJ/d	Nov23 - Jun24	AECO - 7A	Put	CAD \$1.50
2023/2024	7,000	GJ/d	Nov23 - Jun24	AECO - 7A	Put	CAD \$1.50
2024	7,000	GJ/d	Jan - Jun	AECO - 7A	Put	CAD \$1.50
<u>Oil</u>						
2023	700	bb/d	Oct	WTI - CDN	Collar	CAD \$70.00 - 115.00 /bbl
2023	450	bb/d	Oct	WTI - CDN	Collar	CAD \$70.00 - 113.45 /bbl
2023	100	bb/d	Oct	WTI - USD	Swap	USD - \$87.50
2023	200	bb/d	Oct	WTI - CAD	Swap	CAD - \$118.00
2023	500	bb/d	Jul -Oct	WTI - USD	Put	USD - \$50.00
2023	200	bb/d	Jul -Oct	WTI - CDN	Collar	CAD \$70.00 - 108.10 /bbl
2023/2024	1,100	bb/d	Nov23 – Dec24	WTI - USD	Put	USD - \$50.00
2023/2024	500	bb/d	Nov23 – Dec24	WTI - USD	Put	USD - \$50.00
2024	1,100	bb/d	Jan - Jun	WTI - USD	Put	USD - \$50.00
2024	500	bb/d	Jan - Jun	WTI - USD	Put	USD - \$50.00
2023/2024	400	bb/d	Nov23 – Jun24	WTI - USD	Collar	USD \$60.00 - 100.00 /bbl
2023/2024	800	bb/d	Nov23 – Jun24	WTI - CAD	Collar	CAD \$90.00 - 127.00 /bbl
<u>Butane</u>						
2023	100	bb/d	Oct	Mnt Belvieu	Swap	USD 0.80/gal
2023	100	bb/d	Oct	Mnt Belvieu	Swap	CAD 1.08/gal
<u>Propane</u>						
2023	100	bb/d	Oct	Mnt Belvieu	Swap	USD 0.70/gal
2023	250	bb/d	Oct	Mnt Belvieu	Swap	CAD 0.956/gal

As the Company had a limited value of derivatives in place as at September 30, 2023, the sensitivity of the fair value of a 10% volatility in commodity prices would have a nominal impact on unrealized gains (losses) reported in the consolidated statements of income and comprehensive income.

**YANGARRA RESOURCES LTD.**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2023 (in 000's of CDN dollars, except per share and per unit)

**Deferred Taxes**

	2023	2022	Nine Months Ended	
	Q3	Q3	2023	2022
Deferred tax expense	\$ 3,670	\$ 8,257	\$ 12,844	\$ 25,383

Yangarra did not pay income taxes in Q3 2023 and does not expect to pay income taxes for the remainder of 2023 or into the near future as it has sufficient tax pools to cover taxable income. Deferred tax expense is lower in the 2023 period than in the 2022 period due to the decreased use of tax pools to offset lower estimated taxable income for Q3 2023.

**Liquidity and Capital Resources**

The following table summarizes the change in adjusted net debt during the three months ended September 30, 2023 and year ended December 31, 2022:

	Nine months ended	Year ended
	September 30, 2023	December 31, 2022
Adjusted net debt - beginning of period	\$ (134,364)	\$ (196,794)
Funds flow from operations	\$ 81,472	177,194
Additions to property and equipment	\$ (78,013)	(109,354)
Decommissioning costs incurred	\$ -	(291)
Additions to E&E Assets	\$ (264)	(3,888)
Issuance of shares	\$ 15,988	1,077
Lease obligation repayment	\$ (1,131)	(2,331)
Other	\$ (612)	23
Adjusted net debt - end of period	\$ (116,924)	\$ (134,364)

Credit facility limit	\$ 140,000	\$ 180,000
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As at September 30, 2023, the maximum amount available under the syndicated credit facility was \$140,000 (December 31, 2022 – \$180,000) comprised of a \$115,000 (December 31, 2022 – \$155,000) extendable revolving term credit facility and a \$25,000 (December 31, 2022 – \$25,000) operating facility. The credit facility will reduce by \$5,000 per quarter through to September 30, 2024, at which point the facility will remain at \$120,000. 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 facilities last for a 364-day period and will be subject to the next 364-day extension by May 31, 2024. If not extended by May 31, 2024, the facilities will cease to revolve, and all outstanding balances will become repayable on May 31, 2025.

# YANGARRA RESOURCES LTD.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended September 30, 2023 (in 000's of CDN dollars, except per share and per unit)

As at September 30, 2023, the \$127,073 (December 31, 2022 – \$139,405) reported amount of bank debt was comprised of \$14,113 (December 31, 2022 – \$593) drawn on the operating facility and \$114,135 (December 31, 2022 – \$139,130) drawn on the revolving facility and net of unamortized transaction costs of \$1,175 (December 31, 2022 – \$318).

The Company is subject to a financial covenant requiring an adjusted working capital ratio above 1:1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility and excluding unrealized commodity contracts). The Company was in compliance with this covenant as at September 30, 2023 and December 31, 2022. The facilities are secured by a general security agreement over all assets of the Company. Beginning July 3, 2023, the Company is required to ensure that not less than 50% of the forecasted daily production for the July 2023 – June 2024 twelve-month period is hedged. Thereafter, the Company is required to ensure that not less than 20% of the forecasted daily production for the July 2024 – December 2024 six-month period is hedged.

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 revolving facility is subject to a standby fee in the range of 75 bps to 125 bps.

During the nine months ended September 30, 2023, the weighted average effective interest rate for the bank debt was approximately 8.7% (nine months ended September 30, 2022 – 6.02%).

### Capital Spending

	2023	2022	Nine Months Ended	
	Q3	Q3	2023	2022
Cash additions				
Land, acquisitions and lease rentals	\$ 114	\$ 200	\$ 492	\$ 401
Drilling and completion	21,550	28,114	61,809	70,260
Geological and geophysical	-	164	240	477
Equipment	3,123	4,345	14,026	9,604
Other asset additions	547	273	1,446	580
	\$ 25,334	\$ 33,096	\$ 78,013	\$ 81,322
Exploration & evaluation assets	\$ -	\$ 3,506	\$ 264	\$ 3,888

Yangarra drilled nine wells and completed seven wells in the third quarter of 2023.

### Outlook

Yangarra has a \$110 - \$115 million capital budget for 2023 which will keep one drilling rig fully utilized for the year except during breakup.

### Decommissioning Liabilities

As at September 30, 2023, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be \$20,159 for which \$15,161 has been recorded using a discount rate of 2.86% - 4.87% an inflation rate of 2% and an estimated weighted average timing of cash flows of 6.1 years.

### Off Balance Sheet Arrangements

There were no off-balance sheet arrangements.

**YANGARRA RESOURCES LTD.**  
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For the three and nine months ended September 30, 2023 (in 000's of CDN dollars, except per share and per unit)

**Share Capital**

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

	Common Shares	Stock Options	Restricted Share Units
<b>Balance - December 31, 2022</b>	87,985	7,779	-
Equity financing	6,791	-	-
Granted	-	-	1,590
Exercised options	25	(25)	-
Cancelled	-	(145)	-
<b>Balance - September 30, 2023 and the date of this MD&amp;A</b>	94,801	7,609	1,590

On March 27, 2023, the Company closed a "bought deal" financing, completed by way of a short form prospectus. 6,791 common shares were issued on a flow-through basis in respect of Canadian development expenses ("CDE Flow-Through Shares") at a price of \$2.54 per CDE Flow-Through Share for gross proceeds of \$17,250.

**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, 2023 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	\$ 31,357	\$ 31,357	\$ 31,357	\$ -	\$ -
Bank debt	127,073	128,248	8,248	120,000	-
Lease obligations	2,797	3,203	1,380	876	947
Other liabilities	951	951	-	-	951
Commodity contracts	2,186	2,186	2,186	-	-
	<b>\$ 164,364</b>	<b>\$ 165,945</b>	<b>\$ 43,171</b>	<b>\$ 120,876</b>	<b>\$ 1,898</b>

**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.

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Purchasers of the Company's natural gas and liquids are subject to credit review to minimize the risk of non-payment. As at September 30, 2023, the maximum credit exposure is the carrying amount of the accounts receivable of \$31,872 (December 31, 2022 – \$31,950).

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

	<i>September 30, 2023</i>	<i>December 31, 2022</i>
Natural gas and liquids marketers	\$ 19,744	\$ 19,985
Partners on joint operations	8,892	9,677
Other	3,236	2,288
	<u>\$ 31,872</u>	<u>\$ 31,950</u>

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 October 2023.

The Company's receivables are aged as follows:

	<i>September 30, 2023</i>	<i>December 31, 2022</i>
Under 30 days	\$ 21,812	\$ 21,273
30 to 60 days	39	486
60 to 90 days	2,149	1,942
Over 90 days	7,872	8,249
	<u>\$ 31,872</u>	<u>\$ 31,950</u>

## 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:

	<i>September 30, 2023</i>	<i>December 31, 2022</i>
Shareholders' equity	\$ 523,399	\$ 473,574
Bank debt	\$ 127,073	\$ 139,405

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



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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, 2023 and December 31, 2022, the Company's capital structure was subject to banking covenants. No changes were made to the capital policy in 2023.

**Selected Quarterly Financial Information**

	2023	2023	2023	2022
	Q3(\$)	Q2(\$)	Q1(\$)	Q4(\$)
Petroleum & natural gas sales	45,414	38,396	49,055	60,292
Net income	11,487	7,833	14,909	25,071
Net income per share – basic <sup>(1)</sup>	0.12	0.08	0.17	0.29
Net income per share – diluted <sup>(1)</sup>	0.11	0.08	0.16	0.27
Funds flow from operations	28,994	22,410	30,068	41,808
Funds flow from operations per share – basic <sup>(1)</sup>	0.31	0.24	0.34	0.48
Funds flow from operations per share –diluted <sup>(1)</sup>	0.29	0.22	0.32	0.45
Capital expenditures (including E&E)	25,334	20,189	32,754	28,030

	2022	2022	2022	2021
	Q3 (\$)	Q2 (\$)	Q1 (\$)	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 <sup>(1)</sup>	0.32	0.35	0.26	0.23
Net income per share – diluted <sup>(1)</sup>	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 <sup>(1)</sup>	0.52	0.57	0.46	0.38
Funds flow from operations per share –diluted <sup>(1)</sup>	0.49	0.54	0.43	0.36
Capital expenditures (including E&E)	36,602	27,269	21,340	26,836

<sup>(1)</sup> 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 twenty-three additional wells in 2023 with a corresponding increase in petroleum and natural gas sales related to higher production volumes, offset by lower commodity prices in 2023.

# **YANGARRA RESOURCES LTD.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the three and nine months ended September 30, 2023 (in 000's of CDN dollars, except per share and per unit)

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### **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.sedarplus.ca](http://www.sedarplus.ca)

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 of the Company's December 31, 2022 audited consolidated financial statements.

### **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

As at September 30, 2023, 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, 2023, 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:

## **YANGARRA RESOURCES LTD.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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- (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, 2023 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 July 1, 2023 and ending on September 30, 2023, 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 2023 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, 2023. Refer to Note 2 of the Company's December 31, 2022 audited consolidated financial statements.