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

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, 2023 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 6, 2024.

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.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

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

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Cash flow from operating activities	$ 16,798	$ 40,676	$ 99,033	$ 169,664
Decommissioning costs incurred	488	291	488	291
Changes in non-cash working capital	266	841	(497)	7,238
Funds flow from operations	$ 17,552	$ 41,808	$ 99,024	$ 177,194

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 as 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:

	Dec 31, 2023	Dec 31, 2022
Bank Debt	$ 121,057	$ 139,405
Accounts receivable	(30,092)	(31,950)
Prepaid expenses and inventory	(8,918)	(8,809)
Accounts payable and accrued liabilities	36,599	35,718
Adjusted net Debt	$ 118,646	$ 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.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Net income for the Period	$ 12,435	$ 25,071	$ 46,664	$ 106,358
Finance	3,293	3,520	12,898	11,591
Deferred tax expense	3,671	6,004	16,515	31,387
Depletion and depreciation	9,385	10,167	39,438	37,659
Change in fair value of commodity contracts	(1,755)	(35)	449	(36)
Gain on settlemt of lawsuit	(6,957)	-	(6,957)	-
Adjusted EBITDA	$ 20,072	$ 44,727	$ 109,007	$ 186,959

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.

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.

2023 Highlights

- Average production of 11,936 boe/d (39% liquids), an increase of 8% from 2022
- Oil and gas sales of $166.5 million, a decrease of 31% from 2022
- Funds flow from operations of $99.0 million ($1.06 per share – fully diluted) a decrease of 44% from 2022
- Adjusted EBITDA of $109 million ($1.11 per share – fully diluted)
- Net income of $46.7 million ($0.47 per share – fully diluted), resulting in an income margin of 28%
- Return on capital employed of 9.5%
- Operating costs of $8.24/boe (including $1.54 /boe of transportation costs)
- Operating netback of $26.72/boe
- Operating margin of 70% and funds flow from operations margin of 59%
- G&A costs of $1.32/boe
- Royalties at 9% of oil and gas revenue
- Capital expenditures of $94.3 million
- Adjusted net debt of $118.6 million, a decrease of $15.7 million from 2022
- Retained earnings of $311.7 million
- Decommissioning liabilities of $16.0 million (discounted)
    - Less than $1.0 million is required to abandon all non-producing wells
    - Expenditures on abandonments and reclamations of $0.5 million for calendar 2023

Fourth Quarter Highlights

- Funds flow from operations of $17.6 million ($0.19 per share – fully diluted), a decrease of 58% from the same period in 2022
- Oil and gas sales of $33.7 million, a decrease of 44% from the same period in 2022
- Adjusted EBITDA of $20.1 million ($0.20 per share – fully diluted), a decrease of 40% from the same period in 2022
- Net income of $12.4 million ($0.14 per share – fully diluted), a decrease of 50% from the same period in 2022

- Average production of 11,133 boe/d (38% liquids), a 5% decrease from the same period in 2022
- Operating costs of $8.39/boe (including $1.70/boe of transportation costs)
- Operating netback of $21.54/boe
- Operating margin of 66% and funds flow from operations margin of 52%
- G&A costs of $1.55/boe
- Royalties at 8% of oil and gas revenue
- All in cash costs of $15.77/boe
- Capital expenditures of $16.0 million
- Adjusted net debt to fourth quarter annualized funds flow from operations of 1.69 : 1

Operations Update

- Yangarra continued to refine the Company's drilling approach resulting in a dramatic reduction in drilling times and drilling costs.
- The new core area of Chambers with Cardium, Belly River and Manville potential was delineated with five Cardium wells and one Belly River well with positive results.
- The Company added 2.2 new drilling locations for every well drilled.
- Several "Smart Dart" and Plug & Perf wells were tested during the year with the Company returning to cemented, coil activated sleeves completions while monitoring the results on the "Smart Dart" and Plug & Perf wells.
- Yangarra constrained the fourth quarter capital program due to ongoing depressed natural gas prices, resulting in capital spending of $16 million in Q4.
- Yangarra's primary goal in 2024 is to hit a debt target of $80 million and then focus on shareholder returns.
- The Company has set a capital budget of $70 million for 2024.
    - Yangarra will continue to constrain the capital program into 2024 because of depressed natural gas prices with spending of $20 - $25 million in the first half, dependent on the timing of spring breakup.
    - The second half spending has been set at $45 - $50 million, however this is dependent on an improvement in commodity pricing.
    - Included in the budget is a well stimulation and optimization program targeting 20-25% of legacy wells. This stimulation strategy was initiated in 2021 and now has evolved to where the Company can apply the strategy to the entire field annually.
    - The 2024 capital budget is designed to hold production flat for 2024, while maximizing debt repayment.
- A recent Computer Modelling Group (CMG) study indicated waterflood potential in the Halo Cardium and as a result Yangarra plans to initiate a waterflood pilot in Q2 2024 in the Chedderville area. Water for the pilot will be sourced from flow back and produced water, which would have otherwise needed to be disposed of, giving the project an added benefit of approximately $800,000 per year in avoided water disposal fees.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Financial Information

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Statements of Income and Comprehensive Income				
Petroleum & natural gas sales	$ 33,651	$ 60,292	$ 166,516	$ 243,056
Income before tax	$ 16,106	$ 31,075	$ 63,179	$ 137,745
Net income	$ 12,435	$ 25,071	$ 46,664	$ 106,358
Net income per share - basic	$ 0.13	$ 0.29	$ 0.50	$ 1.22
Net income per share - diluted	$ 0.12	$ 0.27	$ 0.47	$ 1.16
Statements of Cash Flow				
Funds flow from operations	$ 17,552	$ 41,808	$ 99,024	$ 177,194
Funds flow from operations per share - basic	$ 0.19	$ 0.48	$ 1.06	$ 2.03
Funds flow from operations per share - diluted	$ 0.18	$ 0.45	$ 1.01	$ 1.92
Cash flow from operating activities	$ 16,798	$ 40,675	$ 99,033	$ 169,664
Weighted average number of shares - basic	94,801	87,956	93,189	87,423
Weighted average number of shares - diluted	99,534	92,742	98,445	92,054

	December 31, 2023	December 31, 2022
Statements of Financial Position		
Property and equipment	$ 759,967	$ 701,045
Total assets	$ 835,217	$ 768,058
Working capital deficit	$ (735)	$ (136,920)
Adjusted net debt	$ 118,646	$ 134,364
Shareholders equity	$ 536,598	$ 473,574

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Business Environment

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Realized Pricing (Including realized commodity contracts)				
Light Crude Oil ($/bbl)	$ 101.92	$ 112.53	$ 98.42	$ 116.26
NGL ($/bbl)	$ 32.97	$ 51.64	$ 45.72	$ 61.53
Natural Gas ($/mcf)	$ 2.36	$ 5.25	$ 2.79	$ 5.53
Realized Pricing (Excluding commodity contracts)				
Light Crude Oil ($/bbl)	$ 103.51	$ 112.53	$ 99.11	$ 117.78
NGL ($/bbl)	$ 32.96	$ 51.70	$ 44.58	$ 61.45
Natural Gas ($/mcf)	$ 2.41	$ 5.21	$ 2.81	$ 5.64
Oil Price Benchmarks				
West Texas Intermediate ("WTI") (US$/bbl)	$ 78.48	$ 82.79	$ 77.65	$ 94.41
Edmonton Par ($/bbl)	$ 94.77	$ 107.43	$ 99.21	$ 119.40
Edmonton Par to WTI differential (US$/bbl)	$ (8.35)	$ (3.68)	$ (4.24)	$ (2.47)
Natural Gas Price Benchmarks				
AECO gas ($/mcf)	$ 2.18	$ 4.85	$ 2.72	$ 4.99
Foreign Exchange				
Canadian Dollar/U.S. Exchange	0.74	0.74	0.74	0.77

Crude oil prices decreased by 18% for the year ended December 31, 2023, with the West Texas Intermediate ("**WTI**") reference price averaging US$77.65/bbl compared with US$94.41/bbl in the same period in 2022 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 widened in the year ended December 31, 2023 when compared to the same period in 2022, moving from a US$2.47/bbl differential in 2022 to US$4.24/bbl in 2023. In the year ended December 31, 2023 the CDN/US foreign exchange rate was 0.74 compared to 0.77 in 2022. 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 2022, realized pricing on oil decreased by 16%, excluding commodity contracts, and decreased by 15% when the effects of commodity contracts are included.

When compared to 2022, liquids pricing decreased by 26%, due to decreased in propane and butane pricing in 2023.

When compared to 2022, realized pricing on natural gas decreased by 50%, excluding commodity contracts, and decreased by 50% when the effects of commodity contracts are included, primarily due to the decrease in AECO natural gas prices.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Daily production volumes				
Natural Gas (mcf/d)	41,283	38,971	43,426	36,702
Light Crude Oil (bbl/d)	1,913	3,077	2,288	2,798
NGL's (bbl/d)	2,339	2,140	2,411	2,106
Combined (BOE/d 6:1)	11,133	11,712	11,936	11,022
Revenue				
Petroleum & natural gas sales	$ 33,651	$ 60,292	$ 166,516	$ 243,056
Realized gain (loss) on commodity contract settlement	(460)	106	88	(2,920)
Total sales	33,191	60,398	166,604	240,136
Royalty expense	(2,529)	(5,627)	(14,258)	(19,170)
Total Revenue - Net of royalties	$ 30,662	$ 54,771	$ 152,346	$ 220,966

Total sales decreased 31% in 2023 to $167 million from $240 million in 2022. The decrease is attributable to:

- a 37% decrease in average product prices
- an 8% increase in production (on a boe basis)

Company Netbacks ($/boe)

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Sales price	$ 32.85	$ 55.95	$ 38.22	$ 60.42
Royalty expense	(2.47)	(5.22)	(3.27)	(4.77)
Production costs	(6.70)	(6.77)	(6.69)	(6.07)
Transportation costs	(1.70)	(1.22)	(1.54)	(1.21)
Field operating netback	**21.99**	**42.74**	**26.71**	**48.37**
Realized gain (loss) on commodity contract settlement	(0.45)	0.10	0.02	(0.73)
Operating netback	**21.54**	**42.84**	**26.73**	**47.64**
G&A	(1.55)	(1.21)	(1.32)	(1.01)
Cash finance expenses	(2.90)	(2.86)	(2.84)	(2.79)
Depletion and depreciation	(9.16)	(9.44)	(9.05)	(9.36)
Non Cash - finance expenses	(0.31)	(0.41)	(0.12)	(0.09)
Gain on settlement of lawsuit	6.79	-	1.60	-
Stock-based compensation	(0.39)	(0.11)	(0.39)	(0.16)
Unrealized gain (loss) on financial instruments	1.71	0.03	(0.10)	0.01
Deferred income tax	(3.58)	(5.57)	(3.79)	(7.80)
Net income netback	**$ 12.14**	**$ 23.26**	**$ 10.72**	**$ 26.44**

The overall average price earned by the Company during 2023 was lower when compared to 2022 as natural gas prices decreased by 50%, oil prices decreased by 15% and liquids prices decreased by 26%. The average sales price decreased by 37% during 2023 when compared to 2022.

Operating netbacks decreased by 44% during 2023 when compared to 2022 with lower realized pricing.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Field netbacks decreased by 45% during 2023 with lower realized pricing in 2023 and the impact of realized losses on commodity contracts.

Royalty

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Royalty expense	$ 2,529	$ 5,627	$ 14,258	$ 19,170
Per BOE	$ 2.47	$ 5.22	$ 3.27	$ 4.77
As a % of sales (including commodity contracts)	8%	9%	9%	8%
As a % of sales (excluding commodity contracts)	8%	9%	9%	8%

For 2023 royalties decreased to $14,258 or 9% as a percentage of sales. The increase is a result of higher royalty rates due to more wells paying out under the C* royalty program.

Production and Transportation Costs

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Production costs	$ 6,859	$ 7,299	$ 29,158	$ 24,434
Per BOE	$ 6.70	$ 6.77	$ 6.69	$ 6.07
Transportation costs	$ 1,739	$ 1,315	$ 6,722	$ 4,874
Per BOE	$ 1.70	$ 1.22	$ 1.54	$ 1.21
Combined ($/BOE)	$ 8.39	$ 7.99	$ 8.24	$ 7.29

Production and transportation costs increased by 13% on a per boe basis when compared to 2022 due to the increased impact of inflation in 2023. On a dollar basis, operating costs increased by 22% due to increased production. The fourth quarter 2023 per boe operating costs were higher than the same period in 2022 due to harsher cold weather in December 2023.

Depletion and depreciation

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Depletion and depreciation	$ 9,385	$ 10,167	$ 39,438	$ 37,659
Per BOE	$ 9.16	$ 9.44	$ 9.05	$ 9.36

Depletion and depreciation increased in the year ended December 31, 2023 due to an increase in production. On a per boe basis, depletion decreased when compared to 2022 due to lower finding and development costs in 2023.

General and administrative expenses ("G&A")

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Gross G&A expenses	$ 1,721	$ 1,727	$ 6,641	$ 5,403
G&A recoveries	(130)	(418)	(884)	(1,331)
Net G&A expenses	$ 1,591	$ 1,309	$ 5,757	$ 4,072
Per BOE	$ 1.55	$ 1.21	$ 1.32	$ 1.01

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

G&A increased by 41% on a net basis and increased by 23% on a gross basis when compared to 2022 due to increased costs related to an increase in production and inflation.

Other expenses

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Cash Finance				
Cash interest and finance expense	$ 2,921	$ 3,001	$ 11,685	$ 10,393
Lease interest paid	53	79	229	340
Realized interest rate contract settlement	-	-	-	(393)
Non-Cash Finance				
Change in fair value of interest rate contracts	-	-	-	364
Accretion of decommissioning liability	154	86	518	349
Accretion of debt issue costs	186	117	556	459
Accretion on lease obligations	(21)	237	(90)	79
	$ 3,293	$ 3,520	$ 12,898	$ 11,591
Share-based compensation	$ 401	$ 121	$ 1,702	$ 627

Interest and financing fees include interest on the Company's bank debt (the average amount drawn in 2023 was $130.2 million), bank debt servicing charges and the change in fair value of the interest rate contracts.

For the year ended December 31, 2023, if interest rates had been 1% lower with all other variables held constant, net income would have been $1,302 (2022 - $1,674) 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 year ended December 31, 2023, the Company recognized $1,702 (2022 – $627) of share-based compensation in the consolidated statement of income and comprehensive income. During the year ended December 31, 2023, the Company capitalized $1,637 (2022 - $553) related to P&E.

Commodity price risk contracts

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Realized gain (loss) on commodity contract settlement	$ (460)	$ 106	$ 88	$ (2,920)
Change in fair value of commodity contracts	1,755	35	(449)	36
	$ 1,295	$ 141	$ (361)	$ (2,884)

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

As at December 31, 2023 the Company was committed to the following commodity price risk contracts:

Year	Volume		Term	Reference	Type	Strike Price
Natural Gas						
2023/2024	6,000	GJ/d	Nov 23 - Jun 24	AECO - Monthly 7A	Put	CAD $1.50
2023/2024	7,000	GJ/d	Nov 23 - Jun 24	AECO - Monthly 7A	Put	CAD $1.50
2024	7,000	GJ/d	Jan 24 - Jun 24	AECO - Monthly 7A	Put	CAD $1.50
2024	3,000	GJ/d	Jul 24 - Dec 24	AECO - Monthly 7A	Put	CAD $1.50
2024	4,400	GJ/d	Jul 24 - Dec 24	AECO - Monthly 7A	Put	CAD $1.50
Oil						
2023/2024	500	bbl/d	Nov 23 - Dec 24	WTI - USD	Put	USD - $50.00
2024	1,100	bbl/d	Jan 24 - Jun 24	WTI - USD	Put	USD - $50.00
2024	500	bbl/d	Jan 24 - Jun 24	WTI - USD	Put	USD - $50.00
2023/2024	400	bbl/d	Nov 23 - Jun 24	WTI - USD	Collar	USD $60.00 - 100.00 /bbl
2023/2024	800	bbl/d	Nov 23 - Jun 24	WTI - CAD	Collar	CAD $90.00 - 127.00 /bbl
2024	400	bbl/d	Jul 24 - Dec 24	WTI - USD	Put	USD - $50.00
2024	800	bbl/d	Jul 24 - Dec 24	WTI - USD	Put	USD - $50.00

As the Company had a limited number of derivatives in place as at December 31, 2023, 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

	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Deferred tax expense	$ 3,671	$ 6,004	$ 16,515	$ 31,387

Yangarra did not pay income taxes in 2023 and does not expect to pay income taxes in 2024 or into the near future as it has sufficient tax pools to cover taxable income. Deferred tax expense is lower in the 2023 periods than in the 2022 periods due to lower taxable income in the 2023 periods requiring lower tax pool deductions.

The Company has the following tax pools available to reduce future taxable income:

	Rate %	Year Ended 2023
Canadian oil and gas property expenses	10	$ 22,629
Canadian development expenses	30	157,587
Canadian exploration expenses	100	-
Undepreciated capital costs	10-30	40,061
Non-capital losses (various expiry dates)	100	21,202
		$ 241,479

For the year ended December 31, 2023 and 2022 (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, 2023 and 2022:

	Year ended December 31, 2023	Year ended December 31, 2022
Adjusted net debt - beginning of period	$ (134,364)	$ (196,794)
Funds flow from operations	$ 99,024	177,194
Additions to property and equipment	$ (93,950)	(109,354)
Decommissioning costs incurred	$ (488)	(291)
Additions to E&E Assets	$ (353)	(3,888)
Issuance of shares	$ 15,988	1,077
Lease obligation repayment	$ (1,525)	(2,331)
Other	$ (2,978)	23
Adjusted net debt - end of period	$ (118,646)	$ (134,364)
Credit facility limit	$ 135,000	$ 180,000

As at December 31, 2023, the maximum amount available under the syndicated credit facility was $135,000 (2022 – $180,000) comprised of a $110,000 (2022 – $155,000) extendable revolving term credit facility and a $25,000 (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.

As at December 31, 2023, the $121,057 (2022 – $139,405) reported amount of bank debt was comprised of $12,908 (2022 – $593) drawn on the operating facility and $109,139 (2022 – $139,130) drawn on the revolving facility and net of unamortized transaction costs of $990 (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 December 31, 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 was 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 year ended December 31, 2023, the weighted average effective interest rate for the bank debt was approximately 8.9% (2022 – 6.4%).

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Capital Spending

Cash additions	2023 Q4	2022 Q4	Year Ended 2023	Year Ended 2022
Land, acquisitions and lease rentals	$ 72	$ 26	$ 564	$ 427
Drilling and completion	14,670	26,009	76,477	96,271
Geological and geophysical	2	94	242	571
Equipment	947	1,596	14,975	11,200
Other asset additions	246	305	1,692	885
	$ 15,937	$ 28,030	$ 93,950	$ 109,354
Exploration & evaluation assets	$ 89	$ -	$ 353	$ 3,888

During 2023, Yangarra drilled 31 wells and continued the optimization program on existing wells. In addition to $353 of cash additions to E&E assets in 2023, the Company obtained $9,085 of land from the settlement of a lawsuit for which $2,128 was included in accounts receivable in the prior year and $6,957 has been recognized as a gain on settlement of lawsuit in the current year consolidated statement of income and comprehensive income. E&E asset additions in 2022 are for land purchases in the Rocky Mountain House area.

Outlook

The Company constrained fourth quarter capital program due to ongoing depressed natural gas prices, resulting in capital spending of $16 million in Q4. Yangarra's primary goal in 2024 is to hit a debt target of $80 million and subsequently focus on shareholder returns.

Decommissioning Liabilities

As at December 31, 2023, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be $20,740 for which $15,982 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 6.4 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:

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

	Common Shares	Stock Options	Restricted Share Units
Balance - December 31, 2022	87,985	7,779	-
Equity financing	6,791	-	-
Granted	-	-	1,590
Exercised	25	(25)	-
Cancelled	-	(150)	-
Balance - December 31, 2023	94,801	7,604	1,590
Exercised	13	(13)	-
Vested	460	-	(460)
Cancelled	-	(102)	(200)
Balance - Date of MD&A	95,274	7,489	930

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 December 31, 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	$ 36,599	$ 36,599	$ 36,599	$ –	$ –
Bank debt	121,057	122,047	1,057	120,990	–
Lease obligations	2,382	2,485	1,151	784	550
Other liabilities	953	953	–	–	953
Commodity contracts	997	997	997	–	–
	$ 161,988	$ 163,081	$ 39,804	$ 121,774	$ 1,503

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, 2023, the maximum credit exposure is the carrying amount of the accounts receivable of $30,092 (December 31, 2022 – $31,950).

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

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

	December 31, 2023	*December 31, 2022*
Natural gas and liquids marketers	$ **11,906**	$ 19,985
Partners on joint operations	**14,458**	9,677
Other	**3,728**	2,288
	$ **30,092**	$ 31,950

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 January 2024.

The Company's receivables are aged as follows:

	December 31, 2023	*December 31, 2022*
Under 30 days	$ **21,751**	$ 21,273
30 to 60 days	**263**	486
60 to 90 days	**1,971**	1,942
Over 90 days	**6,107**	8,249
	$ **30,092**	$ 31,950

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, 2023	*December 31, 2022*
Shareholders' equity	$ **536,598**	$ 473,574
Bank debt	$ **121,057**	$ 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 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, 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.

For the year ended December 31, 2023 and 2022 (in 000's of CDN dollars, except per share and per unit)

Selected Quarterly Financial Information

	2023 Q4($)	2023 Q3($)	2023 Q2($)	2023 Q1($)
Petroleum & natural gas sales	33,651	45,414	38,396	49,055
Net income	12,435	11,487	7,833	14,909
Net income per share – basic (1)	0.13	0.12	0.08	0.17
Net income per share – diluted (1)	0.12	0.11	0.08	0.16
Funds flow from operations	17,552	28,994	22,410	30,068
Funds flow from operations per share – basic (1)	0.19	0.31	0.24	0.34
Funds flow from operations per share –diluted (1)	0.18	0.29	0.22	0.32
Capital expenditures (including E&E)	16,026	25,334	20,189	32,754

	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

(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 new wells put on production in 2023 and a corresponding increase in petroleum and natural gas sales related, however commodity pricing decreased in 2023 leading to reduced revenue.

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

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, 2023 audited consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As at December 31, 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 Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that, as at December 31, 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:

(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, 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 October 1, 2023 and ending on December 31, 2023, 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 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 year ended December 31, 2023. Refer to Note 2 of the Company's December 31, 2023 audited consolidated financial statements.