



Yangarra Resources Ltd.
Management's Discussion and Analysis
For three months ended March 31, 2022 and 2021

YANGARRA RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022

(000's of CDN dollars, except per share and per unit)

Management's discussion and analysis ("MD&A") of the financial condition and the results of operations should be read in conjunction with the March 31, 2022 unaudited condensed interim consolidated financial statements and the December 31, 2021 audited consolidated financial statements, together with the accompanying notes.

Yangarra Resources Ltd. (the "Company" or "Yangarra") is a publicly traded company involved in the production, exploration and development of resource properties in Western Canada. The address of the registered office is 1530, 715 – 5 Avenue SW, Calgary Alberta, T2P 2X6.

Additional information about Yangarra filed with Canadian securities commissions is available on-line at www.sedar.com.

The MD&A has been prepared using information that is current to April 27, 2022.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar amounts are in Canadian dollars.

BOE Presentation

Production information is commonly reported in units of barrel of oil equivalent ("BOE"). For purposes of computing such units, natural gas is converted to equivalent barrels of oil using a conversion factor of six thousand cubic feet to one barrel of oil. This conversion ratio of 6:1 is based on an energy equivalent wellhead value for the individual products. Such disclosure of BOE may be misleading, particularly if used in isolation. Readers should be aware that historical results are not necessarily indicative of future performance.

Non-IFRS and Additional IFRS Measures

This document contains "funds flow from operations" or "FFO", which is an additional IFRS measure. The Company uses FFO as a key measure to demonstrate the Company's ability to generate funds to repay debt and fund future capital investment. This document also contains the terms "adjusted net debt or adjusted working capital (deficit)" and "netbacks", which are non-IFRS financial measures. The Company uses these measures to help evaluate its performance. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

Funds flow from operations

Yangarra's determination of FFO and FFO per share may not be comparable to that reported by other companies. Management uses FFO to analyze operating performance and leverage and considers FFO to be a key measure as it demonstrates the Company's ability to generate cash necessary to fund future capital investments and to repay debt, if applicable. FFO is calculated using cash 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 from operating activities, which is the most directly comparable measure calculated in accordance with IFRS:

	2022 Q1	2021 Q1
Cash from operating activities	\$ 32,232	\$ 12,986
Decommissioning costs incurred	-	-
Changes in non-cash working capital	7,525	4,105
Funds flow from operations	\$ 39,757	\$ 17,091

Netbacks

The Company considers corporate netbacks to be a key measure that demonstrates Yangarra's profitability relative to current commodity prices. Corporate netbacks are comprised of operating, field operating, FFO and net income (loss) netbacks. Operating netback is calculated as the average sales price of its commodities (including realized gains on financial instruments) less royalties, operating costs and transportation expenses. Field operating netback subtracts the realized gains on financial instruments, FFO netback starts with the operating netback and further deducts general and administrative costs, finance expense and adds finance income. To calculate the net income (loss) netback, Yangarra takes the funds flow netback and deducts share-based compensation expense as well as depletion and depreciation charges, accretion expense, unrealized gains on financial instruments, any impairment or exploration and evaluation expense and deferred income taxes. There are no IFRS measures that are reasonably comparable to corporate netbacks.

FFO margins and operating margins

FFO margins and operating margins are calculated as the ratio of FFO netbacks to sales price and operating netback to sales price, respectively.

Adjusted net debt

Adjusted net debt, which represent current assets less current liabilities, excluding current derivative financial instruments, are used to assess efficiency, liquidity and the general financial strength of the Company. There is no IFRS measure that is reasonably comparable to net debt or adjusted working capital (deficit) surplus.

	Mar 31, 2022	Dec 31, 2021
Bank Debt	\$ 190,984	\$ 195,422
Accounts receivable	(32,688)	(27,536)
Prepaid expenses and inventory	(4,806)	(5,022)
Accounts payable and accrued liabilities	25,048	33,930
Adjusted net Debt	\$ 178,538	\$ 196,794

Adjusted earnings before interest, taxes, depletion and depreciation, amortization

Adjusted earnings before interest, taxes, depletion and depreciation, amortization ("Adjusted EBITDA") which represents EBITDA, excluding changes in the fair value of interest rate and commodity contracts, are used to assess efficiency, liquidity and the general financial strength of the Company.

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	2022	2021
	Q1	Q1
Net income for the Period	\$ 22,720	\$ 9,117
Finance	2,515	290
Deferred tax expense	6,868	2,802
Depletion and depreciation	8,607	6,320
Change in fair value of commodity contracts	1,292	1,120
Adjusted EBITDA	\$ 42,002	\$ 19,649

Working capital (deficit) surplus

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

Forward-looking Statements

Certain information regarding the Company set forth in this report, including management's assessment of the Company's future plans and operations, contain forward-looking statements that involve substantial known and unknown risks and uncertainties. These risks and uncertainties, many of which are beyond the Company's control, include the impact of general economic conditions and specific industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, the lack of available qualified personnel or management, stock market volatility and ability to access sufficient capital from internal and external sources. The Company's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, no assurance can be given that any events anticipated by the forward-looking statements will transpire or occur, or if any of them do, what benefits the Company can derive from such events.

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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.

First Quarter Highlights

- Funds flow from operations of \$39.8 million (\$0.46 per share – basic), an increase of 133% from the same period in 2021
- \$18.3 million of adjusted net debt was repaid during first quarter
- Oil and gas sales were \$51.4 million, an increase of 81% from the same period in 2021
- Adjusted EBITDA (which excludes changes in derivative financial instruments) was \$42.0 million (\$0.48 per share - basic)
- Net income of \$22.7 million (\$0.26 per share – basic, \$29.6 million before tax), an increase of 149% from the same period in 2021
- Average production of 10,044 boe/d (44% liquids) during the quarter, a 15% increase from the same period in 2021
- Operating costs were \$6.39/boe (including \$1.24/boe of transportation costs)
- Field operating netbacks were \$47.62/boe
- Operating netbacks, which include the impact of commodity contracts, were \$47.63/boe
- Operating margins were 84% and funds flow from operations margins were 77%
- G&A costs of \$1.00/boe
- Royalties were 5% of oil and gas revenue
- All in cash costs were \$12.58/boe
- Capital expenditures were \$21.3 million
- Adjusted net debt (which excludes the current derivative financial instruments) was \$178.5 million
- Adjusted net debt to first quarter annualized funds flow from operations was 1.1 : 1
- Retained earnings of \$181.4 million
- Decommissioning liabilities of \$13.5 million (discounted)

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Operations Update

The Company has kept one rig drilling since commodity prices rebounded, drilling 350 days during 2021 and all of Q1 2022. This continuous drilling program provides maximum efficiency and allows for significant cost reductions. In addition, drilling on multi-well pad sites will typically allow the Company to drill right through breakup.

The production declines that were experienced during COVID have now been reversed, cashflow exceeds capital spending and the Company is now positioned to reduce debt and ultimately return capital to shareholders.

Yangarra drilled 7 (6.5 net) wells and completed 10 (7.0 net) wells during the first quarter of 2022. The Company performed an optimization program in 2021, replacing pump-jacks with cheaper and more efficient plunger lifts and performed chemical stimulations. The optimization program resulted in higher production from existing wells, lower decline profiles and reduced operating costs. Yangarra is now expanding the optimization program to all existing wells. This program is expected to substantially reduce declines on legacy wells during 2022.

Production for the first quarter 2022 was negatively impacted by a force majeure outage at a third-party gas processing plant. The third-party outage resulted in production being reduced by approximately 1,500 boe/d in March or by approximately 500 boe/d for the quarter. This production was back online as of April 1, 2022.

As activity increases in Western Canada, cost inflation on services and materials is becoming more prevalent. The internal OFS group has helped mitigate the impact of these inflationary pressures. The Company's established, long-term relationships with drilling and completions partners and continuous operations has limited the impact of service price increases.

Financial Information

	2022	2021
	Q1	Q1
Statements of Income and Comprehensive Income		
Petroleum & natural gas sales	\$ 51,428	\$ 28,475
Income before tax	\$ 29,588	\$ 11,919
Net income	\$ 22,720	\$ 9,117
Net income per share - basic	\$ 0.26	\$ 0.11
Net income per share - diluted	\$ 0.25	\$ 0.10
Statements of Cash Flow		
Funds flow from operations	\$ 39,758	\$ 17,091
Funds flow from operations per share - basic	\$ 0.46	\$ 0.20
Funds flow from operations per share - diluted	\$ 0.43	\$ 0.20
Cash from operating activities	\$ 32,232	\$ 12,986

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	March 31, 2022	December 31, 2021
Statements of Financial Position		
Property and equipment	\$ 640,305	\$ 627,948
Total assets	\$ 700,255	\$ 683,469
Working capital (deficit) surplus	\$ 8,677	\$ (3,729)
Adjusted net debt	\$ 178,538	\$ 196,794
Shareholders equity	\$ 387,981	\$ 364,959
Weighted average number of shares - basic	86,671	86,449
Weighted average number of shares - diluted	91,434	90,636

Business Environment

	2022 Q1	2021 Q1
Realized Pricing (Including realized commodity contracts)		
Light Crude Oil (\$/bbl)	\$ 108.88	\$ 60.80
NGL (\$/bbl)	\$ 69.16	\$ 38.48
Natural Gas (\$/mcf)	\$ 4.80	\$ 3.07
Realized Pricing (Excluding commodity contracts)		
Light Crude Oil (\$/bbl)	\$ 108.88	\$ 68.33
NGL (\$/bbl)	\$ 69.09	\$ 38.60
Natural Gas (\$/mcf)	\$ 4.80	\$ 3.14
Oil Price Benchmarks		
West Texas Intermediate ("WTI") (US\$/bbl)	\$ 94.37	\$ 57.91
Edmonton Par (\$/bbl)	\$ 113.22	\$ 68.79
Edmonton Par to WTI differential (US\$/bbl)	\$ (4.97)	\$ (3.57)
Natural Gas Price Benchmarks		
AECO gas (\$/mcf)	\$ 4.48	\$ 2.99
Foreign Exchange		
Canadian Dollar/U.S. Exchange	0.79	0.79

Benchmark crude oil prices increased by 63% for Q1 2022, with the West Texas Intermediate ("WTI") reference price averaging US\$94.37/bbl compared with US\$57.91/bbl in the same period in 2021. 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 war in Ukraine and the COVID-19 demand impact.

Edmonton par differentials to WTI widened in Q1 2022 when compared to Q1 2021, moving from a US\$3.57/bbl differential in Q1 2021 to US\$4.97/bbl in Q1 2022. In Q1 2022, the US/CDN foreign exchange rate was 0.79 compared to 0.79 in Q1 2021. The Edmonton par reference price is denominated in Canadian dollars. Edmonton par is the closest reference price point for Yangarra's oil and therefore is the closest proxy to realized pricing.

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When compared to Q1 2021, realized pricing on oil (including commodity contracts) increased by 79%. The increase in oil pricing is a direct result of increasing WTI pricing.

When compared to Q1 2021, realized pricing on liquids increased by 79% excluding the impact of commodity contracts and increased by 80% including the impact of commodity contracts, due to higher condensate pricing which is linked to oil prices and higher butane pricing which is set by mid-streamers.

AECO natural gas prices increased in Q1 2022 by 50% to \$4.48/mcf from \$2.99/mcf in Q1 2021 and realized pricing on natural gas (including commodity contracts) increased by 56%.

Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2022	2021
	Q1	Q1
Daily production volumes		
Natural Gas (mcf/d)	33,687	28,022
Light Crude Oil (bbl/d)	2,606	2,414
NGL's (bbl/d)	1,824	1,652
Combined (BOE/d 6:1)	10,044	8,736
Revenue		
Petroleum & natural gas sales - Gross	\$ 51,428	\$ 28,475
Realized gain (loss) on commodity contract settlement	11	(1,845)
Total sales	51,439	26,630
Royalty expense	(2,605)	(1,633)
Total Revenue - Net of royalties	\$ 48,834	\$ 24,997

Total sales increased by 93% in 2022 to \$51.4 million from \$26.6 million in 2021. The increase is attributable to:

- a 57% increase in average product prices
- a 15% increase in production (on a boe basis)

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Company Netbacks (\$/BOE)

	2022 Q1	2021 Q1
Sales price	\$ 56.89	\$ 36.22
Royalty expense	(2.88)	(2.08)
Production costs	(5.15)	(4.74)
Transportation costs	(1.24)	(1.10)
Field operating netback	47.62	28.30
Realized gain (loss) on commodity contract settlement	0.01	(2.35)
Operating netback	47.63	25.95
G&A	(1.00)	(0.67)
Cash Finance expenses	(2.32)	(3.79)
Depletion and depreciation	(9.52)	(8.04)
Non Cash - Finance expenses	(0.46)	3.42
Stock-based compensation	(0.17)	(0.28)
Unrealized gain (loss) on financial instruments	(1.43)	(1.42)
Deferred income tax	(7.60)	(3.56)
Net Income netback	\$ 25.13	\$ 11.61

The overall average price earned by the Company, including the impact of commodity contracts, was higher when compared to Q1 2021 as natural gas prices increased by 56%, oil prices increased by 79% and liquid prices increased by 80%. The average sales price increased by 57% in Q1 2022 when compared to Q1 2021. Operating netbacks increased by 84% in Q1 2022 with the higher realized pricing.

Royalty Expense

	2022 Q1	2021 Q1
Royalty expense	\$ 2,605	\$ 1,633
Per BOE	\$ 2.88	\$ 2.08
As a % of sales (including commodity contracts)	5%	6%
As a % of sales (excluding commodity contracts)	5%	6%

For Q1 2022 royalties were \$2,605 or 5% as a percentage of sales. The increase in royalty expense is a result of higher revenue due to increased commodity pricing. The reduction in the percentage of sales is due to the gas cost allowance realized during the quarter.

Production and Transportation Costs

	2022 Q1	2021 Q1
Production costs	\$ 4,656	\$ 3,732
Per BOE	\$ 5.15	\$ 4.74
Transportation costs	\$ 1,117	\$ 863
Per BOE	\$ 1.24	\$ 1.10
Combined (\$/BOE)	\$ 6.39	\$ 5.84

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Production and transportation costs increased by 9% on a per boe basis when compared to 2021 due to higher costs for materials and labour during the quarter due to inflation.

Depletion and depreciation

	2022	2021
	Q1	Q1
Depletion and depreciation	\$ 8,607	\$ 6,320
Per BOE	\$ 9.52	\$ 8.04

Depletion and depreciation expense increased in Q1 2022 due to increases in production. On a per boe basis, the depletion rate increased when compared Q1 2021 due to higher finding and development costs in the 2022 reserve base.

General and administrative expenses ("G&A")

	2022	2021
	Q1	Q1
Gross G&A expenses	\$ 1,125	\$ 889
G&A recoveries	(223)	(360)
Net G&A expenses	\$ 902	\$ 529
Per BOE	\$ 1.00	\$ 0.67

G&A increased by 71% on a net basis, 27% on a gross basis and 49% on a boe basis when compared to Q1 2021 due to higher costs of wages for existing staff starting in 2022.

Other expenses

	2022	2021
	Q1	Q1
Cash Finance		
Cash interest and finance expense	\$ 2,402	\$ 2,782
Lease interest paid	89	96
Realized interest rate contract settlement	(393)	-
Non-Cash Finance		
Change in fair value of interest rate contracts	364	(2,679)
Accretion of decommissioning liability	51	24
Accretion of debt issue costs	138	110
Accretion on lease obligations	(136)	(43)
	\$ 2,515	\$ 290
Share-based compensation	\$ 157	\$ 224

Interest and financing fees in Q1 2022 include interest on the revolving operating demand loan (the average amount drawn in Q1 2022 was \$193 million), servicing charges on the demand loan and the change in fair value of the interest rate contracts.

The Company had no interest rate contracts in place as at March 31, 2022.

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For the three months ended March 31, 2022, if interest rates had been 1% lower with all other variables held constant, net income for the quarter would have been \$444 (2021 - \$461) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount.

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

Commodity price risk contracts

	2022 Q1	2021 Q1
Realized gain (loss) on commodity contract settlement	\$ 11	\$ (1,845)
Change in fair value of commodity contracts	(1,292)	(1,120)
	\$ (1,281)	\$ (2,965)

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

Year	Volume	Term	Reference	Type	Strike Price
<u>Oil</u>					
2022	250 bbl/d	Apr - Jun	CDN - WTI	Swap	CAD \$118.75/bbl
2022	500 bbl/d	Apr - Jun	CDN - WTI	Swap	CAD \$114.00/bbl
<u>Natural Gas</u>					
2022	2,500 GJ/d	Apr - Oct	AECO - Monthly 5A	Swap	CAD \$4.49/GJ
2022	5,000 GJ/d	Apr - Oct	AECO - Monthly 7A	Swap	CAD \$4.50/GJ
<u>Propane</u>					
2022	200 bbl/d	Jan to Dec	Conway - C3 to Mont Belvieu C3	Basis Swap	Plus USD 0.0025/Gallon

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

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Deferred Taxes

	2022	2021
	Q1	Q1
Deferred tax expense	\$ 6,868	\$ 2,802

Yangarra did not pay income taxes in 2022 and does not expect to pay income taxes in 2023 or into the near future as it has sufficient tax pools to cover taxable income.

Deferred tax expense is higher in the 2022 periods than in the 2021 periods due to the increased use of tax pools to offset higher expected taxable income in the 2022.

Liquidity and Capital Resources

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

	Three months ended March 31, 2022	Year ended December 31, 2021
Adjusted net debt - beginning of period	\$ (196,794)	\$ (197,414)
Funds flow from operations	39,757	90,921
Additions to property and equipment	(21,266)	(88,153)
Decommissioning costs incurred	-	(881)
Additions to E&E Assets	(74)	(387)
Issuance of shares	122	1,132
Other	(283)	(2,012)
Adjusted net debt - end of period	\$ (178,538)	\$ (196,794)

Credit facility limit	\$ 210,000	\$ 210,000
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As at March 31, 2022, the maximum amount available under the syndicated credit facility was \$210 million (December 31, 2021 – \$210 million) comprised of a \$185 million (December 31, 2021 – \$185 million) extendable revolving term credit facility and a \$25 million (December 31, 2021 – \$25 million) operating facility. The amount available under these facilities is re-determined at least twice a year and is primarily based on the Company's oil and gas reserves, the lending institution's forecast commodity prices, the current economic environment and other factors as determined by the syndicate of lending institutions (the "Borrowing Base"). If the total advances made under the credit facilities are greater than the re-determined Borrowing Base, the Company has 60 days to repay any shortfall. The maturity date of the facility is May 29, 2023 (the "Maturity Date") and the next Borrowing Base review is scheduled for May 29, 2022. The Maturity Date may be extended for 364-day periods pursuant to delivery of a request for extension by the Company within certain time periods specified in the syndicated credit facility agreement.

As at March 31, 2022, the \$190,984 (December 31, 2021 – \$195,422) reported amount of bank debt was comprised of \$11,950 (December 31, 2021 – \$11,564) drawn on the operating facility, \$179,411 (December

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31, 2020 – \$184,373) drawn on the extendible revolving term credit facility and net of unamortized transaction costs of \$377 (December 31, 2021 – \$515).

The Company is subject to a single financial covenant requiring an adjusted working capital ratio above 1:1 (current assets plus the undrawn availability under the revolving facility, divided by the current liabilities less the drawn portion of the revolving facility and excluding unrealized commodity contracts). The Company was in compliance with this covenant as March 31, 2022 and December 31, 2021. The facility is secured by a general security agreement over all assets of the Company. The total standby fees range, depending on the debt to EBITDA ratio, between 200 bps to 400 bps on bank prime borrowings and between 300 bps and 500 bps on bankers' acceptances. The undrawn portion of the credit facility is subject to a standby fee in the range of 75 bps to 125 bps.

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

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

Capital Spending

	2022	2021
	Q1	Q1
Cash additions		
Land, acquisitions and lease rentals	\$ 161	\$ (121)
Drilling and completion	18,339	16,527
Geological and geophysical	123	271
Equipment	2,452	1,770
Other asset additions	191	140
	\$ 21,266	\$ 18,587

Exploration & evaluation assets	\$ 74	\$ -
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Yangarra drilled 7 (6.5 net) wells and completed 10 (7.0 net) wells in the first quarter of 2022.

Outlook

Yangarra has a \$105 million capital budget for 2022 which will keep one drilling rig fully utilized for the balance of the year.

Decommissioning Liabilities

As at March 31 2022, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be \$16,687 for which \$13,522 has been recorded using a discount rate of 2.27% - 2.40% an inflation rate of 2% and an estimated weighted average timing of cash flows of 6.9 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:

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	Common Shares	Stock Options
Balance - December 31, 2021	86,649	8,287
Grant of options	-	631
Forfeited options	-	(156)
Exercise of options	225	(225)
Balance - March 31, 2022 and the date of this MD&A	86,874	8,537

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 March 31, 2022 the contractual maturities of the Company's obligations are as follows:

	Carrying Amount	Contractual Cash Flows	Less than 1 year	1-2 Years	2-5 Years
Accounts payable and accrued liabilities	\$ 25,048	\$ 25,048	\$ 25,048	\$ -	\$ -
Bank debt	190,984	191,361	-	191,361	-
Lease obligations	4,080	5,251	2,256	1,679	1,316
Other liabilities	649	649	-	-	649
Commodity contracts	1,343	1,343	1,343	-	-
	\$ 222,104	\$ 223,652	\$ 28,647	\$ 193,040	\$ 1,965

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 March 31, 2022, the maximum credit exposure is the carrying amount of the accounts receivable of \$32,688 (December 31, 2021 – \$27,536). The maximum exposure to credit risk for accounts receivable as at March 31, 2022 and December 31, 2021 by type of customer was:

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

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

	<i>March 31, 2022</i>	<i>December 31, 2021</i>
Under 30 days	\$ 23,276	\$ 18,453
30 to 60 days	323	50
60 to 90 days	809	888
Over 90 days	8,280	8,145
	<u>\$ 32,688</u>	<u>\$ 27,536</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>March 31, 2022</i>	<i>December 31, 2021</i>
Shareholders' equity	\$ 387,981	\$ 364,959
Bank debt	\$ 190,984	\$ 195,422

The Company monitors capital based on annual cash from operations before changes in non-cash working capital and capital expenditure budgets, which are updated as necessary and are reviewed and periodically approved by the Board of Directors.

The Company manages its capital structure and makes adjustments by continually monitoring its business conditions including the current economic conditions, the risk characteristics of the Company's petroleum and natural gas assets, the depth of its investment opportunities, current and forecasted adjusted net debt levels, current and forecasted commodity prices and other facts that influence commodity prices and funds from operations such as quality and basis differentials, royalties, operating costs and transportation costs. In order to maintain or adjust the capital structure, the Company considers its forecasted cash from operations before changes in non-cash working capital while attempting to finance an acceptable capital expenditure program including acquisition opportunities, the current level of bank debt available from the Company's lender, the level of bank debt that may be attainable from its lender as a result of petroleum and natural gas reserve growth, the availability of other sources of debt with different characteristics than existing debt, the sale of assets, limiting the size of the capital expenditure program and the issue of new equity if available on favorable terms. At March 31, 2022 and December 31, 2021, the Company's capital structure was subject to the banking covenants disclosed in note 3 of the March 31, 2022 unaudited condensed interim consolidated financial statements. No changes were made to the capital policy in 2022.

YANGARRA RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022

(000's of CDN dollars, except per share and per unit)

Selected Quarterly Financial Information

	2022	2021	2021	2021
	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)
Petroleum & natural gas sales	51,428	47,405	35,880	28,529
Net income	22,720	19,644	13,500	7,753
Net income per share – basic ⁽¹⁾	0.26	0.23	0.16	0.09
Net income per share – diluted ⁽¹⁾	0.25	0.22	0.15	0.09
Funds flow from operations	39,757	32,425	24,126	17,240
Funds flow from operations per share – basic ⁽¹⁾	0.46	0.38	0.28	0.20
Funds flow from operations per share –diluted ⁽¹⁾	0.43	0.36	0.27	0.19
Capital expenditures (including E&E)	21,340	26,836	23,515	19,602

	2021	2020	2020	2020
	Q1 (\$)	Q4 (\$)	Q3(\$)	Q2(\$)
Petroleum & natural gas sales	28,475	23,064	18,910	16,290
Net income (loss)	9,117	4,847	537	(2,801)
Net income (loss) per share – basic ⁽¹⁾	0.11	0.05	0.01	(0.03)
Net income (loss) per share – diluted ⁽¹⁾	0.10	0.05	0.01	(0.03)
Funds flow from operations	17,091	11,493	10,038	7,795
Funds flow from operations per share – basic ⁽¹⁾	0.20	0.15	0.12	0.09
Funds flow from operations per share –diluted ⁽¹⁾	0.19	0.15	0.12	0.09
Capital expenditures (including E&E)	18,587	15,004	9,997	1,084

⁽¹⁾ Sum of quarterly per share figures may not add to annual per share figures due to rounding.

Quarterly activities

Fluctuations in quarterly revenues, net income and funds flow from operations over the last eight quarters are due primarily to the volatility in commodity prices and changes in sales volumes due to production growth and declines tied to the timing of drilling activity. The Company has focused capital expenditures on drilling and completions. As a result of lower commodity pricing in mid-2020 due impact of COVID-19, the Company ceased capital expenditures in February 2020 resulting in a decline in production for Q2 2020. Drilling and completion operations resumed in Q3 2020 and commodity pricing improved in the latter part of 2020 and have improved significantly into early 2022.

Business Risks and Uncertainties

The Company is exposed to several operational risks inherent in exploring, developing, producing and marketing light crude oil and natural gas. These inherent risks include: economic risk of finding and producing reserves at a reasonable cost; financial risk of marketing reserves at an acceptable price given current market conditions; cost of capital risk associated with securing the needed capital to carry out the Company's operations; risk of environment impact; and credit risk of non-payment for sales contracts and joint venture partners. Other than the risks described herein (including the risks and uncertainties listed in the Forward-Looking Statements section in this MD&A) the Company is also subject to the risk factors set forth in the most recently filed AIF of the Company available on SEDAR which can be accessed at www.sedar.com

YANGARRA RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022

(000's of CDN dollars, except per share and per unit)

The Company attempts to control operating risks by maintaining a disciplined approach to implementation of its exploration and development programs. Exploration risks are managed by hiring experienced technical professionals and by concentrating the exploration activity on reservoirs where the Company has experience and expertise. The Company also generates internal prospects and participates in projects where ownership interest is considered sufficient to minimize risk. Operational control allows the Company to manage costs, timing and sales of production and to ensure new production is brought on-stream in a timely manner. The Company maintains a comprehensive insurance program to reduce risk to an acceptable level and to protect it against significant losses.

Environmental Risks

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, provincial and local laws and regulations. Compliance with such legislation can require significant expenditures and a breach could result in the imposition of fines and penalties, some of which could be material. Senior management continually assesses new and existing regulatory requirements and environmental risks and determines the impact these risks might have on the Company, as well as the appropriate actions necessary to manage those risks. These assessments and the resulting policy decisions are discussed quarterly with the Board of Directors which evaluates the performance and effectiveness of the Company's environmental policies and programs.

The Company's environmental responsibilities includes removing property, plant and equipment as well as reclaiming land and property to its original state, subsequent to the completion of oil and natural gas extraction activities. This requirement results in an asset retirement obligation that provides current recognition of estimated expenditures that will be incurred in the future. The Company's decommissioning liabilities are discussed in further detail under "Critical Accounting Estimates" below, as well as in note 7 to the Company's Consolidated Financial Statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As at March 31, 2022, an evaluation of the effectiveness of the Company's disclosure controls and procedures, as defined under the rules adopted by the Canadian securities regulatory authorities, was carried out under the supervision and with the participation of Management, including the President and Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"). Based on this evaluation, the CEO and CFO concluded that, as at March 31, 2022, the design and operation of the Company's disclosure controls and procedures were effective in meeting all regulatory filing requirements.

Internal control over financial reporting 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;

YANGARRA RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2022

(000's of CDN dollars, except per share and per unit)

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 March 31, 2022 the controls were effective to provide reasonable assurance regarding the reliability of financial reporting, and the preparation of financial statements for external reporting purposes. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") issued an updated Internal Control-Integrated Framework ("2013 Framework") replacing the Internal Control - Integrated Framework (1992). The control framework Yangarra's officers used to design the Company's ICFR is the 2013 Framework.

During the period beginning on January 1, 2022 and ending on March 31, 2022, there were no material changes to the Company's internal controls over financial reporting, and the CEO and CFO have filed certifications with the Canadian securities regulators regarding the Company's 2022 public filing documents.

Critical Accounting Judgments and Estimates

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts and presentation of assets, liabilities, revenues, expenses and disclosures of contingencies and commitments. Such estimates primarily relate to unsettled transactions and events at the statement of financial position date which are based on information available to management at each financial statement date. Actual results could differ from those estimated. Judgments, estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. There have been no changes to the Company's critical accounting judgments and estimates during the period ended March 31, 2022. Refer to Note 2 of the Company's December 31, 2021 audited consolidated financial statements.