



Yangarra Resources Ltd.
Management's Discussion and Analysis
For the three months ended March 31, 2024

YANGARRA RESOURCES LTD.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2024

(in 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 Company's March 31, 2024 unaudited condensed interim consolidated financial statements and 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.sedarplus.ca.

The MD&A has been prepared using information that is current to April 30, 2024.

The financial information presented herein has been prepared on the basis of International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). 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:

	2024 Q1	2023 Q1
Cash flow from operating activities	\$ 22,124	\$ 33,948
Decommissioning costs incurred	-	-
Changes in non-cash working capital	2,136	(3,880)
Funds flow from operations	\$ 24,260	\$ 30,068

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, accounts payable and accrued liabilities, accounts receivable and prepaid expenses and inventory. The following table summarizes our calculation of adjusted net debt:

	Mar 31, 2024	Dec 31, 2023
Bank Debt	\$ 117,337	\$ 121,057
Accounts receivable	(34,929)	(30,092)
Prepaid expenses and inventory	(9,415)	(8,918)
Accounts payable and accrued liabilities	36,155	36,599
Adjusted net Debt	\$ 109,148	\$ 118,646

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.

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	2024	2023
	Q1	Q1
Net income for the Period	\$ 9,030	\$ 14,909
Finance	3,580	3,044
Deferred tax expense	3,062	4,550
Depletion and depreciation	9,701	9,891
Change in fair value of commodity contracts	914	22
Adjusted EBITDA	\$ 26,287	\$ 32,416

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.

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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 \$24.3 million (\$0.24 per share – fully diluted), a decrease of 19% from the same period in 2023
- \$9.5 million of adjusted net debt was repaid during the first quarter
- Oil and gas sales were \$40.4 million, a decrease of 18% from the same period in 2023
- Adjusted EBITDA was \$26.3 million (\$0.26 per share - fully diluted)
- Net income of \$9.0 million (\$0.09 per share – fully diluted, \$12.1 million before tax), a decrease of 39% from the same period in 2023
- Average production of 11,183 boe/d (43% liquids) during the quarter, a 10% decrease from the same period in 2023
- Operating costs were \$7.95/boe (including \$1.70/boe of transportation costs)
- Field operating netbacks were \$29.18/boe
- Operating netbacks, which include the impact of commodity contracts, were \$28.53/boe
- Operating margins were 72% and funds flow from operations margins were 60%
- G&A costs of \$1.85/boe
- Royalties were 7% of oil and gas revenue
- All in cash costs were \$15.97/boe
- Capital expenditures were \$16.0 million
- Adjusted net debt was \$109.1 million
- Adjusted net debt to first quarter annualized funds flow from operations was 1.1 : 1
- Retained earnings of \$320.8 million
- Decommissioning liabilities of \$16.1 million (discounted)

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Operations Update

During the quarter, Yangarra successfully executed a high-graded capital program resulting in promising results at West Ferrier and Chambers. The initial Belly River well was followed up with two additional Belly River wells. As a result of the high-grade capital program, the liquids weighting increased from 39% in Q4 2023 to 43% in Q1 2024, which was all driven by oil volumes.

Yangarra completed eleven stimulations during the quarter with continued positive results, the chemical mix continues to evolve, and the Company expects to continue to conduct ten stimulations a quarter.

Yangarra remains committed to its primary goal of reducing its bank debt to \$80 million and reaffirms its capital program of \$20 – \$25 million for the first half of 2024. Yangarra is not currently drilling and expects to re-commence the drilling program in June.

The Company has completed its annual borrowing base review, and the syndicated senior credit facility has been confirmed at \$130 million. The term out date has been extended to May 30, 2025, and the maturity date has been extended to May 30, 2026. The mandatory quarterly repayments of \$5 million have been removed.

Financial Information

	2024	2023
	Q1	Q1
Statements of Income and Comprehensive Income		
Petroleum & natural gas sales	\$ 40,425	\$ 49,055
Income before tax	\$ 12,092	\$ 19,459
Net income	\$ 9,030	\$ 14,909
Net income per share - basic	\$ 0.09	\$ 0.17
Net income per share - diluted	\$ 0.09	\$ 0.16
Statements of Cash Flow		
Funds flow from operations	\$ 24,260	\$ 30,068
Funds flow from operations per share - basic	\$ 0.25	\$ 0.34
Funds flow from operations per share - diluted	\$ 0.24	\$ 0.32
Cash flow from operating activities	\$ 22,124	\$ 33,948
Weighted average number of shares - basic	96,169	88,287
Weighted average number of shares - diluted	102,720	94,110

	March 31, 2024	December 31, 2023
Statements of Financial Position		
Property and equipment	\$ 766,605	\$ 759,967
Total assets	\$ 846,617	\$ 835,217
Working capital surplus (deficit)	\$ 5,204	\$ (735)
Adjusted net debt	\$ 109,148	\$ 118,646
Shareholders equity	\$ 548,954	\$ 536,598

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Business Environment

	2024	2023
	Q1	Q1
Realized Pricing (Including realized commodity contracts)		
Light Crude Oil (\$/bbl)	\$ 93.50	\$ 100.12
NGL (\$/bbl)	\$ 48.17	\$ 49.85
Natural Gas (\$/mcf)	\$ 2.50	\$ 3.46
Realized Pricing (Excluding commodity contracts)		
Light Crude Oil (\$/bbl)	\$ 95.28	\$ 100.12
NGL (\$/bbl)	\$ 48.17	\$ 49.92
Natural Gas (\$/mcf)	\$ 2.57	\$ 3.45
Oil Price Benchmarks		
West Texas Intermediate ("WTI") (US\$/bbl)	\$ 78.19	\$ 77.45
Edmonton Par (\$/bbl)	\$ 91.01	\$ 100.88
Edmonton Par to WTI differential (US\$/bbl)	\$ (10.72)	\$ (2.82)
Natural Gas Price Benchmarks		
AECO gas (\$/mcf)	\$ 2.36	\$ 3.32
Foreign Exchange		
Canadian Dollar/U.S. Exchange	0.74	0.74

Benchmark crude oil prices increased by 1% for Q1 2024, with the West Texas Intermediate ("WTI") reference price averaging US\$78.19/bbl compared with US\$77.45/bbl in the same period in 2023. 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 and the wars in Ukraine and the Middle East.

Edmonton par differentials to WTI widened in Q1 2024 when compared to Q1 2023, moving from a US\$2.82/bbl differential in Q1 2023 to US\$10.72/bbl in Q1 2024. In Q1 2024, the US/CDN foreign exchange rate was 0.74 compared to 0.74 in Q1 2023. 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.

When compared to Q1 2023, realized pricing on oil (including commodity contracts) decreased by 7%. The decrease in oil pricing is a direct result of the widening of the Edmonton Par to WTI differential.

When compared to Q1 2023, realized pricing on liquids (including commodity contracts) decreased by 3%, 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 in Q1 2024 by 29% to \$2.36/mcf from 3.32/mcf in Q1 2023 and realized pricing on natural gas (including commodity contracts) decreased by 28%.

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Results of Operations

Net petroleum and natural gas production, pricing and revenue

	2024	2023
	Q1	Q1
Daily production volumes		
Natural Gas (mcf/d)	38,445	43,180
Light Crude Oil (bbl/d)	2,470	2,709
NGL's (bbl/d)	2,306	2,506
Combined (BOE/d 6:1)	11,183	12,412
Revenue		
Petroleum & natural gas sales	\$ 40,425	\$ 49,055
Realized gain (loss) on commodity contract settlement	(665)	(40)
Total sales	39,760	49,015
Royalty expense	(2,632)	(5,228)
Total Revenue - Net of royalties	\$ 37,128	\$ 43,787

Total sales decreased by 19% in 2024 to \$39.8 million from \$49.0 million in 2023. The decrease is attributable to:

- a 10% decrease in average product prices
- a 10% decrease in production (on a boe basis)

Company Netbacks (\$/boe)

	2024	2023
	Q1	Q1
Sales price	\$ 39.72	\$ 43.91
Royalty expense	(2.59)	(4.68)
Production costs	(6.25)	(7.00)
Transportation costs	(1.70)	(1.35)
Field operating netback	29.18	30.88
Realized gain (loss) on commodity contract settlement	(0.65)	(0.04)
Operating netback	28.53	30.84
G&A	(1.85)	(1.41)
Cash finance expenses	(2.93)	(2.56)
Depletion and depreciation	(9.53)	(8.85)
Non Cash - finance expenses	(0.59)	(0.16)
Stock-based compensation	(0.85)	(0.41)
Unrealized gain (loss) on financial instruments	(0.90)	(0.02)
Deferred income tax	(3.01)	(4.07)
Net income netback	\$ 8.87	\$ 13.36

The overall average price earned by the Company, including the impact of commodity contracts, was lower when compared to Q1 2023 as natural gas prices decreased by 28%, oil prices decreased by 7% and liquid prices decreased by 3%. The average sales price decreased by 10% in Q1 2024 when compared to Q1 2023. Operating netbacks decreased by 7% in Q1 2024 due to lower realized pricing.

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Royalty

	2024		2023	
	Q1		Q1	
Royalty expense	\$	2,632	\$	5,228
Per BOE	\$	2.59	\$	4.68
As a % of sales (including commodity contracts)		7%		11%
As a % of sales (excluding commodity contracts)		7%		11%

For Q1 2024 royalties were \$2,632 or 7% as a percentage of sales. The decrease is a result of lower royalty rates as natural gas pricing decreased significantly.

Production and Transportation Costs

	2024		2023	
	Q1		Q1	
Production costs	\$	6,358	\$	7,822
Per BOE	\$	6.25	\$	7.00
Transportation costs	\$	1,734	\$	1,512
Per BOE	\$	1.70	\$	1.35
Combined (\$/BOE)	\$	7.95	\$	8.36

Production and transportation costs decreased by 5% on a per boe basis when compared to Q1 2023 due to continual improvement and efficiencies in the field. On a dollar basis, production and transportation costs decreased by 13% due to lower production.

Depletion and depreciation

	2024		2023	
	Q1		Q1	
Depletion and depreciation	\$	9,701	\$	9,891
Per BOE	\$	9.53	\$	8.85

Depletion and depreciation expense decreased in Q1 2024 due to lower production. On a per boe basis, the depletion rate increased when compared Q1 2023 due to higher finding and development costs in the 2024 reserve base.

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General and administrative expenses (“G&A”)

	2024		2023
	Q1		Q1
Gross G&A expenses	\$ 2,036	\$	1,981
G&A recoveries	(149)		(402)
Net G&A expenses	\$ 1,887	\$	1,579
Per BOE	\$ 1.85	\$	1.41

G&A increased by 20% on a net basis, 3% on a gross basis and 31% on a boe basis when compared to Q1 2023 due to bonuses recognized in the first quarter of 2024 coupled with reduced recoveries due to a lighter drilling program.

Other expenses

	2024		2023
	Q1		Q1
Cash Finance			
Cash interest and finance expense	\$ 2,889	\$	2,806
Lease interest paid	89		54
Non-Cash Finance			
Accretion of decommissioning liability	129		120
Accretion of debt issue costs	190		104
Accretion on lease obligations	283		(40)
	\$ 3,580	\$	3,044
Share-based compensation	\$ 862	\$	458

Interest and financing fees include interest on the Company’s bank debt (the average amount drawn in Q1 2024 was \$119,170) and bank debt servicing charges.

For the three months ended March 31, 2024, if interest rates had been 1% lower with all other variables held constant, net income would have been \$289 (three months ended March 31, 2023 – \$292) higher, due to lower interest expense. An equal and opposite impact would have occurred had interest rates been higher by the same amount. The Company had no interest rate contracts in place as at March 31, 2024.

In the three months ended March 31, 2024 the Company issued 4,893 (2023 – 1,590) RSUs that vest equally over 3 years. 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 fair value on the date of issue of \$1.11 (2023 – \$2.67) per RSU.

During the three months ended March 31, 2024, the Company recognized \$862 (2023 – \$458) of share-based compensation in the condensed interim consolidated statements of income and comprehensive income. During the three months ended March 31, 2024, the Company capitalized \$371 (2023 - \$489) of share-based compensation to property and equipment.

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Commodity price risk contracts

	2024	2023
	Q1	Q1
Realized gain (loss) on commodity contract settlement	\$ (665)	\$ (40)
Change in fair value of commodity contracts	(914)	(22)
	\$ (1,579)	\$ (62)

As at March 31, 2024, the Company was committed to the following commodity price risk contracts:

<i>Year</i>	<i>Volume</i>	<i>Term</i>	<i>Reference</i>	<i>Type</i>	<i>Strike Price</i>	
<u>Natural Gas</u>						
2023/2024	6,000	GJ/d	Nov 23 – Jun 24	AECO - 7A	Put	CAD \$1.50
2023/2024	7,000	GJ/d	Nov 23 – Jun 24	AECO - 7A	Put	CAD \$1.50
2024	7,000	GJ/d	Jan 24 - Jun 24	AECO - 7A	Put	CAD \$1.50
2024	3,000	GJ/d	Jul 24 - Dec 24	AECO - 7A	Put	CAD \$1.50
2024	4,400	GJ/d	Jul 24 - Dec 24	AECO - 7A	Put	CAD \$1.50
<u>Oil</u>						
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
2023/2024	800	bbl/d	Nov 23 - Jun 24	WTI - CAD	Collar	CAD \$90.00 - 127.00
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
Total						

As the Company had a limited number of derivatives in place as at March 31, 2024 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

	2024	2023
	Q1	Q1
Deferred tax expense	\$ 3,062	\$ 4,550

Yangarra did not pay income taxes in 2024 and does not expect to pay income taxes in 2025 or into the near future as it has sufficient tax pools to cover taxable income. Deferred tax expense is lower in the 2024 period than in the 2023 period due to lower taxable income in the 2024 period requiring lower tax pool deductions.

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Liquidity and Capital Resources

The following table summarizes the change in adjusted net debt during the three months ended March 31, 2024 and year ended December 31, 2023:

	Three Months ended March 31, 2024	Year ended December 31, 2023
Adjusted net debt - beginning of period	\$ (118,646)	\$ (134,364)
Funds flow from operations	\$ 24,260	99,024
Additions to property and equipment	\$ (16,011)	(93,950)
Decommissioning costs incurred	\$ -	(488)
Additions to E&E Assets	\$ -	(353)
Issuance of shares	\$ 2,093	15,988
Lease obligation repayment	\$ (565)	(1,525)
Other	\$ (279)	(2,978)
Adjusted net debt - end of period	\$ (109,148)	\$ (118,646)
Credit facility limit	\$ 130,000	\$ 135,000

At March 31, 2024, the maximum amount available under the syndicated credit facility was \$130,000 (December 31, 2023 – \$135,000) comprised of a \$105,000 (December 31, 2022 – \$110,000) extendable revolving term credit facility and a \$25,000 (December 31, 2023 – \$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.

Balance, December 31, 2023	\$ 121,057
Repayment	(3,910)
Accretion of debt transaction costs	190
Balance, March 31, 2024	\$ 117,337
Current	-
Non-current	\$ 117,337

As at March 31, 2024, the \$117,337 (December 31, 2023 – \$121,057) reported amount of bank debt was comprised of \$13,894 (December 31, 2023 – \$12,908) drawn on the operating facility and \$104,243 (December 31, 2023 – \$109,139) drawn on the revolving facility and net of unamortized transaction costs of \$800 (December 31, 2023 – \$990).

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 March 31, 2024 and December 31, 2023. The facilities are secured by a general security agreement over all assets of the Company. 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

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daily production for the July 2024 – December 2024 six-month period is hedged. The Company is in compliance with the hedging requirements.

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 three months ended March 31, 2024, the weighted average effective interest rate for the bank debt was approximately 9.34% (three months ended March 31, 2023 – 8.35%).

Capital Spending

	2024	2023
	Q1	Q1
Cash additions		
Land, acquisitions and lease rentals	\$ 68	\$ 128
Drilling and completion	14,148	25,805
Geological and geophysical	323	423
Equipment	739	5,893
Other asset additions	733	241
	\$ 16,011	\$ 32,490

Exploration & evaluation assets	\$ -	\$ 264
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During 2024, Yangarra drilled 8 (5.5 net) wells and continued the optimization program on existing wells.

Outlook

- 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.

Decommissioning Liabilities

As at March 31, 2024, the undiscounted decommissioning obligation associated with the Company's existing properties was estimated to be \$21,066 for which \$16,068 has been recorded using a discount rate of 3.34% - 4.17% an inflation rate of 2% and an estimated weighted average timing of cash flows of 5.8 years.

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Off Balance Sheet Arrangements

There were no off-balance sheet arrangements.

Share Capital

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

	Common Shares	Stock Options	Restricted Share Units
Balance - December 31, 2023	94,801	7,604	1,590
Granted	-	-	4,893
Exercised	3,473	(3,473)	-
Vested	460	-	(460)
Cancelled	-	(1,152)	(230)
Balance - March 31, 2024 & Date of MD&A	98,734	2,979	5,793

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, 2024 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	\$ 36,155	\$ 36,155	\$ 36,155	\$ -	\$ -
Bank debt	117,337	118,137	118,137	-	-
Lease obligations	2,100	2,516	1,133	817	566
Other liabilities	953	953	-	-	953
Commodity contracts	1,339	1,339	1,339	-	-
	\$ 157,884	\$ 159,100	\$ 156,764	\$ 817	\$ 1,519

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, 2024, the maximum credit exposure is the carrying amount of the accounts receivable of \$34,929 (December 31, 2023 – \$30,092).

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

	<i>March 31, 2024</i>	<i>December 31, 2023</i>
Natural gas and liquids marketers	\$ 15,787	\$ 11,906
Partners on joint operations	14,954	14,458
Other	4,188	3,728
	<u>\$ 34,929</u>	<u>\$ 30,092</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 April 2024.

The Company's receivables are aged as follows:

	<i>March 31, 2024</i>	<i>December 31, 2023</i>
Under 30 days	\$ 19,039	\$ 21,751
30 to 60 days	1,925	263
60 to 90 days	7,747	1,971
Over 90 days	6,218	6,107
	<u>\$ 34,929</u>	<u>\$ 30,092</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, 2024</i>	<i>December 31, 2023</i>
Shareholders' equity	\$ 548,954	\$ 536,598
Bank debt	\$ 117,337	\$ 121,057

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 March 31, 2024 and December 31, 2023, the Company's capital structure was subject to banking covenants. No changes were made to the capital policy in 2024.

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Selected Quarterly Financial Information

	2024	2023	2023	2023
	Q1(\$)	Q4(\$)	Q3(\$)	Q2(\$)
Petroleum & natural gas sales	40,425	33,651	45,414	38,396
Net income	9,030	12,435	11,487	7,833
Net income per share – basic ⁽¹⁾	0.09	0.13	0.12	0.08
Net income per share – diluted ⁽¹⁾	0.09	0.12	0.11	0.08
Funds flow from operations	24,260	17,552	28,994	22,410
Funds flow from operations per share – basic ⁽¹⁾	0.25	0.19	0.31	0.24
Funds flow from operations per share –diluted ⁽¹⁾	0.24	0.18	0.29	0.22
Capital expenditures (including E&E)	16,011	16,026	25,334	20,189

	2023	2022	2022	2022
	Q1 (\$)	Q4 (\$)	Q3 (\$)	Q2 (\$)
Petroleum & natural gas sales	49,055	60,292	62,791	68,545
Net income	14,909	25,071	27,936	30,631
Net income per share – basic ⁽¹⁾	0.17	0.29	0.32	0.35
Net income per share – diluted ⁽¹⁾	0.16	0.27	0.30	0.33
Funds flow from operations	30,068	41,808	45,602	50,028
Funds flow from operations per share – basic ⁽¹⁾	0.34	0.48	0.52	0.57
Funds flow from operations per share –diluted ⁽¹⁾	0.32	0.45	0.49	0.54
Capital expenditures (including E&E)	32,754	28,030	36,602	27,269

⁽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. Oil pricing started to improve in early 2024, however gas pricing has continued to weaken.

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

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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 4 of the Company's March 31, 2024 unaudited condensed interim consolidated financial statements.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

As at March 31, 2024, 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 March 31, 2024, 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.

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Management has conducted an evaluation of its internal controls over financial reporting and determined that as at March 31, 2024 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 January 1, 2024 and ending on March 31, 2024, 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 2024 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, 2024. Refer to Note 2 of the Company's December 31, 2023 audited consolidated financial statements.