YANGARRA RESOURCES INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2004

The following discussion and analysis has been prepared on April 13, 2005 by management and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2004 and 2003, together with the notes related thereto. This MD&A contains statements and other forward-looking information about potential future circumstances, results and developments. Such statements and information are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations generally and may differ materially from the Company's actual future results or events. See "Forward-Looking Statements".

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil. A boe conversion ratio of 6mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Throughout this discussion, percentage changes are calculated using numbers rounded to the decimal to which they appear. All references to dollar values refer to Canadian dollars.

Corporate History

Yangarra Resources Inc. ("Yangarra") was formed in 1985 as Ayrex Resources Ltd., a mining venture. Over the next 15 years it was involved in mining and oil and gas projects with Tandem Resources and Stan Hawkins, the controlling shareholder. In late 2000, Jim Evaskevich (President) and Gordon Bowerman (Director) bought the control block of Ayrex from Tandem and took over the operations of the company.

During the year of 2002, Ayrex participated in several oil and gas plays with limited success. In mid July of 2003, Ayrex Resources consolidated its outstanding common shares (4 for 1) and changed its name to Yangarra Resources Inc. The new management team was that of Glacier Ridge Resources Ltd., a private oil and gas company that had been based in Calgary, Alberta. Jim Evaskevich, the president and CEO of Yangarra Resources was one of the executives of Glacier Ridge until it was sold to HighPoint Resources in July 2003.

Overall Performance

Exploratory work in Grande Prairie and Paradise areas that began in late 2003 was completed by the first quarter of 2004 and the decision made to concentrate all future efforts in building and drilling wells in only two core areas; Medicine Hat and Ferrier. The company commenced the year with production that averaged 140 barrels of oil equivalent (BOE) from shallow gas wells In Medicine Hat. By May 25, 2004 Yangarra announced that it had attained daily production of 750 BOE/day due primarily to new production from five wells in the Ferrier area. Although production from Medicine Hat remained stable throughout the year, production from the Ferrier wells declined at significantly higher rates than anticipated resulting in average production of 298 BOE/day and 222 BOE/day for the second and third quarters respectively. Additional wells in Medicine Hat and Ferrier began to offset declines and Yangarra exited the year at 356 BOE/day. The drilling and completion of a water injection well in the first quarter significantly reduced Medicine Hat operating costs while field engineering studies optimized gas production by minimizing water production.

Higher gas prices and much greater sales volumes than last year, resulted in petroleum and natural gas sales of $3,075,560 in 2004 compared to $52,356 in 2003. Royalties, net of the Alberta Royalty Tax Credit, increased proportionately to $620,852 in 2004 compared to $878 in 2003. Operating costs for the corresponding periods increased due to the higher production to $637,067 compared to $37,424. General and administrative costs for the year were $854,080 compared to $160,838 for the same period last year. Cash flow from operations during this year totaled $833,524 compared to a shortfall of $153,313 last year, while the net loss in 2004 was $791,617 compared to net earnings of $372,119 in 2003. The net loss in 2004 was adjusted downward for significant non-cash expenses that included depletion costs of $1,869,383, the recognition of stock–based compensation of $199,691 for stock options granted during the year, as well as a $108,755 write-off of expired mineral claims and a $67,547 decrease in value of investment securities held at December 31, 2004.

Exploration and development expenditures of $14.3 million during the year continued to be funded by the January 1, 2004 cash balance of $2.8 million, cash flow, new debt financing of $4.6 million and two equity financing totaling $8.6 million. At December 31, 2004 the available line of credit remaining was $1.9 million.

Results of Operations

In the fourth quarter of 2004, natural gas revenues were $1,116,081 compared to $45,516 in the comparable quarter of 2003. Total production during the fourth quarter was 26,797 BOE compared to 1,360 BOE in 2003. All other costs during this quarter were proportionately higher due to the increased magnitude of operations. Royalties, net of ARTC was $194,606 compared to $878; production expenses were $220,960 compared to $32,568; administrative expenses were $422,234 compared to $66,974 and cash flow was $223,290 compared to a shortfall of $54,904 in the fourth quarter of 2003.

Natural gas prices remained strong in the fourth quarter with an average price per mcf of $6.13 compared to $6.01 per mcf during the fourth quarter in 2003.

Capital Expenditures

Capital expenditures are summarized in the table below and reflect the capital additions for the years ended December 31, 2004 and December 31, 2003.

	December 2004	**December 2003**	**$ Change Dec 04 vs. Dec 03**	**% Change Dec 04 vs. Dec 03**
Land Acquisition costs	1,494,604	2,436,810	(942,206)	(38.7)
Lease Rentals	1,380	-	1,380	-
	1,495,984	2,436,810	(940,826)	(38.6)
Geological & Geophysical	147,560	560,135	(412,575)	(73.7)
Intangible Drilling Costs	4,914,169	2,162,476	2,751,693	127.2
Intangible Completion	3,492,075	1,916,127	1,575,948	82.2
Well Completion & Work	91,419	-	91,419	-
	8,645,223	4,638,738	4,006,485	86.4
Well Equipment	671,478	-	671,478	-
Plant & Battery Equipment	193,260	-	193,260	-
Gathering Systems	3,330,213	1,872,497	1,457,716	77.8
	4,194,951	1,872,497	2,322,454	124.0
Total resource assets	14,336,158	8,948,045	5,388,113	60.2
Depletion	1,817,548	26,240	1,791,308	6,826.6
	12,518,610	8,921,805	3,596,805	40.3
Asset retirement obligation	187,147	204,622	(17,475)	(8.5)
Accumulated accretion	34,895	10,695	24,200	226.3
	152,252	193,927	(41,675)	(21.5)
Mineral properties	-	-	-	-
Depletion	108,756	-	-	-
	(108,756)	-	(108,756)	-
Total resource assets	**12,562,109**	**9,115,729**	**3,446,380**	**37.8**

Depletion expense for 2004 increased to $1,869,383 compared to $43,084 in 2003. This was attributable to higher sales volumes and an increase in capital expenditures. The depletion calculation incorporated data from the latest independent engineering reserve evaluation completed as of December 31, 2004.

Expenditures by Area

	Land	Geological & Geophysical	Drilling & Completion	Plant & Facilities	Total
Medicine Hat	305,605	41,372	1,920,801	1,427,020	3,694,798
Ferrier	1,184,298	18,155	6,130,081	2,732,918	10,065,452
Paradise	562	50,896	249,235	35,014	335,707
Smoky Heights	5,295	36,338	191,497		233,130
Minor Properties	224	800	6,050		7,074
Total	1,495,984	147,561	8,497,664	4,194,952	14,336,161

Drilling Activity

	Drilling & Producing		Abandoned or suspended	
	Gross	Net	Gross	Net
Medicine Hat	9	4.5		
Ferrier	12	4.4		
Paradise	1	0.5		
Smoky Heights			1	0.3
Total	22	9.4	1	0.3

Summary of Quarterly Results

The following table sets out, for each of the previous eight quarters, information relating to the Company's revenue, net earnings (loss) and earnings (loss) per Common Share:

	1 Quarter 2003	**2 Quarter 2003**	**3 Quarter 2003**	**4 Quarter 2003**
Revenues	-	-	6,840	45,516
Net income (loss)	(2,855)	(18,510)	(81,102)	474,586
Net income (loss) per share	-	-	(0.02)	0.06

	1 Quarter 2004	**2 Quarter 2004**	**3 Quarter 2004**	**4 Quarter 2004**
Revenues	391,657	757,793	810,029	1,116,081
Net income (loss)	(110,402)	(219,041)	(439,440)	(22,734)
Net income (loss) per share	(0.01)	(0.01)	(0.02)	-

Reserves

Yangarra retained the independent engineering firm of Sproule Associates Limited to evaluate the Corporation's reserve properties at December 31, 2004. The Audit Committee has recommended acceptance of the Sproule reserve estimates for the purposes of the Annual Report.

Reserves reconciliation	Crude oil and liquids (Mbbl)			Natural gas (Mmcf)			Barrel equivalent (6:1)(Mbbl)		
	Proven	Probable	Total	Proven	Probable	Total	Proven	Probable	Total
Total at Jan 1, 2004	85.4	35.6	121.0	5,477	4,428	9,905	998.2	773.6	1771.8
Development	35.3	95.3	130.6	800	(300)	500	175.8	35.4	211.2
Production	14.3	0	14.3	400	-	400	77.4	-	77.4
Total at Dec 31,2004	106.4	130.9	237.3	5,900	4,100	10,005	1,096.6	809.0	1,905.6

Sproule used the following pricing assumptions in the escalated reserves pricing case.

Pricing assumptions	WTI ($US/Bbl)	Edmonton Reference Price ($Cdn/Bbl)	AECO-C Spot Price ($Cdn/MMBTU)
2005	44.29	51.25	6.97
2006	41.60	48.03	6.66
2007	37.09	42.64	6.21
2008	33.46	38.31	5.73

Summary of reserve value – escalated prices

Reserves category	Oil & NGL Mbbl		Sales Gas Mmcf		BOE Mbbl		Net Present Value (Before Income Taxes)		
	Gross	Net	Gross	Net	Gross	Net	Undisc	5%	10%
Proved producing	108.8	76.6	3,091	2,576	623.9	505.8	12,041	10,347	9,166
Proved non-producing	1.5	0.8	137	117	24.3	20.2	279	258	238
Proved undeveloped	42.8	29.0	3,728	3,249	664.1	570.5	4,696	3,005	1,871
Total Proved	153.1	106.4	6,956	5,942	1312.4	1096.6	17,016	13,610	11,275
Probable	174.8	130.9	4,768	4,069	969.4	809.0	15,874	10,602	7,735
Total proved plus probable	327.9	237.3	11,724	10,011	2,281.8	1,905.6	32,890	24,212	19,010

Gross reserves are the total of the Company's working and/or royalty interest share before deduction of royalties owned by others.

Net reserves are the total of the Company's working and/or royalty interest share after deducting the amounts attributable to royalties by others.

Net asset value ($000, except per share data)	2004	2003
Proved plus probable reserves at 5%	24,212	23,059
Value of undeveloped land	3,215	2,100
Value of compression & gathering facilities	3,232	1,268
Working capital (deficiency)	(5,917)	(506)
Net asset value	24,742	25,921
Common shares outstanding fully diluted (thousands)	32,798	23,667
Net asset value per share	0.75	1.10

Related party transactions

During the year ended December 31, 2004, the Company had the following transactions with companies controlled by certain of the Company's officers and directors:

	2004	**2003**
Administration and consulting expenses	**169,911**	148,479
Capital expenditures	**2,798 403**	1,876 878

During the year, an aggregate of $60,746 (2003 - $50,114) was paid to Burstall Winger LLP for legal fees and disbursements. A director of the Company is a partner of Burstall Winger LLP.

Included in accounts payable and accruals is $167,720 (2003 - $260,665), and in accounts receivable is $1,225,319 (2003 - $1,384,249), relating to the above transactions.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Liquidity and Capital Resources

At December 31, 2004 the Company had a working capital deficit of $5.9 million compared to the deficit of $506,400 at December 31, 2003. The revolving line of credit of $4.6 million is included in current liabilities at December 31, 2004. The Company had no bank debt at December 31, 2003.

Capital projects in 2005 will be funded by cash flow, the exercise of 3.0 million warrants, an increase in the Company's credit facilities and the divestiture of non-core properties. These minor properties are presently being packaged for sale or farm out. After evaluating the 2005 drilling results, new financing may be considered.

Outlook

Subsequent to year end Yangarra successfully drilled and tied in two deep gas tests in Medicine Hat which resulted in five hundred thousand cubic feet of incremental production (83 BOE/day). Plans are continuing to drill several more shallow gas wells and test any deep prospects that may occur in the vicinity of the shallow project. The objective will be to fill the compressor station to its 4.0 million cubic feet per day capacity (664 BOE/day Gross, 332 BOE /day net).

Yangarra also drilled three wells in Ferrier after year end which resulted in one oil well which is tied into our existing plant at 80 BOED net to Yangarra. The second well is currently being evaluated for deep gas and has a potential light oil zone to be tested. The third well was drilled to depth and was abandoned due to mechanical problems with this deviated hole. Samples obtained while drilling indicate that this well will be commercial and plans are underway to acquire a surface location which will allow for a vertical hole on the same bottom hole co-ordinates.

After year end Yangarra also fractured and tested eight of nine wells in the Bayhurst area of south west Saskatchewan. The results prompted the company to proceed with the election of drilling more wells to earn an additional eighteen sections of contiguous land in this area for a total of thirty nine sections. Once the drilling program, completion and testing are complete Yangarra will decide whether the project merits the building of a sales compression facility.

Forward-Looking Statements

This Management's Discussion and Analysis of financial condition and operating results contains forward-looking statements concerning the future prospects of the Company's exploration, development and production. Forward-looking statements include statements of plans, objectives, strategies and expectations. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements.

The Company considers the assumptions on which these forward-looking statements are based to be reasonable, but caution the reader that these assumptions regarding future events, many of which are beyond our control, may ultimately prove to be incorrect since they are subject to risks and uncertainties that affect us. There are a number of factors which could cause results or events to differ from current expectations including, among other matters: commodity prices for oil and gas; changes in the cost of exploration and other operating expenses to support future growth; competitive factors; general economic conditions; and the success in finding, drilling and completing oil and gas wells. For additional information with respect to risks and uncertainties which could affect the company's business and operations, reference should be made to the to the Company's continuous disclosure materials filed with Canadian securities regulatory authorities. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.