

VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
September 30, 2019

Vital Energy Inc. (the “Company” or “Vital”) is a public company and is incorporated in the Province of Alberta, Canada. The Company’s activities are the exploration for, development and production of oil and natural gas properties in Western Canada.

The discussion and analysis that follows is a summary of Vital’s activities and results for the three and nine months ended September 30, 2019, its financial position as at September 30, 2019 and its future prospects. This Management’s Discussion and Analysis is dated as of November 27, 2019 and provides information on the activities of the Corporation and should be read in conjunction with the condensed interim financial statements for the three and nine months ended September 30, 2019 and the annual audited financial statements for the year ended December 31, 2018. All amounts are expressed in accordance with International Financial Reporting Standards (“IFRS”) and in Canadian dollars unless otherwise stated. Additional information is available on the Company’s website at www.vitalenergyoil.com or on Sedar’s website at www.sedar.com.

Forward-Looking Statements

Certain statements contained in this document constitute "forward-looking statements". When used in this document, the words "may", "would", "could", "will", "intend", "plan", "propose", "anticipate", "believe", used by any of the Company’s management, are intended to identify forward-looking statements. Such statements reflect the Company’s forecasts, estimates and expectations, as they relate to the Company’s current views based on their experience and expertise with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the Company’s actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. The Company does not intend, and does not assume any obligation, to update any such factors or to publicly announce the result of any revisions to any of the forward-looking statements contained herein to reflect future results, events or developments unless required by law.

Actual results achieved will vary from the information provided herein as a result of numerous known and unknown risks and uncertainties and other factors. Such factors include, but are not limited to: risks associated with the Company’s stage of development; competitive conditions; share price volatility; risks associated with crude oil and natural gas exploration and development; risks related to the inherent uncertainty of reserves and resources estimates; possible imperfections in title to properties; the volatility of crude oil and natural gas prices and markets; environmental regulation and associated risks; loss of key personnel; operating and insurance risks; the inability to add reserves; risks associated with industry conditions; the ability to obtain additional financing on acceptable terms if at all; non operator activities; the inability of investors in certain jurisdictions to bring actions to enforce judgments; equipment unavailability; potential conflicts of interest; risks related to operations through subsidiaries; risks related to foreign operations; currency exchange rate risks and other factors, many of which are beyond the control of the Company. Accordingly, there is no representation by the Company that actual results achieved during the forecast period will be the same in whole or in part as that forecast. Further, the Company undertakes no obligation to update or revise any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events, except as required by applicable securities laws.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management’s assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A should not be used for purposes other than for which it is disclosed herein.

Non-IFRS Measures

The financial data presented herein has been prepared in accordance with IFRS. The Company has also used certain measures of financial reporting that are commonly used as benchmarks within the oil and natural gas production industry in the following MD&A discussion. The measures are widely accepted measures of performance and value within the industry and are used by investors and analysts to compare and evaluate oil and natural gas exploration and producing entities. Most notably, these measures include “operating netback” and “funds flow from (used in) operations”. Operating netback is a benchmark used in the crude oil and natural gas industry to measure the contribution of oil and natural gas sales and is calculated by deducting royalties and operating expenses from revenues. Funds flow from (used in) operations is cash flow from operating activities before changes in non-cash working capital, and is used to analyze operations, performance and liquidity. These measures are not defined under IFRS and should not be considered in isolation or as an alternative to conventional IFRS measures. These measures and their underlying calculations are not necessarily comparable or calculated in an identical manner to a similarly titled measure of another entity. When these measures are used, they are defined as “non IFRS” and should be given careful consideration by the reader.

Note Regarding Boe and Mcf

In this MD&A, barrels of oil equivalent (“boe”) is derived by converting gas to oil in the ratio of six thousand cubic feet (“Mcf”) of gas to one barrel (“bbl”) of oil (6 Mcf: 1 bbl) and one thousand cubic feet of gas equivalent (“Mcf”) are derived by converting oil to gas in the ratio of one bbl of oil to six Mcf (1 bbl: 6 Mcf). Boe and Mcf may be misleading, particularly if used in isolation. A boe conversion of 6 Mcf of natural gas to 1 bbl of oil, or a Mcf conversion ratio of 1 bbl of oil to 6 Mcf of natural gas is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the well head.

Other terms used in this report are as follows:

boe - barrel of oil equivalent

boe/d – barrel of oil equivalent per day

bbl – barrel of oil

bbl/d – barrel of oil per day

WTI – West Texas Intermediate (a light oil reference price)

WCS – Western Canadian Select (a heavy oil reference price)

Description of the Business

Vital Energy Inc. (the “Company” or “Vital”) is a public company whose shares trade on the TSXV under the symbol “VUX”. Vital is incorporated in the Province of Alberta, Canada and its activities consist of exploration for, development and production of primarily light and medium gravity crude oil in Western Canada.

The Company operates from its head office in Calgary, Alberta located at Suite 888, 940 6th Avenue S.W., Calgary, Alberta, T2P 3T1.

Overall Performance

Highlights

- The Corporation has reported net earnings of \$279,508 for Q3 2019 as compared to \$18,117 in Q3 2018.
- The average crude oil and natural gas price realized by the Company in the third quarter of 2019 was \$55.06 per boe as compared to \$60.85 per boe for the second quarter of 2019. The decrease in pricing reflects the excess supply of oil in western Canada and the curtailment plan implemented by the Alberta provincial government.
- Production increased in the third quarter of 2019 to 397 boe/d as compared to the second quarter production of 389 boe/d.
- Overall the company produced 36,525 boe in Q3 2019 versus 35,354 boe in Q2 2019.
- Production operating costs in Q2 and Q3 2019 have remained consistent in the \$16 - \$17 range.
- In December 2018, one well was drilled, completed and placed on production in the Sullivan Lake Area, a non-core area. In 2019, it produced approximately 10,600 bbls of light oil with API 31° until the well was shut-in in July 2019 because the gas could not be flared.
- Two wells have been drilled at Gull Lake with the 3-29 well being put on production in Q4 2018 and the 7-29 well in June 2019.
- The Company's 2019 production was weighted 95% crude oil to 5% natural gas.

Selected Financial Information

Selected financial information for the years ended and as at June 30 is as follows:

| | 2019 | 2018 | 2019 | 2018 |
|---|--------------------|--------------|-------------------|--------------|
| | Three months ended | | Nine months ended | |
| | September 30 | | September 30 | |
| Revenue | \$2,010,983 | \$1,454,524 | \$5,648,675 | \$3,536,376 |
| Net and comprehensive income (loss) | \$279,508 | \$18,117 | \$603,057 | (\$229,612) |
| Net income (loss) per share | \$0.00 | \$0.00 | \$0.01 | (\$0.01) |
| Total assets as at June 30 | \$13,712,445 | \$13,745,891 | \$13,712,445 | \$13,745,891 |
| Total non-current liabilities as at June 30 | \$1,064,858 | \$1,163,369 | \$1,064,858 | \$1,116,339 |

A discussion of operations follows under *Discussion of Operations*.

Properties

Gull Lake

In one of the Company's core areas of operations, Gull Lake, Saskatchewan, Vital is the designated operator and maintains a 50% working interest. The property is covered with 3D seismic data and has 9 wells producing, or capable of producing, crude oil from the Roseray, Cantuar and Upper Shaunavon formations. This project has a salt water disposal facility and a gas collection pipeline system. In the Company's opinion, there remains drilling opportunities on these lands.

In Gull Lake, Vital's net daily oil and natural gas production for the first nine months of 2019 was 265 boe/d as compared to 161 boe/d for the comparable period in 2018. This increase in production is partially attributable to the new 3-29 well that came on production in December 2018 and contributed 58 bbls/d and the 1-29 well that was put on production in Q3 2018 and contributed 38 boe/d in 2019.

Vital drilled and completed 7-29-13-19W3 in May 2019. The well was put on production in June 2019 and is producing at a stable 100 bbl/d. This well's primary target production zone was the Upper Shaunavon and a secondary potential zone was identified, the Cantuar production zone.

In order to better evaluate the oil development potential, the Company has utilized the 3D seismic survey which covers all of its Gull Lake lands. As of December 31, 2018, the reserves evaluator, Trimble Engineering, assigned 177,200 boe of proven oil and natural gas reserves net to the Company and 150,100 boe of probable oil reserves net to the Company.

Pennant

Vital is the Operator and maintains a 100% working interest in 14 contiguous sections of land. To date one (1) vertical well and six (6) horizontal wells have been drilled. Four of the horizontal wells and the vertical well have had production.

Vital performed a workover on well 14-15 that was originally drilled in January 2018. This well was put on production in September 2019. The well was originally funded by the Carried Working Interest Partner.

A second well, 15-20, drilled in January 2018 has now been completed. This well was abandoned in September 2019 when a production test indicated it was 100% water.

3D seismic coverage on about 35% of Vital's lands indicates there may potentially be additional drilling locations.

The company's crude oil production was 38 bbls/d in the first nine months of 2019 as compared to 55 boe/d for the comparable period in 2018.

Non-core

In addition to its core properties, Vital has land holdings primarily in the Sullivan Lake Area located in central Alberta. In December 2018, one well was drilled, completed and placed on production in the Sullivan Lake Area. It produced at a rate of 58 bbl/d in the first half of 2019 until it was shut-in in July 2019 due to associated gas excess above the AER limit.

Vital has performed pre-drilling work for two new horizontal wells (10-1 and 9-36) in the Banff and Ellerslie reservoirs at Sullivan Lake which have been or will be drilled in November 2019. In addition, the Company has commenced initial work to build production facilities at Sullivan Lake with a capacity of 300 boe/d. The Sullivan Lake project should soon become a core asset area.

In the Lloydminster heavy oil area of Alberta (Baxter Lake) and Saskatchewan (Standard Hill) certain wells were suspended or shut in as production rates were allowed to decline due to not being economic. As oil prices improved in the second quarter of 2018, one of such suspended wells in Baxter Lake and one in Standard Hill area were reactivated and brought back on production after remedial work. Further reactivation work of suspended wells will be considered if oil prices continue to improve. Higher oil prices are needed in order to justify any further drilling activities on the Baxter Lake properties.

A workover was performed in June 2019 on well 11/04-16-036027W3 in the Cactus area which is now on production.

A workover was performed in September 2019 on well 102/16-26 in the Baxter area which is now on production.

Outlook

Gull Lake

In 2015 the Company expended a significant amount of its capital installing water injection facilities and other infrastructure on the Gull Lake property. The result has been to lower operating costs and increased netbacks. Additional drilling locations have been identified by geological and 3D seismic interpretation and mapping.

Vital drilled an offset well at 3-29-13-19W3 in the fourth quarter of 2018 and it has produced 58 bbls/d in the first nine months of 2019. The Company received the GPP approval of well 3-29 on May 9, 2019 and production increased to 60 bbls/d. Vital is the designated Operator of the Gull Lake Project Area and maintains a 50% working interest in the balance of the Gull Lake project lands.

Vital will also be evaluating the new potential zone, Cantuar, in the recently drilled well 7-29.

With the current land inventory, detailed interpretation of 3D seismic data, integrated study of seismic, geology, reservoir and engineering data, the Corporation has identified additional potential drilling locations on its “Core Properties” at Gull Lake and Pennant, S.W. Saskatchewan.

Sullivan Lake

With the successful new well drilled in the Ellerslie sand reservoir in December 2018, the Company plans to perform a geology and reservoir integrated study. As previously discussed, two new wells, (10-1 and 9-36), are planned for this project. Well 10-1 is a development evaluation well with more development wells to be drilled if 10-1 is economical.

Pennant

The company has five (5) producing oil wells on the lands. The medium gravity crude oil is being produced from the Upper Shaunavon formation and geology indicates that the entire land block may be prospective. The Company has acquired additional 3D seismic data and now has coverage on about 35% of the lands. The 3D seismic data confirms the geology and indicates that further drilling activities on the lands may be justified. Vital is the Operator of the Pennant Area project.

The Company has a medium to long term plan to develop the whole reservoir including an integrated study to evaluate the reservoir detail features, to drill an exploration well, and to build a facilities including disposal wells that could reduce operational costs significantly.

Baxter Lake

As oil prices trended upwards in the first quarter of 2018, Vital re-evaluated the potential and economic viability of performing remedial work to reactivate certain wells in the Baxter Lake area. Commencing May 2018, Vital performed remedial work on certain wells resulting in increased oil production.

Discussion of Operations

Net earnings were \$279,508 and \$603,057 respectively for the three and nine months ended September 30, 2019 as compared to net earnings of \$18,117 and a loss of \$229,612 for the same periods in 2018. This improvement in operations reflects improved oil pricing, increased production and increased monitoring of costs. Details of quarterly petroleum pricing in 2019 and 2018 are as follows:

| 2019 | | Q3 | Q2 | Q1 |
|-----------------------------------|-----------|-----------|-----------|-----------|
| WTI - \$US/bbl | | 56.45 | 59.81 | 54.90 |
| WCS Benchmark –US\$/bbl | | 44.21 | 49.13 | 42.61 |
| WCS Dollar Differential –US\$/bbl | | 12.24 | 10.68 | 12.29 |
| WCS % Differential | | 22% | 18% | 22% |
| 2018 | Q4 | Q3 | Q2 | Q1 |
| WTI - \$US/bbl | 58.81 | 69.50 | 67.88 | 62.87 |
| WCS Benchmark –US\$/bbl | 33.82 | 47.25 | 48.61 | 38.59 |
| WCS Dollar Differential –US\$/bbl | 25.53 | 22.25 | 19.27 | 24.28 |
| WCS % Differential | 43% | 32% | 28% | 39% |

The Corporation's realized sales price is generally lower than the WCS benchmark price as the Corporation sells lower gravity oil than used in setting the WCS benchmark price. The following is a summary of Corporation's realized oil pricing:

| 2019 | | Q3 | Q2 | Q1 |
|---------------------------|--|-------------|-------------|-------------|
| Revenue | | \$2,010,983 | \$2,151,177 | \$1,486,515 |
| # bbls | | 36,525 | 35,354 | 29,828 |
| Bbls/d | | 397 | 389 | 331 |
| Revenue per bbl | | \$55.06 | \$60.85 | \$49.84 |
| WCS -\$C per bbl | | \$58.39 | \$65.73 | \$56.64 |
| Differential to WSC price | | (5.7%) | (7.4%) | (12.0%) |

| 2018 | Q4 | Q3 | Q2 | Q1 |
|---------------------------|-----------|-------------|-------------|-----------|
| Revenue | \$795,071 | \$1,454,524 | \$1,233,688 | \$848,464 |
| # bbls | 25,140 | 25,075 | 21,791 | 19,746 |
| Bbls/d | 273 | 273 | 239 | 219 |
| Revenue per bbl | \$31.63 | \$58.01 | \$56.61 | \$42.97 |
| WCS -\$C per bbl | \$25.62 | \$61.76 | \$62.75 | \$48.76 |
| Differential to WSC price | 23.5% | (6.1%) | (9.8%) | (11.9%) |

The following tables detail the Corporation's operational netback as follows:

| | Three months ended September 30, 2019 | | Nine months ended September 30, 2019 | |
|-----------------------------------|--|----------------|---|----------------|
| | | Per boe | | Per boe |
| Production (boe) | 36,525 | | 101,707 | |
| Average daily production (boe/d) | 397 | | 373 | |
| Petroleum and natural gas revenue | \$2,010,983 | \$55.06 | \$5,648,675 | \$55.54 |
| Royalties | \$406,838 | \$11.14 | \$1,024,303 | \$10.07 |
| Production operating costs | \$538,762 | \$14.75 | \$1,653,850 | \$16.26 |
| Operational netback | \$1,065,383 | \$29.17 | \$2,970,522 | \$29.21 |

| | Three months ended September 30, 2018 | | Nine months ended September 30, 2018 | |
|-----------------------------------|--|----------------|---|----------------|
| | | Per boe | | Per boe |
| Production (boe) | 25,075 | | 66,653 | |
| Average daily production (boe/d) | 273 | | 244 | |
| Petroleum and natural gas revenue | \$1,454,524 | \$58.01 | \$3,536,676 | \$53.06 |
| Royalties | \$302,763 | \$12.07 | \$579,162 | \$8.69 |
| Production operating costs | \$427,971 | \$17.07 | \$1,178,260 | \$17.68 |
| Operational netback | \$723,790 | \$28.86 | \$1,779,254 | \$26.69 |

Revenue for Q3 2019 was \$2,010,983 as compared to \$1,454,524 for the same period in 2018. This increase in revenue of \$556,459 reflects increased sales production of 11,450 boe offset by a slightly lower sales price per boe of \$2.95.

Crown royalties were 18% of revenue for the nine months ending September 30, 2019 as compared to 16% for the comparable period in 2018. The increase in royalties reflects increased production and oil prices and a one-time gross overriding payment of \$18,000.

The production operating costs for the first nine months of 2019 were \$1,653,850 as compared to \$1,178,260 for the same period in 2018. The 2019 costs include the Gull Lake work over costs of \$107,095. With increased production in 2019, the Corporation has been able to reduce operating costs per boe to \$16.26 in 2019 as compared to \$17.68 in 2018.

The depletion and depreciation expense for the first nine months of 2019 was \$1,504,437 as compared to \$1,071,451 for the same period in 2018. The 2019 depletion includes a depletion reduction of \$85,998 for wells previously impaired that were subject to a decommissioning liability adjustment in 2018. Depletion is calculated on a unit-of production basis.

In comparing Q3 2019 and 2018, the operational netback per boe remained relatively consistent.

General and administrative expenses are as follows:

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------|--------------------|------------|-------------------|------------|
| | September 30 | | September 30 | |
| | 2019 | 2018 | 2019 | 2018 |
| Wages and employee benefits | \$ 69,062 | \$ 130,889 | \$ 383,160 | \$ 313,484 |
| Professional fees | 10,449 | 13,678 | 79,072 | 67,868 |
| Consulting fees | 58,777 | 86,964 | 219,921 | 267,419 |
| User fees | 19,904 | 16,238 | 53,005 | 40,433 |
| Rent | 15,067 | 17,276 | 46,529 | 44,637 |
| Office | 11,060 | 1,295 | 38,382 | 54,788 |
| Travel and entertainment | - | - | - | 3,192 |
| | \$ 184,319 | \$ 266,340 | \$ 820,066 | \$ 791,821 |

Wages and employee benefits have increased by \$69,676 for the nine months ended September 30, 2019 as compared to the same period in 2018 and have decreased \$61,827 on a quarter over quarter basis for Q3. The year to date increase reflects an exit payment to one officer who resigned from the Corporation on February 28, 2019. The quarter over quarter decrease reflects an additional person in 2018.

In 2019, consulting fees decreased year to date by \$47,498 and quarter over quarter by \$28,187 from the comparable period in 2018, The overall decrease reflects the general reduction in consultants for the nine months ending September 30, 2019.

Professional fees, rent and office costs have remained relatively consistent year over year and quarter over quarter.

Share capital

Authorized

Unlimited number of voting Class A, B and C common shares

Unlimited number of non-voting Class D, E and F common shares

Unlimited number of non-voting, non-cumulative, redeemable Class A preferred shares

Unlimited number of non-voting, cumulative, redeemable Class B preferred shares

Issued and outstanding – Class A common shares

| | # of shares | Amount |
|--|-------------|---------------|
| Balance, December 31, 2018 & September 30, 2019 | 82,249,971 | \$ 31,740,885 |

As of the date of this report, there have been no changes in share capital.

Share-based compensation

The Company has established a stock option plan (the "Plan") which is administered by the Board of Directors, allowing the Board of Directors to grant stock options. The Company adopted a 10% Rolling Stock Option Plan, which allows for the granting of stock options for the purchase of up to 10% of the outstanding shares of the Company.

Additionally, options may not be granted to any one person, any one consultant or any persons performing investor relations duties in any twelve-month period which could, when exercised, result in the issuance of shares exceeding 5%, 2% or 2% respectively of the issued and outstanding shares of the Company. All options granted under the Plan shall expire no later than the tenth anniversary of the date the options were granted.

The exercise price of the options is to be determined by the Board of Directors, subject to any applicable Exchange approval, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by any applicable Exchange. Vesting of the options is at the discretion of the Board of Directors. A summary of the status of the stock option plan and changes is presented below:

| | September 30, 2019 | | December 31, 2018 | |
|---------------------------------------|---------------------------|--|-------------------|--|
| | # | Weighted average exercise price | # | Weighted average exercise price |
| Outstanding, beginning of year | 4,200,000 | \$ 0.25 | 4,200,000 | \$ 0.25 |
| Forfeited | 3,000,000 | \$ 0.25 | - | - |
| Outstanding, end of period | 1,200,000 | \$ 0.25 | 4,200,000 | \$ 0.25 |
| Exercisable, end of period | 1,200,000 | \$ 0.25 | 4,200,000 | \$ 0.25 |

The details of the options outstanding at September 30, 2019 are as follows:

| Options outstanding | Weighted average exercise price | Options exercisable | Weighted average years to expiry |
|----------------------------|--|----------------------------|---|
| 1,200,000 | 0.25 | 1,200,000 | 5.00 |

Liquidity and Capital Resources

As at September 30, 2019, the Company had cash and cash equivalents of \$1,059,438 and a working capital deficiency of \$110,249 (December 31, 2018 – working capital deficiency \$1,841,649). The Corporation anticipates that the current operations including revenue generated from the wells recently drilled or where workovers were completed should be sufficient to sustain operations for the next twelve months. If that were not to occur, the Company may not be able to continue its operations and the amounts realizable for the assets could be less than the amounts reflected in the September 30, 2019 condensed interim financial statements.

The Company anticipates drilling an additional two wells on their properties in 2019. The first well has just been drilled and is awaiting completion and equipping. The Company will finance the capital expenditures from operations and from by the financing provided by the drilling contractor described below in *Contract Liabilities*.

For the nine months ended September 30, 2019, cash and cash equivalents increased by \$25,073 (2018 – decrease of \$776,700). This was a result of cash being provided by operations in the amount of \$2,717,280 (2018 – \$658,268) and investing activities using cash of \$2,692,207 (2018 –\$163,867). The cash used in investing activities is primarily a timing issue related to the payment of capital expenditures.

Contract liabilities

As explained in the section, *Liquidity and Capital Resources*, the Company entered into an agreement with an exploration drilling contractor to drill and complete up to five wells and finance the expenditures over a twelve (12) month period from date of invoice. The amount owing at September 30, 2019 was \$954,388 (December 31, 2018 - \$1,823,246). In consideration of the financing terms, the Company is charged a 12% fee based on contract invoices. The invoices shall be paid by the Company within twelve months of issuance in equal monthly payments starting the month following the invoice date. The balance owing is non-interest bearing if all payments are made on schedule. Interest accrues at a rate of 18% per annum on all invoiced amounts not paid by the Company pursuant to the above terms.

As at September 30, 2019, the Company had drilled all five wells under the agreement, however, the drilling contractor has agreed to drill the remaining two wells in 2019 under the same terms and conditions as the previous five wells were drilled.

Related party transactions

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties. Related party transactions are disclosed below, unless they have been disclosed elsewhere in the financial statements.

For the six months ended September 30, 2019, the Company incurred \$156,500 (2018 - \$185,500) in consulting fees to an officer and companies controlled by officers and directors.

Debentures of \$2,175,000 were payable to directors at September 30, 2018. Interest expense of \$63,370 is included in finance costs in the Statements of Net and Comprehensive Loss related to this debt.

Summary of Quarterly Results (unaudited)

| Fiscal Quarter Ended - \$ | September 30, 2019 | June 30, 2019 | March 31, 2019 | December 31, 2018 |
|----------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Revenue | \$2,010,983 | \$2,151,177 | \$1,486,515 | \$795,071 |
| Net income (loss) | \$279,508 | \$328,450 | (\$4,901) | (\$640,528) |
| Net loss per share | \$0.00 | \$0.00 | \$0.00 | (\$0.01) |

| Fiscal Quarter Ended - \$ | September 30, 2018 | June 30, 2018 | March 31, 2018 | December 31, 2017 |
|----------------------------------|-------------------------------|--------------------------|---------------------------|------------------------------|
| Revenue | \$1,454,524 | \$1,233,688 | \$848,464 | \$820,192 |
| Net income (loss) | \$18,117 | (\$38,919) | (\$208,810) | (\$214,969) |
| Net loss per share | \$0.00 | \$0.00 | \$0.01 | \$0.00 |

Generally, the quarterly results were comparable quarter over quarter until Q1 2018. The net income or loss in Q2 and Q3 2018 began to indicate overall operational improvement with more wells commencing production and reduced operating costs, however, Q4 2018 reflects the significant deterioration in oil pricing.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at September 30, 2019.

Critical Accounting Estimates and Policies

The Company's significant accounting policies are disclosed in note 3 to the audited financial statements for the year ended December 31, 2018. The changes in accounting policies for 2019 are disclosed below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. This new standard had no effect on the Corporation.

This standard is effective for reporting periods beginning on or after January 1, 2019.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, deposits, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values, as applicable.

Risks and Uncertainties

The risks and uncertainties set out below and elsewhere in this MD&A are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the Common Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the Common Shares could decline and holders of Common Shares may lose all or part of their investment.

Stage of Development

An investment in the Company is subject to certain risks related to the nature of the Company's business and its stage of development. There are numerous factors which may affect the success of the Company's business which are beyond the Company's control including local, national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The Company has had no earnings to date and there can be no assurance that the Company's business will be successful or profitable or that additional commercial quantities of crude oil and natural gas will be discovered by the Company. The Company has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future.

Additional Funding Requirements

The Company's cash on hand and cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations, and may affect the Company's ability to expend the capital required to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Company. This may be complicated by the limited market liquidity for the shares of smaller companies, restricting

access to some institutional investors. Continued uncertainty in domestic and international credit markets could also materially affect the Company's ability to access sufficient capital for its capital expenditures and acquisitions. Furthermore, if additional financing is raised through the issuance of equity, control of the Company may change and the shareholders may suffer dilution. The Company may also consider asset dispositions or farm-out or joint venture arrangements in order to fund or implement its exploration and development activities; however, there can be no assurance that the Company will be able to secure such dispositions or arrangements on acceptable terms or at all. The inability of the Company to access sufficient capital for its operations and/or to secure acceptable alternative arrangements may have a material adverse effect on the Company's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Competitive Conditions

The oil and natural gas industry is highly competitive and the Company competes with a substantial number of other companies that have greater resources. Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resultant products on a worldwide basis. The primary areas in which the Company encounter substantial competition are in locating and acquiring desirable leasehold acreage for drilling and development operations, locating and acquiring attractive producing oil and natural gas properties, and obtaining purchasers and transporters of the oil and natural gas they produce. Many of these competitors have financial, technical and other resources substantially greater than those of the Company. To the extent that these companies enjoy technological advantages, they may be able to implement new technologies more rapidly than the Company. There is also competition between producers of oil and natural gas and other industries producing alternative energy and fuel. The inability to acquire desirable properties, assets or service providers as a result of competition may have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.

Crude Oil and Natural Gas Exploration and Development

Crude oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Company will result in discoveries of crude oil, condensate or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the shortages of and delays in the availability of drilling rigs and equipment, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company's operations are subject to all the risks normally associated with the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including encountering unexpected formations or pressures, mechanical failures, premature declines of reservoirs, environmental damage, blow outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of the Company and others. In accordance with customary industry practice the Company does maintain insurance coverage, but are not fully insured against all risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing.

Exploration, appraisal and development of crude oil and natural gas reserves is speculative and involves a significant degree of risk. Few properties that are explored are ultimately developed into new reserves. If at any stage the Company is precluded from pursuing its exploration or development program, or such program is otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares is likely to be materially adversely affected.

Volatility of Crude Oil and Natural Gas Prices and Markets

The Company's financial condition, operating results and future growth are dependent on the prevailing prices for crude oil and natural gas production. Historically, the markets for crude oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for crude oil and natural gas are subject to large fluctuations in response to relatively minor changes to the demand for crude oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Company. The Company must periodically negotiate contracts with a limited number of potential purchasers. The price negotiated is influenced by the size of the crude oil or natural gas stream, the nature of the crude oil or natural gas and its location when produced. Any substantial decline in the prices of crude oil and natural gas could have a material adverse effect on the Company and the level of its crude oil and natural gas reserves. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production. No assurance can be given that crude oil and natural gas prices will be sustained at levels which will enable the Company to operate profitably. From time to time the Company may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

Loss of Key Personnel

The Company depends to a large extent on the efforts and continued employment of the Management Team, who has developed the operations of the Company. The loss of the services of these officers and other key personnel could adversely affect the Company's business, and the Company does not maintain key man insurance on any of these persons. The success of drilling operations and other activities integral to its business will depend in part on the ability to attract and retain experienced geologists, engineers and other professionals. Competition for experienced geologists, engineers and some other professionals is extremely intense. The Company's ability to compete in the oil and natural gas exploration and production industry will be harmed to the extent that the Company is unable to retain and attract experienced technical personal.

Operating and Insurance Risks

The operations of the Company are subject to hazards and risks inherent in drilling for, producing and transporting crude oil and natural gas. These risks include, among others, fires, explosions, geologic formations with abnormal pressures, collapses of casing surrounding the drill pipe in wells, mechanical failures, failure of oilfield drilling and service tools, uncontrollable flows of underground natural gas, oil and formation water, changes in below ground pressure in a formation that causes the surface to collapse or crater, pipeline ruptures and cement failures, and environmental hazards such as leaks, spills and toxic discharges. These risks can cause substantial losses resulting from personal injury or loss of life, damage and destruction of property and equipment, pollution and other environmental damage, regulatory investigations and penalties, and suspension of operations. As protection against operating hazards and in accordance with customary industry practices, the Company maintains insurance coverage against some, but not all, potential losses because the insurance coverage is not available or because premium costs are considered too high. Losses could occur for uninsured risks or in amounts exceeding the insurance coverage and these losses could have a materially adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.

Equipment Unavailability

The Company does not own the drilling rigs and related equipment required to develop its oil and gas properties and relies on third parties to provide drilling and other oil field services. Demand is high for equipment and services in the geographic areas that the Company has selected for exploration and development. This demand may reduce the availability of that equipment and services and could delay the Company's exploration, development and exploitation activities. The leases under which the Company develops properties provide time periods during which it must generate production of oil or gas or the lease expires. Any delay that prevented completion of drilling on leased property during the term of the lease would require additional expenditures by the Company to renew the lease or possibly the loss of any benefit from past development expenditures and future production revenue. In addition, the high demand for equipment and services increases the costs to the Company of the equipment and associated

supplies and personnel. Any substantial delays to gain access to equipment and services or material increases in costs could adversely affect the Company's business and financial condition and have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.