

VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
December 31, 2018

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 months and year-ended December 31, 2018, its financial position as at December 31, 2018 and its future prospects. This Management’s Discussion and Analysis is dated as of April 30, 2019 and provides information on the activities of the Corporation and should be read in conjunction with 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

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 average crude oil and natural gas price realized by the Company in the fourth quarter of 2018 was \$31.71 per boe as compared to \$58.01 per boe for the third quarter of 2018. The decrease in pricing was never more evident than in December 2018 when the Company realized \$14 per boe because of the increasing differential in the WCS oil price.
- Production remained consistent in the fourth quarter of 2018 as compared to the third quarter of 2018 (273 boe/d in the fourth quarter of 2018 versus 273 boe/d in the third quarter of 2018).
- Overall the company produced 91,752 boe in 2018 versus 77,943 boe in 2017 and with the increase in overall sales production resulting primarily from the Baxter Lake, Standard Hill and Gull Lake areas.
- Production operating costs in the fourth quarter of 2018 were \$15.34 per boe as compared to \$17.07 per boe incurred in the third quarter of 2018. The fourth quarter production costs reflect a reduction in repairs and maintenance and leasehold rental costs as compared to the third quarter.
- In December 2018, one well was drilled, completed and placed on production in the Sullivan Lake Area, a non-core area. It is currently producing approximately 160 bbl/d light oil with API 31°
- The Company's 2018 production was weighted 88% crude oil to 12% natural gas.

Selected Financial Information

Selected financial information for the years ended and as at December 31 is as follows:

	Years ended December 31,		
	2018	2017	2016
Revenue	\$4,331,747	\$3,236,022	\$2,886,166
Net and comprehensive loss	\$870,140	\$868,804	\$2,341,837
Net loss per share	\$0.01	\$0.01	\$0.04
Total assets as at December 31	\$14,021,721	\$13,589,011	\$13,030,589
Total non-current liabilities as at December 31	\$990,151	\$1,115,435	\$1,051,507

The net and comprehensive loss for the years ended 2018 and 2017 have been consistent. The 2016 net and comprehensive loss was impacted by an impairment charge of \$421,125 and fewer operating wells.

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 8 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. A new well, 6-29, was drilled and cased in the second quarter of 2018 and is now considered to be a dry hole. Another new well, 1-29, was drilled and completed in the third quarter of 2018. It was then equipped and put on production in the fourth quarter.

Vital's net daily oil and natural gas production for 2018 was 171 boe/d as compared to 136 boe/d for 2017. This increase in production is mainly attributable to the well drilled in the second quarter of 2017 being on production for a full year in 2018.

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, Trimble 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 are on production and a well drilled in January 2018, 14-15 well, is now considered a dry hole. This dry hole was funded by the Carried Working Interest Partner as described below. A second well, 15-20, drilled in 2018 will be completed once funds are available for a frac. 3D seismic coverage on about 35% of Vital's lands indicates there may potentially be additional drilling locations.

On March 20, 2017, the Company entered into a Carried Working Interest Agreement regarding the development of lands in the Pennant area. Under the Agreement, the Carried Working Interest Partner ("Partner") would advance by December 31, 2017 up to \$10,500,000 for the drilling, completion, equipping and all testing facilities for seven (7) horizontal wellbores, construction of five (5) lease pads and associated road works. In addition, the Partner would advance up to \$500,000 for the acquisition of petroleum and natural gas leases.

In exchange, the Company would pay 80% of the net profits from the seven (7) horizontal wells to the Partner until such time as the Partner has recovered 180% of their investment. At that time, the carried working interest would convert to a 5% gross overriding royalty.

As at December 30, 2018, the Partner had advanced \$1,700,840 (December 31, 2017 - \$1,565,840) for the drilling, completion and equipping of the first well which was drilled in December 2017 and completed in 2018. The partner failed to drill 7 wells or to advance \$10,500,000 before December 2017, therefore the partner is in default under the terms of the amended carried working interest agreement.

In addition, as at December 31, 2018, the Company had cash called the Partner \$175,285 which has not been paid and has been expensed as a bad debt. As of the date of these financial statements, there have been no further wells drilled and there are no further plans to continue with the carried working interest arrangement.

The company's crude oil production was 49 boe/d for 2018 as compared to 59 boe/d from this area in 2017.

Non-core

In addition to its core properties, Vital has land holdings, primarily in the Sullivan Lake Area located in central Alberta, which may have additional drilling opportunities that Vital may drill or seek third party farmouts or joint ventures with other industry partners. In December 2018, one well was drilled, completed and placed on production in the Sullivan Lake Area. It is currently producing approximately 160 bbl/d.

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 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.

Outlook

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.

With the additional lands acquired in April 2017 and April 2018, Vital currently owns a 100% working interest in fourteen (14) contiguous sections of lands in Pennant Project Area (approximately 8,977 net acres or 3,633 net hectares). In addition to the 14-15 horizontal well that was drilled, completed and put on production in the fourth quarter of 2017, Vital drilled another horizontal well 15-20 in the first quarter of 2018. The 15-20 well is currently awaiting a finalized completion program which will be determined based on available funds. Vital is the Operator of the Pennant Area project.

The Company has a plan to drill an exploration well to evaluate the reservoir detail features and then prepare to develop the whole reservoir.

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.

In May 2017, a vertical test well was drilled at 2-29-13-19W3M and was completed and placed on production in late July 2017. This test well was targeting oil production from the Roseray, Cantuar and Upper Shaunavon formations and is currently producing 24-degree API medium gravity oil from the Upper Shaunavon formation. Vital drilled an offset well, 6-29, to the 2-29 well in the second quarter of 2018. The 6-29 well targeted the Upper Shaunavon formation but is now considered a dry hole. Two of Vital's partners did not participate in the drilling of the 6-29 well. Another offset well at 1-29-13-19W3 was drilled and completed in the third quarter of 2018, equipped and put on production in the fourth quarter. Vital drilled another offset well at 3-29-13-19W3 in the fourth quarter of 2018 which was put on production in Q1 2019. 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 has a good land inventory and has identified additional potential drilling locations on its "Core Properties" at Gull Lake and Pennant, S.W. Saskatchewan. The pace of the drilling programs will be determined by the prevailing price of oil and available financing.

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 in June 2018.

Sulliivan Lake

On the successful new well drilled in Ellerslie sand reservoir in December 2018, the Company plans to perform a geology and reservoir study and to drill an exploration well in Banff limestone reservoir. Also

the Company will fully develop the Ellerslie sand reservoir and make this non-core area to the Company, a core area.

Discussion of Operations

Details of quarterly pricing in 2018 and 2017 are as follows:

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%
2017	Q4	Q3	Q2	Q1
WTI - \$US/bbl	55.40	48.21	48.29	51.91
WCS Benchmark –US\$/bbl	43.14	38.26	37.16	37.33
WCS Dollar Differential –US\$/bbl	12.26	9.95	11.13	14.58
WCS % Differential	22%	21%	23%	28%

A review of oil pricing reflects 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:

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%)

2017	Q4	Q3	Q2	Q1
Revenue	\$820,192	\$902,689	\$747,881	\$765,260
# bbls	17,850	21,487	18,667	19,924
Bbls/d	194	234	205	221
Revenue per bbl	\$45.95	\$42.01	\$40.06	\$38.41
WCS -\$C per bbl	\$54.86	\$47.91	\$49.96	\$49.36
Differential to WSC price	(16.2%)	(12.3%)	19.8%	22.2%

The following tables detail the Corporation's operational netback for the three months and year ended December 31:

	Three months ended December 31, 2018		Year ended December 31, 2018	
		Per boe		Per boe
Production (boe)	25,140		91,752	
Average daily production (boe/d)	273		251	
Petroleum and natural gas revenue	\$795,071	\$31.63	\$4,331,747	\$47.21
Royalties	\$145,071	\$5.77	\$724,233	\$7.89
Production operating costs	\$384,672	\$15.30	\$1,562,932	\$17.03
Operational netback	\$265,328	\$10.56	\$2,044,582	\$22.28

	Three months ended December 31, 2017		Year ended December 31, 2017	
		Per boe		Per boe
Production (boe)	17,850		77,943	
Average daily production (boe)	194		214	
Petroleum and natural gas revenue	\$820,192	\$45.95	\$3,236,022	\$41.52
Royalties	\$120,747	\$6.76	\$350,409	\$4.50
Production operating costs	\$312,944	\$17.53	\$1,508,618	\$19.36
Operational netback	\$386,401	\$21.66	\$1,376,995	\$17.66

Revenue for 2018 was \$4,331,747 as compared to \$3,236,022 for the same period in 2017. This increase in revenue of \$1,095,725 reflects increased sales production of 13,809 boe and an increased sales price per boe of \$5.69.

Crown royalties were 17% of revenue in 2018 as compared to 11% for the comparable period in 2017. The increase in royalties reflects increased production and oil prices.

The production operating costs for 2018 were \$1,562,932 as compared to \$1,508,618 for the same period in 2017. With increased production in 2018, the Corporation has been able to reduce operating costs even while performing workovers at Baxter Lake and Standard Hill in the second quarter of 2018.

The depletion and depreciation expense for 2018 was \$1,488,563 as compared to \$1,156,416 for the same period in 2017. The increase of \$332,147 reflects a larger depletion base in 2018 and increased production in 2018. Depletion is calculated on a unit-of production basis.

In comparing Q4 2018 and 2017, the overall operational netback per boe is \$11.10 lower in 2018 due to the widening differential experienced in the WCS pricing in 2018. The production operating costs were \$2.23 lower per boe in Q4 2018 compared to Q4 2017 as the fixed operating costs are allocated over a larger production volume.

Quarterly results

The Company's net and comprehensive loss of \$640,528 for the three months ended December 31, 2018 was lower as compared to the 2018 third quarter income of \$18,117. The loss in the fourth quarter as

opposed to the third quarter income results primarily from the lower realized oil prices in Q4 2018 and a bad debt of \$175,000.

The revenue earned in Q4 2018 was \$25,121 lower than the comparable period in 2017. Although production in Q4 2018 was 7,290 boe higher than in Q4 2017 this was offset by the average selling price being \$14.32 per boe lower in Q4 2018 as compared Q3 2017.

Production operating costs were \$384,672 in Q4 2018 compared to \$312,944 in Q4 2017 an increase of \$71,728. The increased costs relate primarily to trucking, fuel and repairs and maintenance costs from increased production in Q4 2018 compared to Q4 2017.

Depletion and depreciation was \$417,112 in Q4 2018 compared to \$389,597 in Q3 2018. The increase in the expense of \$27,515 reflects the increase in production in the fourth quarter of 2018.

General and administrative expenses are as follows:

	Three Months Ended		Year Ended	
	December 31		December 31	
	2018	2017	2018	2017
Wages and employee benefits	\$ 130,232	\$ 75,187	\$ 443,716	\$ 307,979
Professional fees	13,845	30,090	81,713	124,485
Consulting fees	87,532	60,472	354,951	195,324
User fees	14,438	13,726	54,871	54,879
Rental	17,491	15,546	62,128	73,625
Bad debt	175,285	-	175,285	-
Office	10,601	26,374	65,389	67,255
Travel and entertainment	(120)	561	3,073	7,404
	\$ 449,304	\$ 221,956	\$ 1,241,126	\$ 830,951

Wages and employee benefits have increased year over year and quarter over quarter with the hiring of an executive officer in the third quarter of 2018.

Consulting fees increased by \$159,627 in 2018 as compared to 2017. The increase is attributable to one additional consultant being engaged commencing January 2018. This also impacted Q4 2018 when compared to Q4 2017.

Rent costs decreased by \$11,497 in 2018 compared to 2017 as a new lease was signed at a reduced rate in the second quarter of 2017.

The bad debt of \$175,285 relates to the non-payment of cash calls from the Carried Interest Partner as previously detailed.

The remainder of the general and administrative costs are comparable period over period.

Finance charges in 2018 were \$167,325 as compared to \$231,127 in 2017. The 2017 expense includes \$59,258 of financing fees.

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, 2016 and 2017	60,499,971	\$29,565,885
Conversion of debentures	21,750,000	2,175,000
Balance, December 31, 2018	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:

		December 31, 2018		December 31, 2017	
	#	Weighted average exercise price	#	Weighted average exercise price	
Outstanding, beginning of year	4,200,000	\$ 0.25	4,650,000	\$ 0.25	
Forfeited	-	0.25	(450,000)	0.25	
Outstanding, end of period	4,200,000	\$ 0.25	4,200,000	\$ 0.25	
Exercisable, end of period	4,200,000	\$ 0.25	4,200,000	\$ 0.25	

The details of the options outstanding at December 31, 2018 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
4,200,000	0.25	4,200,000	5.50

Liquidity and Capital Resources

As at December 31, 2018, the Company had cash and cash equivalents of \$1,034,365 and a working capital deficiency of \$1,841,649 (December 31, 2017 - \$1,283,113). This level of working capital will not be sufficient for the next twelve months in order to sustain current operations in this low oil price environment. The Corporation anticipates that the 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 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 December 31, 2018 audited financial statements.

The Company anticipates drilling two wells (1.35 net well) on their properties in 2019. The Company believes they will be able to finance the capital expenditures from operations and from an agreement entered into with a drilling company (“Supplier”) which will provide beneficial financing terms. Under the agreement, the Supplier has agreed to drill and complete up to five wells. To the date of this report, three wells were drilled in 2018 and a further two wells have or will be drilled in 2019 under this agreement. The Company was not obligated to drill the five wells and the Supplier will only receive their actual cost plus 12% for the work completed. The cost of each well may be paid in twelve (12) equal instalments. The Company believes that the cash flows from the wells drilled and current working capital on hand should be sufficient to pay for the wells under this program.

As discussed in the *Properties* section, the Company entered into a Carried Working Interest Agreement in 2017 on the Pennant lands. As of the date of this report, there are no plans for any further drilling under this agreement other than the one well drilled in December 2017.

For the year ended December 31, 2018, cash and cash equivalents decreased by \$1,033,996 (2017 – increase of \$1,214,098). This was a result of cash being provided by operations in the amount of \$1,078,730 (2017 – \$170,138), financing activities utilizing \$1,271,001 (2017 – providing \$1,296,001) and investing activities using cash of \$841,725 (2017 –\$252,042). The cash used in financing activities of \$1,271,001 is primarily a timing issue related to the Carried Interest Partner where expenditures were paid on their behalf.

Contract liabilities

As explained in the section, *Liquidity and Capital Resources*, the Company entered into an agreement with an exploration drilling contractor and the amount owing at December 31, 2018 was \$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.

Debentures

In December 2018, the debentures were converted into 21,750,000 common shares.

In December 2017, the Company extended for one year \$2,075,000 of the debentures originally issued on December 23, 2015 to December 23, 2018 and repaid one debenture in the amount of \$50,000. The extended debentures had the same terms as the debentures originally issued in December 2015 being 8% per annum, interest payable quarterly, secured and convertible. The debentures were convertible at the holder's option into common shares of the Company at a conversion price of \$0.10 per common share.

On December 28, 2017, the Company issued an 8% secured convertible debenture in the principal amount of \$100,000 to a director. The debenture matured one year from the date of issuance, was secured against the property of the Company and interest was paid quarterly. The debenture was convertible at the holder's option into common shares of the Company at a conversion price of \$0.10 per common share.

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 as follows:

In 2018, the Company incurred \$317,929 (2017 - \$145,000) in consulting fees paid to an officer or companies controlled by an officer and directors.

The debentures were payable to directors. Interest expense of \$167,325 (2017 - \$171,868) 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 - \$	December 31, 2018	September 30, 2018	June 30, 2018	March 31, 2018
Revenue	\$795,071	\$1,454,524	\$1,233,688	\$848,464
Net (income) loss	\$640,528	(\$18,117)	\$38,919	\$208,810
Net loss per share	\$0.01	\$0.00	\$0.00	\$0.01

Fiscal Quarter Ended - \$	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017
Revenue	\$820,192	\$902,689	\$747,881	\$765,260
Net loss	\$214,969	\$236,976	\$183,714	\$233,145
Net loss per share	\$0.00	\$0.00	\$0.00	\$0.01

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 December 31, 2018.

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 2018 are disclosed in note 4 to the audited financial statements for 2018.

Accounting standards issued but not yet applied

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed 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. The Corporation believes the impact of this new standard will be minimal.

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 and debentures. 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.