

**VITAL ENERGY INC.**  
**MANAGEMENT DISCUSSION and ANALYSIS**  
**December 31, 2019**

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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, 2019, its financial position as at December 31, 2019 and its future prospects. This Management’s Discussion and Analysis is dated as of June 8, 2020 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, 2019. 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](http://www.vitalenergyoil.com) or on Sedar’s website at [www.sedar.com](http://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. 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 6<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3T1.

## Overall Performance

### Highlights

- The Company reported net earnings of \$852,145 in 2019 as compared to a net loss of \$870,140 in 2018.
- Revenue increased by 75% in 2019 (\$7,590,494) as compared to 2018 (\$4,331,747).
- The average crude oil and natural gas price realized by the Company in 2019 was \$55.08 per boe as compared to \$47.21 per boe for 2018. The increase in pricing generally reflects the very low oil prices in Q4 2018 and the 2018 curtailment plan implemented by the Alberta provincial government.
- The Company's production increased by 50% in 2019 (137,811 boe) as compared to in 2018 (91,752 boe).
- Production increased in 2019 to 378 boe/d as compared to 251 boe/d for 2018.
- Production operating costs in 2019 and 2018 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 were drilled at Gull Lake with the 3-29 well being put on production in Q4 2018 and the 7-29 well in June 2019. These two wells produced 31,823 boe in 2019.
- The Company's 2019 production was weighted 96% crude oil to 4% natural gas.

### Selected Financial Information

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

	Years ended December 31,		
	2019	2018	2017
Revenue	<b>\$7,590,494</b>	\$4,331,747	\$3,236,022
Net and comprehensive income (loss)	<b>\$852,145</b>	(\$870,140)	(\$868,804)
Net income (loss) per share	<b>\$0.01</b>	(\$0.01)	(\$0.01)
Total assets as at December 31	<b>\$15,502,748</b>	\$14,021,721	\$13,589,011
Total non-current liabilities as at December 31	<b>\$1,395,148</b>	\$990,151	\$1,115,435

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, future drilling opportunities remain on these lands.

In Gull Lake, Vital's net daily oil and natural gas production for 2019 was 276 boe/d as compared to 171 boe/d in 2018. This increase in production is partially attributable to the new 3-29 well that came on production in December 2018 and contributed 65 bbls/d and the 1-29 well that was put on production in Q3 2018 and contributed 40 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 44 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, 2019, the reserves evaluator, Trimble Engineering, assigned 217,300 boe of proven oil and natural gas reserves net to the Company and 172,200 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 40 bbls/d in 2019 as compared to 49 boe/d 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 drilled two new horizontal wells (10-1 and 9-36) in the Banff and Ellerslie reservoirs at Sullivan Lake which have been put on production in 2020. In addition, the Company has built 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

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”). The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC members, primarily Saudi Arabia and Russia. The full extent of the impact of COVID-19 on the Company’s operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on capital and financial markets on a macro-scale and any new information that may emerge concerning the severity of the virus. These uncertainties may persist beyond when it is determined how to contain the virus or treat its impact. The outbreak presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by Management in the preparation of its financial results.

### 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. The Company is encouraged by the drilling results of the previously mentioned 3-29 and 7-29 wells that came on production in late 2018 and 2019. As a result, additional drilling locations have been identified by geological and 3D seismic interpretation and mapping.

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 Company 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), have been drilled and completed. The production from these wells was halted while the Company installed equipment to manage H<sub>2</sub>S gas. 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 facilities including disposal wells that could reduce operational costs significantly.

## Baxter Lake

The Company will re-evaluate the potential and economic viability of performing remedial work to reactivate certain wells in the Baxter Lake area when oil prices improve.

### Discussion of Operations

Net earnings for 2019 were \$852,145 as compared to a loss of \$870,140 for 2018. This improvement in operations reflects improved oil pricing, increased production and cost controls. Details of quarterly petroleum pricing in 2019 and 2018 are as follows:

<b>2019</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
WTI - \$US/bbl	56.96	56.45	59.81	54.90
WCS Benchmark –US\$/bbl	41.13	44.21	49.13	42.61
WCS Dollar Differential –US\$/bbl	15.83	12.24	10.68	12.29
WCS % Differential	28%	22%	18%	22%
<b>2018</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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	24.99	22.25	19.27	24.28
WCS % Differential	42%	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:

<b>2019</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Revenue	\$1,941,819	\$2,010,983	\$2,151,177	\$1,486,515
# bbls	36,693	36,515	35,118	29,485
Bbls/d	399	397	386	328
Revenue per bbl	\$52.92	\$55.06	\$61.26	\$50.41
WCS -\$C per bbl	\$54.29	\$58.39	\$65.73	\$56.64
Differential to WSC price	(2.6%)	(5.7%)	(6.8%)	(11.0%)

<b>2018</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
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:

	<b>Three months ended December 31, 2019</b>		<b>Year ended December 31, 2019</b>	
		<b>Per boe</b>		<b>Per boe</b>
Production (boe)	36,693		137,811	
Average daily production (boe/d)	399		378	
Petroleum and natural gas revenue	\$1,941,819	\$52.92	\$7,590,494	\$55.08
Royalties	\$393,042	\$10.71	\$1,417,345	\$10.28
Production operating costs	\$570,622	\$15.55	\$2,224,472	\$16.14
<b>Operational netback</b>	<b>\$978,155</b>	<b>\$26.66</b>	<b>\$3,948,677</b>	<b>\$28.66</b>

	<b>Three months ended December 31, 2018</b>		<b>Year ended December 31, 2018</b>	
		<b>Per boe</b>		<b>Per boe</b>
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
<b>Operational netback</b>	<b>\$265,328</b>	<b>\$10.56</b>	<b>\$2,044,582</b>	<b>\$22.28</b>

#### Annual

Revenue for 2019 was \$7,590,494 as compared to \$4,331,747 for the same period in 2018. This increase in revenue of \$3,258,747 reflects increased sales production of 46,059 boe and an increased sales price per boe of \$7.87. The 2018 fourth quarter sales prices were abnormally low for the industry.

Crown royalties were 19% of revenue for 2019 as compared to 17% for 2018. The increase in royalties in 2019 reflects increased production and oil prices and a one-time gross overriding payment of \$18,000.

The production operating costs for 2019 were \$2,224,472 (\$16.14 per boe) as compared to \$1,562,932 (\$17.03 per boe) in 2018. The 2019 costs include the Gull Lake work over costs of \$192,289. With increased production in 2019, the Corporation has been able to reduce operating costs per boe.

The depletion and depreciation expense for 2019 was \$1,945,239 as compared to \$1,488,653 for the same period in 2018. Depletion is calculated on a unit-of production basis.

The operational netback per boe in 2019 was \$28.66 as compared \$22.28 in 2018. The increase in netback of \$6.38 reflects primarily the increase in sales pricing per boe received of \$7.87 from 2019 as compared to 2018.

#### Quarterly

Revenue for Q4 2019 was \$1,941,819 as compared to \$795,071 for the same period in 2018. This increase in revenue of \$1,146,748 reflects increased sales production of 11,553 boe and an increased sales price per boe of \$21.29. The 2018 fourth quarter sales prices were abnormally low for the industry.

The operational netback per boe in Q4 2019 was \$26.66 as compared \$10.56 in Q4 2018. The increase in netback of \$16.10 reflects the increase in pricing per boe received of \$21.29 from Q4 2019 as compared to Q4 2018.

General and administrative expenses are as follows:

	Three Months Ended		Year Ended	
	December 31		December 31	
	2019	2018	2019	2018
Wages and employee benefits	\$ 71,457	\$ 130,232	\$ 454,616	\$ 443,716
Professional fees	24,890	13,845	103,962	81,713
Consulting fees	64,047	87,532	283,968	354,951
User fees	16,583	14,438	69,588	54,871
Rent	15,283	17,491	61,809	62,128
Bad debt		175,285	-	175,285
Office	3,465	10,481	41,847	68,462
	\$ 195,725	\$ 449,304	\$ 1,015,790	\$ 1,241,126

Wages and employee benefits have increased by \$10,900 in 2019 as compared to 2018 and have decreased \$58,775 on a quarter over quarter basis for Q4. 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 by \$70,983 as compared to 2018 and quarter over quarter by \$23,485 for Q4. The overall decrease reflects the general reduction in consultants used in 2019.

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

The 2018 bad debt of \$175,285 related to an unpaid cash call from a Partner on a drilled well.

## 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
<b>Balance, December 31, 2018 &amp; 2019</b>	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:

	<b>December 31, 2019</b>		December 31, 2018	
	<b>#</b>	<b>Weighted average exercise price</b>	<b>#</b>	<b>Weighted average exercise price</b>
<b>Outstanding, beginning of year</b>	<b>4,200,000</b>	<b>\$ 0.25</b>	4,200,000	\$ 0.25
<b>Forfeited</b>	<b>(3,000,000)</b>	<b>\$ 0.25</b>	-	-
<b>Outstanding, end of period</b>	<b>1,200,000</b>	<b>\$ 0.25</b>	4,200,000	\$ 0.25
<b>Exercisable, end of period</b>	<b>1,200,000</b>	<b>\$ 0.25</b>	4,200,000	\$ 0.25

The details of the options outstanding at December 31, 2019 are as follows:

<b>Options outstanding</b>	<b>Weighted average exercise price</b>	<b>Options exercisable</b>	<b>Weighted average years to expiry</b>
1,200,000	0.25	1,200,000	4.5

### **Liquidity and Capital Resources**

As at December 31, 2019, the Company had cash and cash equivalents of \$413,663 and a working capital deficiency of \$1,872,507 (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. In addition, on May 22, 2020, the Corporation entered into a loan agreement which provides for credit facility up to \$4 million (Subsequent Events). 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 December 31, 2019 financial statements.

The Company completed an integrated geological study and development plan after drilling the 7-29-13-19W3 well in 2019 in order to further the Gull Lake asset. The Company plans to drill 3 new wells in Gull Lake area in 2020. 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 year ended December 31, 2019, cash and cash equivalents decreased by \$2,103,113 (2018 – decrease of \$1,033,996). This was a result of cash being provided by operations in the amount of \$3,134,065 (2018 – \$1,078,730) and investing activities using cash of \$2,723,815 (2018 – \$841,725). 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 (amended in 2019 for a further two wells) and finance the expenditures over a twelve (12) month period from date of invoice. The amount owing at December 31, 2019 was \$1,979,677 (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 December 31, 2019, the Company had drilled seven wells under the agreement.

### **Decommissioning liabilities**

The Company's total decommissioning liability is estimated based on the Company's net ownership in wells and facilities and management's estimate of costs to abandon and reclaim those wells and facilities, as well as an estimate of the future timing of the costs to be incurred.

By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements could be significant. The total undiscounted amount of the estimated cash flows required to settle its decommissioning liabilities are approximately \$1,612,500 (December 31, 2018 - \$1,423,400) which will be settled over the operating lives of the underlying assets, estimated to occur between 2020 and 2041. A risk-free interest rate of 1.7% (2018 - credit adjusted interest rate of 7%) and an inflation rate of 2% were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal. As at December 31, 2019, \$556,027 (December 31, 2018 - \$545,026) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

There was a revision to the decommissioning liabilities of \$518,865 as a result of change in estimates. Property and Equipment was increased \$436,213 (2018 – decreased \$259,982) and \$82,652 (2018 - \$nil) was charged to the Statement of Net and Comprehensive Income (Loss) related to previously impaired properties.

	2019	2018
<b>Balance, beginning of year</b>	<b>\$ 990,151</b>	\$ 1,115,435
Additions	<b>110,540</b>	101,496
Payments	<b>(28,453)</b>	-
Revisions (note 5)	<b>518,865</b>	(259,982)
Accretion	<b>66,477</b>	33,202
	<b>1,657,580</b>	990,151
Less: current portion	<b>262,432</b>	-
<b>Balance, end of year</b>	<b>\$ 1,395,148</b>	\$ 990,151

### 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.

In 2019, the Company incurred \$267,243 (2018 - \$317,929) in consulting fees billed from an officer and companies controlled by officers and directors.

In 2018, there were debentures owing to directors. Interest expense of \$nil (2018 -\$167,325) is included in finance charges in the Statements of Net and Comprehensive Income (Loss) related to this debt.

### Summary of Quarterly Results (unaudited)

<b>Fiscal Quarter Ended - \$</b>	<b>December 31, 2019</b>	<b>September 30, 2019</b>	<b>June 30, 2019</b>	<b>March 31, 2019</b>
Revenue	\$1,941,819	\$2,010,983	\$2,151,177	\$1,486,515
Net income (loss)	\$249,088	\$279,508	\$328,450	(\$4,901)
Net income per share	\$0.01	\$0.00	\$0.00	\$0.00

<b>Fiscal Quarter Ended - \$</b>	<b>December 31, 2018</b>	<b>September 30, 2018</b>	<b>June 30, 2018</b>	<b>March 31, 2018</b>
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	(\$0.00)

Generally, the quarterly results were comparable quarter over quarter in 2019 for Q2 to Q4 inclusive. The profitability in this period reflects improved oil pricing and increased production while maintaining cost control. Q4 2018 reflects the significant deterioration in oil pricing experienced throughout the industry.

### Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at December 31, 2019.

## **Subsequent Events**

### **a. Covid-19**

Subsequent to December 31, 2019, there was a global outbreak of a novel coronavirus identified as “COVID-19”. On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets.

Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements for future periods, particularly related to the following key sources of estimation uncertainty:

#### **i) Reserve estimates, impairment indicators and discount rates**

Determining the recoverable amount of a cash-generating unit (“CGU”) or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially in the estimation of economic crude oil and natural gas reserves and forward commodity prices.

#### **ii) Decommissioning Costs**

Provisions are recorded for the future decommissioning and restoration of the Company’s properties and facilities at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. Market conditions have increased the measurement uncertainty inherent in determining the estimation of decommissioning liabilities, especially estimating the expected timing of settlement.

#### **iii) Measurement of share-based compensation**

The measurement of the fair value of stock options requires the use of assumptions, which include the estimated volatility of the Company’s stock price over the life of the options, forfeiture rates, future interest rates and the estimated life of the option. Financial market volatility as a result of the events noted above increases the measurement uncertainty inherent in the inputs used to estimate the fair values.

### **b. Commodity prices**

Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC members, primarily Saudi Arabia and Russia.

### **c. Loan agreement**

In May 2020, the Company entered into a Loan Agreement (“Agreement”) with a director for a principal amount not to exceed \$4,000,000. The advances under this loan facility will bear interest at 12% per annum with interest payable annually and are unsecured. The advances under this Agreement are at the sole discretion of the lender and are repayable on demand with the loan facility expiring two years from the date of the first advance.

On June 1, 2020, the Corporation received \$2,000,000 as the first advance under this Loan Agreement.

### **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, 2019. The company adopted the following new policy in 2019:

#### **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 an immaterial affect 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, accounts payable and accrued liabilities and contract 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.

### *Climate Change*

The petroleum and natural gas industry have existing and possibly future laws and regulations that may impose significant liabilities on a failure to comply with their requirements. Concerns over climate change, fossil fuels, GHG emissions, water and land use could lead governments to enact additional or more stringent laws and regulations applicable to the Company.

Changes to environmental regulations relating to climate change could impact the demand for, formulation or quality of the Company's products, or could require increased capital expenditures, operating expenses, abandonment and reclamation obligations which may not be recoverable. As a result, current operations or future projects may be less profitable or uneconomic.

The Company will continue to review the impact of future laws and regulations on its business strategies.