

VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
September 30, 2021

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

The discussion and analysis that follows is a summary of Vital’s activities and results for the three and nine months ended September 30, 2021, its financial position as at September 30, 2021 and its future prospects. This Management’s Discussion and Analysis is dated as of November 25, 2021 and provides information on the activities of the Corporation and should be read in conjunction with the condensed interim financial statements for the three and nine months ended September 30, 2021 and the annual audited financial statements for the year ended December 31, 2020. All amounts are expressed in accordance with International Financial Reporting Standards (“IFRS”) and in Canadian dollars unless otherwise stated. Additional information is available on the Company’s website at www.vitalenergyoil.com or on Sedar’s website at www.sedar.com.

Forward-Looking Statements

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

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

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

Non-IFRS Measures

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

Note Regarding Boe and Mcf

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

Other terms used in this report are as follows:

boe - barrel of oil equivalent

boe/d – barrel of oil equivalent per day

bbl – barrel of oil

bbl/d – barrel of oil per day

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

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

Description of the Business

Vital Energy Inc. 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 620, 634 6th Avenue S.W., Calgary, Alberta, T2P 0S4.

Overall Performance

Highlights

- The Company reported net income of \$1,875,233 in Q3 2021 as compared to net loss of \$142,896 in Q3 2020.
- Revenue was \$4,153,408 in Q3 2021 as compared to Q3 2020 revenue of \$1,447,721, an increase of \$2,705,687.
- Q3 2021 realized oil price was \$66.99 as compared to \$40.49 in Q3 2020.
- Production increased by 26,241 boe in Q3 2021 as compared to Q3 2020 with the increase being mainly attributable to improvements in operations at Sullivan Lake and the commencement of production of three new horizontal wells at Lampman.

Selected Financial Information

Selected financial information for the three and nine months ended and as at September 30th is as follows:

	2021	2020	2021	2020
	Three months ended September 30		Nine months ended September 30	
Revenue	\$4,153,408	\$1,447,721	\$8,014,113	\$3,261,338
Net and comprehensive income (loss)	\$1,875,233	\$(142,896)	\$2,511,731	\$(4,860,281)
Net income (loss) per share	\$0.02	\$(0.00)	\$0.03	\$(0.06)
Total assets as at September 30	\$14,851,719	\$14,719,860	\$14,851,719	\$14,719,860
Total non-current liabilities as at September 30	\$2,043,903	\$5,393,228	\$2,043,903	\$5,393,228

Properties

In Q3 2021, the Company completed three horizontal wells at Lampman with production from all wells commencing in September.

In the first nine months of 2021, the Company completed a review of their other properties. As a result, workovers were performed at nine (11) wells including 3 wells at Gull Lake, 3 wells at Pennant, 4 wells at Baxter Lake, and 1 well at Standard Hill. The Company also replaced the desulfurization tower at Sullivan Lake with a desulfurization tower with increased capacity. This assisted in the resumption of operations and allowed the Company to maintain a stable production.

Core Properties

Lampman

The Company purchased a quarter section of crown land in Saskatchewan in Q3 2020. In order to confirm the Frobisher reservoir quality and the potential in the deeper Winnipegosis zone, a vertical pilot hole 1-4-6-5-W2 was designed and drilled. The results indicated the Frobisher reservoir was promising and the Winnipegosis zone was uneconomic. The pilot hole was abandoned in the deeper section and was plugged back. This existing vertical well bore was utilized to drill Hz C7-4-6-5W2 in the Frobisher zone from 1-4 to 7-4 (second event for the pilot well 1-4). The other two Frobisher horizontal wells were drilled in July 2021 from the same surface pad as the pilot hole and were completed in August 2021. The Company produced 629 bbl/d of sweet light oil (API ranging from 32.5 -36.0) from these multiple well projects in September 2021.

Sullivan Lake

The successful appraisal development well, 10-1, was drilled in the Banff limestone reservoir in December 2019 and two additional horizontal wells were drilled in 2020 and all are now on production. The 10-1 well was shut down for several months in 2020 and 2021 because of the Covid-19 pandemic and low crude oil prices. In addition, gas with small amounts of H₂S was discovered. As the Sullivan Lake desulfurization tower was replaced with a larger desulfurization tower with more capacity, the Company believes it has resolved the long-standing production and operating issues. This area produced 28,506 boe for the nine months ended September 30, 2021 and the third quarter alone produced 14,546 boe.

The Company has built production facilities at Sullivan Lake with a capacity of 300 boe/d.

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 the nine months ended September 30, 2021 was 223 boe/d (2020 – 284 boe/d). The decrease in production was attributable to natural declines in the property.

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, 2021, the reserves evaluator, Trimble Engineering, assigned 216,200 (2020 - 217,300) boe of proven oil and natural gas reserves net to the Company and 116,700 (2020 - 172,200) boe of probable oil reserves net to the Company.

Pennant

Vital is the Operator and maintains a 100% working interest in 12 contiguous sections of land. To date one (1) vertical well and nine (6) horizontal wells have been drilled. Four of the horizontal wells and the vertical well have had production. The Company has commenced abandonment and reclamation work on some well sites.

3D seismic coverage on about 35% of Vital's lands indicates the potential for additional drilling locations.

The company's crude oil production was 33 bbls/d in the first nine months of 2021 as compared to 10 bbls/d in 2020 when the property was shut-in for a considerable time period due to depressed oil prices.

Non-core Properties

Baxter Lake

The Company performed remedial work in 2021 to reactivate certain wells in the Baxter Lake area as oil prices have improved.

Ante Creek

The Company purchased 2.5 sections of crown land in Alberta in Q1 2021 and is currently working on a detailed geology study and development plan. This may allow the drilling of up to 25 horizontal Montney development wells.

Pembina

The Company purchased a quarter section of crown land in Alberta in Q2 2021 and is currently working on a detailed geology study and development plan. This may allow the drilling of up to 4 horizontal Cardium development wells.

Outlook

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. The pandemic and subsequent measures intended to limit its spread, contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly worldwide demand for certain commodities, such as crude oil, natural gas and natural gas liquids.

There is no certainty when the volatility in demand levels will stabilize and therefore the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on the Company is not known at this time. These events have resulted in a volatile and challenging economic environment which had adversely affected the Company's previous operational results and financial position. There has been a significant improvement in the third quarter of 2021 where oil prices have improved dramatically and the Company has returned to profitability.

Discussion of Operations

Details of quarterly petroleum pricing in 2021 and 2020 are as follows:

2021		Q3	Q2	Q1
WTI - \$US/bbl		\$70.56	61.96	57.84
WCS Benchmark –US\$/bbl		\$56.99	49.98	45.38
WCS Dollar Differential –US\$/bbl		\$13.57	11.98	12.46
WCS % Differential		19%	19%	22%
2020	Q4	Q3	Q2	Q1
WTI - \$US/bbl	42.66	40.93	27.85	46.17
WCS Benchmark –US\$/bbl	33.35	31.84	16.38	25.64
WCS Dollar Differential –US\$/bbl	9.31	9.09	11.47	20.53
WCS % Differential	22%	22%	41%	44%

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:

2021		Q3	Q2	Q1
Revenue		\$4,153,408	\$2,205,448	\$1,655,257
# bbls		61,996	35,072	30,319
Bbls/d		674	385	337
Revenue per bbl		\$66.99	\$62.88	\$54.59
WCS -\$C per bbl		\$71.81	\$62.33	\$57.46
Differential to WSC price		(6%)	0.8%	(5.0%)
2020	Q4	Q3	Q2	Q1
Revenue	\$1,679,363	\$1,447,721	\$134,556	\$1,679,061
# bbls	44,137	35,755	7,700	48,800
Bbls/d	480	389	85	536
Revenue per bbl	\$38.05	\$40.49	\$17.47	\$34.41
WCS -\$C per bbl	\$43.46	\$42.40	\$31.46	\$34.48
Differential to WSC price	(12.4%)	(4.5%)	(44%)	(0%)

The following tables detail the Corporation's operational netback for three and nine months ended September 30:

	Three months ended September 30, 2021		Nine months ended September 30, 2021	
		Per boe		Per boe
Production (boe)	61,996		127,387	
Average daily production (boe/d)	674		467	
Petroleum and natural gas revenue	\$4,153,408	\$66.99	\$8,014,113	\$62.91
Royalties	\$439,346	\$7.09	\$1,060,850	\$8.33
Production operating costs	\$851,539	\$13.74	\$2,034,609	\$15.97
Operational netback	\$2,862,523	\$46.17	\$4,918,654	\$38.61

	Three months ended September 30, 2020		Nine months ended September 30, 2020	
		Per boe		Per boe
Production (boe)	35,755		92,254	
Average daily production (boe/d)	389		338	
Petroleum and natural gas revenue	\$1,447,721	\$40.49	\$3,261,338	\$35.35
Royalties	\$238,024	\$6.65	\$494,975	\$5.36
Production operating costs	\$627,371	\$17.54	\$1,496,226	\$16.21
Operational netback	\$582,326	\$16.30	\$1,270,137	\$13.78

Revenue for the nine months ended September 30, 2021 was \$8,014,113 as compared to \$3,261,338 for the comparable period in 2020, an increase of \$4,752,775. This reflects an increase in the realized selling price of the petroleum and natural gas of \$27.56 per boe and increased production of 35,133 boe in 2021 as compared to 2020. The revenue for 2021 was positively impacted in the third quarter by the increased production at Sullivan Lake and the three horizontal wells at Lampman coming on production in September. In addition, the worldwide oil prices increased significantly. In 2020, the COVID 19 pandemic had just commenced and the petroleum markets were in a state of flux.

Crown royalties of \$1,060,850 were 13% of revenue for the first nine months of 2021 as compared to 15% for 2020. The increase in royalties in 2021 reflects the higher oil prices.

The production operating costs for nine months ended September 30, 2021 were \$2,034,609 (\$11.65 per boe) as compared to \$1,496,226 (\$16.21 per boe) in 2020. Although workover costs were \$387,319 in 2021 as compared to \$56,229 for the comparable period in 2020, the operating costs per boe decreased in 2021 compared to 2020 because of operational efficiencies realized at Sullivan Lake and Lampman.

The depletion and depreciation expense for the nine months ended September 30, 2021 was \$1,485,330 (\$12.31 per boe) as compared to \$1,298,297 (\$14.07 per boe) for the comparable period in 2020. The decrease in costs per boe reflects the impairment charge of \$6,564,780 recorded in 2020 thus lowering the base amount used in calculating depletion. Depletion is calculated on a unit-of production basis.

The operational netback for the nine months ended September 30, 2021 was \$38.61 as compared \$13.78 in 2020. The increase in netback of \$24.83 reflects improved commodity pricing and operational efficiencies in 2021.

General and administrative expenses are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Wages and employee benefits	\$ 68,797	\$ 35,743	\$ 202,994	\$ 170,019
Professional fees	14,410	1,636	34,391	30,574
Consulting fees	61,234	78,450	195,404	209,752
User fees	18,050	15,218	49,731	47,958
Rent	4,734	2,406	16,982	22,743
Office	19,642	18,274	79,247	45,252
	<u>\$ 186,867</u>	<u>\$ 151,727</u>	<u>\$ 578,749</u>	<u>\$ 526,298</u>

In recognition of the impact of COVID-19, the Government of Canada has provided financial assistance to Canadian companies through various programs. During fiscal 2021 and 2020, the Company became entitled to government assistance in the form of the Canada Emergency Wage Subsidy (“CEWS”), the Canada Emergency Commercial Rent Assistance (“CECRA”) and the Canada Emergency Rent Subsidy (“CERS”). The subsidies were recorded as a reduction of the related expenses as follows:

	2021	2020
CEWS – reduction in wages and employee benefits	\$ 6,961	\$ 41,856
CERS – reduction in rent	3,324	7,752
Total subsidies	\$ 10,285	\$ 49,608

Wages and employee benefits have increased for the three and nine months ended September 30, 2021 as compared to 2020, \$33,054 and \$32,975 respectively, as a result of a reduction in government wage subsidies in 2021.

Professional fees in 2021 represent the audit accrual for 2021 and overall, the professional fees are consistent with the prior period.

Rent has decreased by \$5,761 for the nine months ended September 30, 2021 as compared to 2020 primarily due to the government assistance programs and a change in accounting for office rent in August 2021. The company entered into a new office lease in August that is being accounted for as a right-of-use asset and accordingly has been capitalized.

User fees, and consulting fees have remained relatively consistent in 2021 as compared to 2020.

Office expenses have increased by \$34,005 for the first nine months of 2021 as compared to 2020. The increase reflects an increase in insurance costs of \$21,750 and a reflection of costs increasing with general business activities.

Finance charges being interest on the loan payable of \$3,800,643 were \$338,208 for the nine months ended September 30, 2021 as compared to \$147,179 in 2020. The loan commenced in May 2020.

Net Income

Net income in 2021 was \$2,511,731 as compared to a net loss of \$4,860,281 in 2020. The improvement in 2021 reflects the increase in the realized sales price of oil and oil production. The 2020 results include an impairment charge of \$4,189,651.

Q3 Results

Net income in Q3 2021 was \$1,875,233 as compared to a net loss of \$142,896 in Q3 2020, an improvement of \$2,018,129.

The significant improvements in the third quarter of 2021 occurred at Sullivan Lake and Lampman. The third quarter production at Sullivan Lake was 16,673 boe (181 boe/d) as compared to 11,833 for the first six months of 2021 (65 boe/d). The operational issues at Sullivan Lake appear to have been fixed. Lampman, a new core property, had all three horizontal wells producing in September and one well producing in August which resulted in production of 19,681 boe. These two core properties, Sullivan Lake and Lampman, accounted for 58% of the Company's third quarter production.

The revenue increase of \$2,705,687 is a result of an increase in production of 26,241 boe and in the realized sales price of \$26.50 per boe quarter over quarter. Q3 2020 was severely impacted by COVID-19.

The production operating expenses in Q3 2021 of \$851,539 were higher than the Q3 2020 production operating expenses of \$627,371 because of increased operations in 2021.

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, September 30, 2021, December 31, 2020 and 2019	82,249,971	\$ 31,740,885

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

Share-based compensation

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

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

The exercise price of the options is to be determined by the Board of Directors, subject to any applicable Exchange approval, at the time any option is granted. In no event shall such exercise price be lower than the exercise price permitted by any applicable Exchange. Vesting of the options is at the discretion of the

Board of Directors. A summary of the status of the stock option plan and changes is presented below:

	September 30, 2021		December 31, 2020	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	1,200,000	\$ 0.25	00	\$ 0.25
Outstanding, end of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25
Exercisable, end of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25

The details of the options outstanding at September 30, 2021 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
1,200,000	0.25	1,200,000	2.75

Liquidity and Capital Resources

As at September 30, 2021, the Company had cash and cash equivalents including short-term investments of \$599,376 and a working capital deficiency of \$3,757,193 (December 31, 2019 –\$769,072). 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. The Q3 2021 working capital deficiency includes the loan payable to a company controlled by a director of \$3,800,643 which is now a current liability. This loan will require repayment in May 2022 or will need the support of this director for an extension to the maturity date.

The Company has drilled one (1) Winnipegosis vertical well and three (3) Frobisher horizontal development wells in Lampman in Q3 2021. The Company has financed the capital expenditures from operations and from by the financing provided by the drilling contractor described below in *Contract Liabilities*.

For the nine months ended September 30, 2021, cash and cash equivalents increased by \$276,887 (2020 – \$1,114,365). This was a result of cash being provided by operations in the amount of \$2,291,166 (2020 – \$996,084); financing activities including the bank loan and redemption of short-term investments providing cash of \$981,409 (2020 - \$3,452,148 being primarily the loan advance of \$3,800,643) and investing activities using cash of \$2,995,328 (being primarily capital expenditures) (2020 –\$3,333,867).

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. All the wells have been drilled pursuant to the contract and any further wells are drilled on a one-off basis under the same terms of the prior contract. The amount owing at September 30, 2021 was \$1,718,425 (December 31, 2020 was \$1,138,350). 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.

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 \$1,523,697 (December 31, 2020 - \$1,570,887) which will be settled over the operating lives of the underlying assets, estimated to occur between 2021 and 2031. A risk-free interest rate of 1.51% (December 31, 2020 - 0.71%) 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 September 30, 2021, \$563,399 (December 31, 2020 - \$561,288) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	2021	2020
Balance, beginning of year	\$ 1,753,122	\$ 1,657,580
Additions	110,223	23,893
SRP grant	-	(80,935)
Revisions	(51,659)	127,664
Accretion	16,239	24,920
	1,827,925	1,753,122
Less: current portion	-	117,498
Balance, end of period	\$ 1,827,925	\$ 1,635,624

In May 2020, the Government of Alberta announced the Site Rehabilitation Program ("SRP") whereby qualified contractors (the "Contractors") could apply for grants to assist with the abandonment and reclamation activities of upstream oil and gas wells, pipelines and associated facilities. The Government of Saskatchewan announced a similar program called the Accelerated Site Closure Program ("ASCP").

These government programs are designed to provide grant funding to successful Contractors in the oil field services sector who have entered into, and comply with, an oil field service contract with a qualifying energy company. The funding is provided directly to the Contractors by the provincial governments.

In 2021, under the SRP and ASCP, the Company has continued abandonment of five wells and recognized the corresponding government grant income of \$228,300. Since these wells have been previously impaired and the decommissioning liability adjusted accordingly, an impairment charge has been recorded which offsets the government grant income of \$228,300.

Loan Payable

On May 22, 2020, the Corporation entered into a loan agreement with a director that provides for a \$4,000,000 credit facility (the "Credit Facility") that is unsecured and matures on May 22, 2022. Funds advanced under the Credit Facility bear interest at a rate of 12% per annum, payable annually. In May 2020, \$1,800,643 was received pursuant to the credit facility and was used to pay down the contract liabilities and a further \$2,000,000 was received and used for general working capital purposes.

Bank Loan

In the first quarter of 2021, the Corporation received an additional \$20,000 bank loan that is guaranteed by the Canadian government under the Canada Emergency Business Account program in response to the Covid-19 pandemic. The bank loan is interest-free and 25% of the initial tranche of \$40,000 and 50% of the second tranche of \$20,000 are eligible for loan forgiveness if fully repaid on or before December 31, 2022. No principal payments are required during this period.

If the bank loan is not repaid by December 31, 2022, the bank loan may be converted into a three-year term loan at an interest rate of 5% per annum payable monthly with no principal payments until December 31, 2025.

Related party transactions

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

For the nine months ended September 30, 2021, the Company incurred \$160,071 (2020 - \$154,821) in consulting fees billed from officers and companies controlled by officers and directors.

Interest of \$338,208 (2020 - \$147,719) on the loan payable to a company controlled by a director is included in finance charges in the Statements of Net and Comprehensive Income (Loss) and in accounts payable accrued liabilities in the Condensed Interim Balance Sheets related to this debt.

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - \$	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020
Revenue	\$4,153,408	\$2,205,448	\$1,655,257	\$1,679,363
Net income (loss)	\$1,875,233	\$499,659	\$136,839	(\$2,704,273)
Income (loss) per share	\$0.02	\$0.01	\$0.00	(\$0.03)

Fiscal Quarter Ended - \$	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
Revenue	\$1,447,721	\$134,556	\$1,679,061	\$1,941,819
Net income (loss)	(\$142,896)	(\$450,652)	(\$4,266,733)	\$249,088
Income (loss) per share	\$0.00	(\$0.01)	(\$0.05)	\$0.00

Generally, the 2021 quarterly results are becoming more comparable to the quarterly results in 2019. The profitability in this period reflects improved oil pricing while maintaining cost control. The 2020 year was severely impacted by the COVID-19 pandemic.

The loss in Q1 2020 was significantly impacted by commodity prices which resulted in an impairment charge on petroleum and natural gas assets of \$4,189,651. The Q4 2020 net loss was also impacted by a further impairment charge of \$2,271,490.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at September 30, 2021.

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, 2020.

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.