

VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
December 31, 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 twelve months ended December 31, 2021, its financial position as at December 31, 2021 and its future prospects. This Management’s Discussion and Analysis is dated as of April 27, 2022 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, 2021. 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 \$8,945,770 in 2021 as compared to a net loss of \$7,564,554 in 2020.
- Revenue was \$15,066,687 in 2021 as compared to 2020 revenue of \$4,940,701, an increase of \$10,125,986.
- The 2021 realized oil price was \$71.33 as compared to \$36.22 in 2020.
- Production increased to 579 boe/d in 2021 from 373 boe/d in 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.
- The Company exited the 2021 year with production of 809 boe/d.
- A loan payable of \$3,800,643 was repaid in the year

Selected Financial Information

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

	Years ended December 31,		
	2021	2020	2019
Revenue	\$15,066,687	\$4,940,701	\$7,590,494
Net and comprehensive income (loss)	\$8,945,770	(\$7,564,554)	\$852,145
Net income (loss) per share	\$0.11	(\$0.09)	\$0.01
Total assets as at December 31	\$16,281,937	\$10,893,289	\$15,502,748
Total non-current liabilities as at December 31	\$1,755,682	\$5,476,267	\$1,395,148
Shareholders' equity	\$12,136,692	\$3,190,922	\$10,755,476

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 eleven (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 709 bbl/d of sweet light oil (API ranging from 32.5 -36.0) from these multiple well projects in Q4 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 37,630 boe in 2021 and produced 99 boe/d in Q4 2021.

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.

At Gull Lake, Vital's net daily oil and natural gas production for the year ended December 31, 2021 was 209 boe/d (2020 – 223 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 160,400 (2020 – 216,200) boe of proven oil and natural gas reserves net to the Company and 79,400 (2020 – 116,700) 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 six (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 34 bbls/d in 2021 as compared to 17 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.

Hume

The Company purchased 2 LDS of crown land in Saskatchewan in Q4 2021 and is currently working on a detailed geology study and development plan. This may allow the drilling of up to 2 horizontal Frobisher development wells.

Outlook

We have seen increased volatility in the demand levels for petroleum caused by the COVID-19 pandemic in 2021 and 2020 and international events in Europe in Q1 2022.

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 has of late, positively affected the Company's operational results and financial position.

The company plans to continue to acquire crown lands from upcoming crown land sales. The company will continue to optimize production from the existing properties and from the plan to drill 4 to 6 wells in 2022.

Discussion of Operations

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

2021	Q4	Q3	Q2	Q1
WTI - \$US/bbl	\$77.19	\$70.56	61.96	57.84
WCS Benchmark –US\$/bbl	\$62.56	\$56.99	49.98	45.38
WCS Dollar Differential –US\$/bbl	\$14.63	\$13.57	11.98	12.46
WCS % Differential	19%	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 following is a summary of Corporation's realized oil pricing:

2021	Q4	Q3	Q2	Q1
Revenue	\$7,052,574	\$4,153,408	\$2,205,448	\$1,655,257
# bbls	83,852	61,996	35,072	30,319
Bbls/d	911	674	385	337
Revenue per bbl	\$84.11	\$66.99	\$62.88	\$54.59
WCS -\$C per bbl	\$78.82	\$71.81	\$62.33	\$57.46
Differential to WSC price	6%	(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 twelve months ended December 31:

	Three months ended December 31, 2021		Year ended December 31, 2021	
		Per boe		Per boe
Production (boe)	83,851		211,239	
Average daily production (boe/d)	911		579	
Petroleum and natural gas revenue	\$7,052,574	\$84.11	\$15,066,687	\$71.33
Royalties	\$516,960	\$6.17	\$1,577,810	\$7.47
Production operating costs	\$647,196	\$7.72	\$2,681,805	\$12.70
Operational netback	\$5,888,418	\$70.22	\$10,807,072	\$51.16

	Three months ended December 31, 2020		Year ended December 31, 2020	
		Per boe		Per boe
Production (boe)	44,137		136,392	
Average daily production (boe/d)	479		373	
Petroleum and natural gas revenue	\$1,679,363	\$38.05	\$4,940,701	\$36.22
Royalties	\$254,049	\$5.76	\$749,024	\$5.49
Production operating costs	\$713,864	\$16.17	\$2,210,090	\$16.20
Operational netback	\$711,450	\$16.12	\$1,981,587	\$14.53

Revenue for the year ended December 31, 2021 was \$15,066,687 as compared to \$4,940,701 in 2020, an increase of \$10,125,986. This reflects an increase in the realized selling price of the petroleum and natural gas of \$35.11 per boe and increased production of 74,847 boe in 2021 as compared to 2020. The revenue for 2021 was positively impacted by the 72,479 boe produced by the three horizontal wells at Lampman commencing in September and the increase in worldwide oil prices. In 2020, the COVID 19 pandemic had just commenced and the petroleum markets were in a state of flux.

Crown royalties of \$1,577,810 were 10% of revenue for 2021 as compared to 15% for 2020. The decrease in royalties as a percentage of revenue in 2021 reflects the reduced royalty rate on the Lampman property.

The production operating costs for 2021 were \$2,681,805 (\$12.70 per boe) as compared to \$2,210,090 (\$16.20 per boe). The overall operating costs per boe decreased in 2021 compared to 2020 because of operational efficiencies realized at Sullivan Lake and the lower operating costs at Lampman as compared other properties.

The depletion, depreciation and amortization expense for 2021 was \$2,393,666 (\$11.33 per boe) as compared to \$2,062,589 (\$15.12 per boe) 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 in 2021. Depletion is calculated on a unit-of production basis.

At December 31, 2021, The Company determined that a previously recorded impairment of petroleum and natural gas assets had reversed and an impairment reversal of \$1,871,808 was recorded. Commodity prices had improved at December 31, 2021 as compared to the historically low commodity prices at December 31, 2020 when the Company determined that the fair value less costs to sell of certain petroleum and natural gas assets were less than the carrying values resulting in an impairment charge of \$6,564,780 being recorded.

The operational netback 2021 was \$51.16 as compared \$14.53 in 2020. The increase in netback of \$36.63 reflects improved commodity pricing and the profitable contribution from the Lampman property.

General and administrative expenses are as follows:

	2021	2020
Wages and employee benefits	\$ 343,334	\$ 231,691
Professional fees	62,069	41,409
Consulting fees	297,011	277,370
User fees	67,553	69,990
Rent	17,158	38,064
Office	89,896	41,900
Total general and administrative expenses	\$ 877,021	\$ 700,424

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	\$ 48,616
CERS – reduction in rent	3,224	2,356
CECRA – reduction in rent	-	13,044

Wages and employee benefits increased in 2021 as compared to 2020 by \$111,643. The increase reflects the payment of vacation pay.

Professional fees in 2021 increased by \$20,660 as compared to 2020 reflecting the inflationary pressures that the providers of these services have incurred causing their fees to increase.

Rent decreased by \$20,906 for the year ended December 31, 2021 as compared to 2020 primarily to a change in accounting for office rent in August 2021. The company entered into a new office lease in August 2021 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 increased by \$47,996 in 2021 as compared to 2020. The increase reflects an increase in insurance costs of \$27,556 and a reflection of costs increasing with general business activities.

Finance charges in 2021 were \$429,650 being interest on the loan payable of \$3,800,643 and the accretion of the lease liability. The 2020 finance charges of \$260,887 related to the loan payable which commenced in May 2020 and was repaid in November/December 2021.

Net Income

Net income in 2021 was \$8,945,770 as compared to a net loss of \$7,564,554 in 2020. The improvement in 2021 reflects the increase in the realized sales price of oil, increased oil production and the reversal of the impairment charge on the petroleum and natural gas assets. The 2020 results include an impairment charge of \$6,564,780.

Q4 Results

Net income in Q4 2021 was \$6,434,039 as compared to a net loss of \$2,704,273 in Q4 2020, an improvement of \$9,138,312.

The significant improvement in the Q4 2021 resulted from solving operational issues at Sullivan Lake in Q3 2021 and the positive contribution from the Lampman wells. Lampman, a new core property, has had all three horizontal wells producing from September with one of the wells producing since August which resulted in Q4 production of 52,798 boe. The Lampman property accounted for 64% of the Company's Q4 production.

Q4 2021 revenue was \$7,052,574 an increase of \$5,373,211 from Q4 2020 revenue of \$1,679,363. This results from an increase in production of 39,714 boe and in the realized sales price of \$46.06 per boe quarter over quarter. Q4 2020 was severely impacted by COVID-19.

The production operating expenses in Q4 2021 of \$647,196 (\$7.77 per boe) were lower than the Q4 2020 production operating expenses of \$713,864 (\$16.17 per boe). The 2020 expenses were impacted by operational issues.

General and administrative expenses were \$877,021 in 2021 as compared to \$700,424 in 2020, an increase of \$176,597 primarily from the increase in wage expense as previously discussed.

Finance charges in Q4 2021 were \$91,442 as compared to \$113,708 in Q4 2020. The decrease in expense of \$22,266 reflects that the loan payable of \$3,800,643 was repaid in Q4 2021.

The Q4 2021 results includes the reversal of the impairment charge on the petroleum and natural gas assets of \$1,871,808.

The Q4 2021 depletion, depreciation and amortization charge was \$908,336 as compared to the 2020 expense of \$764,292. The increase in the expense results from increased production in Q4 2021 as compared to Q4 2020.

Share capital

Authorized

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

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

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

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

Issued and outstanding – Class A common shares

	# of shares	Amount
Balance, December 31, 2021, 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:

	December 31, 2021		December 31, 2020	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	1,200,000	\$ 0.25	1,200,000	\$ 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 December 31, 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	2.50

Liquidity and Capital Resources

As at December 31, 2021, the Company had cash and cash equivalents including short-term investments of \$1,661,863 (December 31, 2020 - \$713,463) and working capital of \$1,340,157 (deficiency at December 31, 2020 -\$769,072). The Corporation anticipates that the cash and cash equivalents on hand and current operations should be sufficient to sustain operations for the next twelve months.

For the year ended December 31, 2021, cash and cash equivalents excluding short-term investments increased by \$1,349,749 (2020 – decreased \$306,559). This was a result of cash being provided by operations in the amount of \$8,052,279 (2020 – \$1,542,129); financing activities using cash of \$3,805,643 (2020 – providing \$3,840,643) being primarily the loan repayment in 2021 and the advance in 2020 of \$3,800,643 and investing activities using cash of \$2,896,899 (being primarily capital expenditures) (2020 -\$5,689,331).

Contract liabilities

During 2018, the Company entered into an agreement with an exploration drilling contractor whereby the contractor agreed 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. In consideration of the financing terms, the Company is charged a 12% fee based on contract invoices. 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 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 \$1,744,812 (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 1.47% (December 31, 2020 – 0.71%) and an inflation rate of 2% (December 31, 2020 – 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, 2021, \$564,101 (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	110,222	23,893
SRP grant	(228,850)	(80,935)
Revisions	213,881	127,664
Accretion	39,836	24,920
Liabilities settled	(77,209)	-
	1,811,002	1,753,122
Less: current portion	258,574	117,498
Balance, end of period	\$ 1,552,428	\$ 1,635,624

During 2021, there was a revision to the decommissioning liabilities of \$213,881 (2020 - \$127,664) as a result of changes in estimates. Property and equipment was decreased \$20,212 (2020 –increased by \$104,732) and \$234,093 (2020 - \$22,932) was charged to the Statements of Net and Comprehensive Income (Loss) representing the impact of the revisions on previously impaired properties.

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 \$228,850 (2020 - \$80,935).

Loan Payable

On May 22, 2020, the Corporation entered into a loan agreement with a company controlled by a director that provided for a \$4,000,000 credit facility (the “Credit Facility”) that was unsecured and was to mature on May 22, 2022. Funds advanced under the Credit Facility incurred 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 (note 9) and a further \$2,000,000 was received and used for general working capital purposes. The balance of \$3,800,643 was repaid in full in 2021.

Interest expense of \$424,525 (2020 - \$260,887) was recorded as finance charges in the Statement of Net and Comprehensive Income (Loss).

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. Subsequent to year end, the Government of Canada has amended the repayment terms of the loans such that the principal must be fully repaid on or before December 31, 2023 for forgiveness as noted above and will convert to a two year term loan at the same interest rate.

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 year ended December 31, 2021, the Company incurred \$212,929 (2020 - \$210,929) in consulting fees billed from officers and companies controlled by officers and directors.

Interest of \$424,525 (2020 - \$260,887) 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) related to this debt.

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - \$	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Revenue	\$7,052,574	\$4,153,408	\$2,205,448	\$1,655,257
Net income	\$6,434,039	\$1,875,233	\$499,659	\$136,839
Income per share	\$0.08	\$0.02	\$0.01	\$0.00

Fiscal Quarter Ended - \$	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Revenue	\$1,679,363	\$1,447,721	\$134,556	\$1,679,061
Net (loss)	(\$2,704,273)	(\$142,896)	(\$450,652)	(\$4,266,733)
(Loss) per share	(\$0.03)	\$0.00	(\$0.01)	(\$0.05)

The Q4 2021 profitability was impacted significantly by the Lampman wells which came on full production. The profitability in the remainder of the 2021 quarters 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 \$2,275,129.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at December 31, 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, 2021.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, short-term investments, trade and other receivables, accounts payable and accrued liabilities, contract liabilities, bank loan, loan payable and lease liability. 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. 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.