

**VITAL ENERGY INC.**  
**MANAGEMENT DISCUSSION and ANALYSIS**  
**September 30, 2023**

---

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, 2023, its financial position as at September 30, 2023 and its future prospects. This Management's Discussion and Analysis is dated as of November 29, 2023 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, 2022. All amounts are expressed in accordance with International Financial Reporting Standards ("IFRS") and in Canadian dollars unless otherwise stated. Additional information is available on the Company's website at [www.vitalenergyoil.com](http://www.vitalenergyoil.com) or on Sedar's website at [www.sedar.com](http://www.sedar.com).*

### **Forward-Looking Statements**

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

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

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

### **Non-IFRS Measures**

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

### **Note Regarding Boe and Mcf**

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

*Other terms used in this report are as follows:*

*boe - barrel of oil equivalent*

*boe/d – barrel of oil equivalent per day*

*bbl – barrel of oil*

*bbl/d – barrel of oil per day*

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

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

### **Description of the Business**

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

The Company operates from its head office in Calgary, Alberta located at Suite 620, 634 6<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 0S4.

## Overall Performance

### Highlights

- The Company reported net income for Q3 2023 of \$1,210,993 as compared to net income of \$410,580 in Q3 2022.
- Revenue was \$4,506,172 for Q3 2023 as compared to \$4,061,493 in Q3 2022, an increase of \$444,679.
- The Q3 2023 realized oil price was \$84.14 as compared to \$89.19 in Q3 2022.

### Selected Financial Information

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

	<b>2023</b>	<b>2022</b>	<b>2023</b>	<b>2022</b>
	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
Revenue	<b>\$4,506,172</b>	\$4,061,493	<b>\$10,927,995</b>	\$15,715,827
Net and comprehensive income	<b>\$1,210,993</b>	\$410,580	<b>\$2,175,278</b>	\$6,693,694
Net income per share	<b>\$0.02</b>	\$0.01	<b>\$0.03</b>	\$0.08
Total assets at September 30 <sup>th</sup>	<b>\$23,761,325</b>	\$25,641,33	<b>\$23,761,325</b>	\$25,641,383
Total non-current liabilities, September 30 <sup>th</sup>	<b>\$1,998,993</b>	\$1,747,739	<b>\$1,998,993</b>	\$1,747,739

### Properties

The Company has gradually extended from its original two core property areas in 2020 to its current four core property areas. The four core property areas include the SE Saskatchewan property area, West Central Alberta property area, the original SW Saskatchewan property and East Central Alberta property areas.

The SE Saskatchewan property includes a total of six (6) areas : Lampman, Steelman, Dalesboro, Gainsborough, Hume and Weyburn.

- Lampman and Steelman: includes a total of seven (7) producing wells.
- Dalesboro : the plan is to drill and complete two (2) additional Frobisher wells in Q4
- Weyburn: this land was sold in Q3, maintaining a 3% Overriding Royalty
- Hume: Undeveloped Area

The SW Saskatchewan property area includes two producing properties - Gull Lake and Pennant.

The East Central Alberta property area includes two producing properties - Sullivan Lake and Baxter Lake.

The West Central Alberta property area includes three undeveloped and non-producing properties - Pembina-1, Pembina-2 and Ante Creek.

The Company successfully completed its 2022 new drill program by drilling five Frobisher horizontal ("Hz") wells in three individual properties in the SE Saskatchewan property area. Four wells are on production and one well was uneconomic.

The Company acquired 5.75 sections of crown land at Pembina-2 in the West Central Alberta property area in Q1 2023 and plans to drill 6 Hz wells in Q4 2023.

## **Core Properties**

### **SE Saskatchewan property area**

#### *Lampman*

Three (3) Frobisher Hz wells were drilled from one pad in July 2021 and completed in August 2021. All three (3) Hz wells have been demonstrating stable production rates with very reasonable natural production declines. During the initial year of production, the three wells reflected the Frobisher formation production type curve in the Estevan area. Starting in July 2022, the three wells had a relatively stabilized water cut and have now transitioned into a low natural decline producing phase. Based on current well performance, the forecasted annual oil decline in 2023 will be around 5-10 %. All wells are fully equipped with electrical primer drivers and pipelines and are periodically tested with the Company's own onsite 2 phase separator (satellite).

In Q3 2022, the Company drilled one additional Hz well in the southern part of the Lampman property in order to produce the remaining Frobisher reserves. The well was put on production in August 2022 and was producing approximately 2 bbls/d. The initial production rate is lower than expected as the well is geologically located on the edge of the reservoir, and the limestone target zone changes in both lateral and vertical directions. In order to increase productivity, the Company completed an acid squeeze workover in August, and the production was increased to 83 bbl/d in August and 61 bbl/d in September 2023.

For the nine months ended September 30, 2023, the average production at Lampman was 137 bbls/d, (sweet light oil, API ranging from 32.5 -36.0) as compared to 163 boe/d in Q4 2022 and 128 boe/d in the first half of 2023.

#### *Steelman*

Vital acquired a quarter section of crown land in Saskatchewan in April 2022 and drilled 3 Frobisher Hz wells from the same surface location in Q3 2022. The facility equipment has been installed and the tie-in to the pipeline completed. The average production from the three (3) wells in Q3 2023 was 89 boe/d with a low water cut.

### **SW Saskatchewan property area**

#### *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. A Waterflood Project (Enhanced Oil Recovery) was completed in Gull Lake Upper Shaunavon reservoir in Q4 2022. The production from well 1-29 was increased to 90 bbl/d in Q3 2023 from 30 bbl/d in Q4 2022. The Company believes that future drilling opportunities remain on these lands.

At Gull Lake, Vital's net daily oil and natural gas production for nine months ended September 30, 2023 was 179 boe/d (2022 – 189 boe/d). The decrease in production was attributable to natural declines in the property.

#### *Pennant*

Vital is the Operator and maintains a 100% working interest in 2 sections of land. There is one (1) vertical well and six (6) horizontal wells. Three of the horizontal wells and the vertical well are on production. The Company has commenced abandonment and reclamation work on some other well sites.

The company's crude oil production was 39 bbls/d for the first nine months of 2023 as compared to 26 bbls/d in the comparable period in 2022. The increase in production is related to two well workovers which were completed in Q4 2022.

### **East Central Alberta property area**

#### *Sullivan Lake*

This property has two (2) Ellerslie Hz producing wells and one (1) Banff Hz producing well which were drilled in 2018 and 2019. These Hz wells have a stable production rate with a natural production decline.

This property has completed surface facilities including a desulfurization tower and a gas pipeline. There are 5 potential Banff Hz development wells.

This area produced 61 boe/d for the nine months ended September 30, 2023 compared to 87 boe/d in the 2022 comparable period.

#### *Baxter Lake*

The Company performed remedial work in 2021 to reactivate certain wells in the Baxter Lake area as oil prices have improved. To September 30, 2023, this area produced 20 boe/d as compared to 25 boe/d in 2022.

### **West Central Alberta property area**

#### *Ante Creek*

The Company purchased 2.5 sections of crown land in Alberta in Q1 2021. As part of the Company's 2023 strategic plan, the Montney play in Ante Creek will be the Company's main focus. Currently, the Company has been working on a detailed geological study and finalizing development plan. The preliminary development plan indicates there are up to 25 development wells that may be drilled.

#### *Pembina-1*

The Company acquired a quarter section of crown land in Alberta in Q3 2021 and another adjoining quarter section of crown land in September 2022. The Company is currently working on a detailed geological study and development plan. This may allow the drilling of up to 4 Hz Cardium development wells.

#### *Pembina-2*

The Company acquired 5.75 sections of crown land in Alberta in Q1 2023. As part of the Company's 2023 strategic plan, the Company has been working on a detailed geological and reservoir study and development plan. The Company plans to drill six (6) Cardium Hz wells in the second half of 2023.

### **Evaluation Properties**

#### **SE Saskatchewan property area**

#### *Dalesboro*

The Company acquired a half section of crown land in SE Saskatchewan in Q4 2022. The Company commenced drilling 2 Hz Frobisher development wells in Q3 2023 which will go on production in Q4.

#### *Hume*

The property comprises 6 LSDs of crown land in SE Saskatchewan with a potential for up to five (5) Frobisher Hz development wells. The Company is working on a reservoir and geological study in order to reduce the uncertainties for drilling future wells.

#### *Gainsborough*

The company acquired 3 LSDs of crown land in Saskatchewan in April 2022. The Company is working on the reservoir and geology study, is closely monitoring the industry activities in the reservoir area and is evaluating the tie-in cost and the feasibility of the project.

### **Outlook**

We have seen increased volatility in the demand levels for petroleum caused by the COVID-19 pandemic and international events in Europe in 2022 and 2023.

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 drill eight (8) Hz wells in the second half of 2023 – two (2) Frobisher Hz wells in Dalesboro SK and six (6) Cardium Hz wells in Pembina AB. The pre-drilling and drilling work has commenced and is ongoing.

The Company acquired another larger Cardium asset in Pembina area in January 2023 in the West Central Alberta property area. The Company may drill an additional 6-8 wells in 2023/2024 depending on the drill results of the aforementioned HZ wells and the available funds.

## Discussion of Operations

Details of quarterly petroleum pricing in 2023 and 2022 are as follows:

<b>2023</b>		<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
WTI - \$US/bbl		82.26	73.78	76.13
WCS Benchmark –US\$/bbl		69.37	58.71	51.36
WCS Dollar Differential –US\$/bbl		(12.89)	(15.07)	(24.77)
WCS % Differential		16%	20%	33%
<b>2022</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
WTI - \$US/bbl	82.64	91.56	108.41	94.29
WCS Benchmark –US\$/bbl	58.99	71.69	95.61	79.76
WCS Dollar Differential –US\$/bbl	(23.65)	(19.87)	(12.80)	(14.53)
WCS % Differential	29%	22%	11%	15%

The following is a summary of Company's realized oil pricing:

<b>2023</b>		<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Revenue		\$4,506,172	\$3,332,010	\$3,089,813
# bbls		53,558	44,448	45,358
Boe/d		589	488	504
Revenue per boe		\$84.14	\$74.96	\$68.12
WCS -\$C per bbl		\$93.02	\$78.85	\$69.44
Differential to WSC price		(9.5%)	(5.1%)	(1.8%)
<b>2022</b>	<b>Q4</b>	<b>Q3</b>	<b>Q2</b>	<b>Q1</b>
Revenue	\$3,966,500	\$4,061,493	\$5,799,524	\$5,854,810
# bbls	49,298	45,538	51,427	60,338
Boe/d	542	495	565	670
Revenue per boe	\$80.46	\$89.19	\$112.77	\$97.03
WCS -\$C per bbl	77.37	\$93.62	\$122.05	\$100.99
Differential to WSC price	4.0%	(4.7%)	(7.6%)	(3.9%)

The following tables detail the Company's operational netback for three and nine months ended September 30<sup>st</sup>:

	<b>Three months ended September 30, 2023</b>		<b>Nine months ended September 30, 2023</b>	
		<b>Per boe</b>		<b>Per boe</b>
Production (boe)	53,558		143,364	
Average daily production (boe/d)	589		527	
Petroleum and natural gas revenue	\$4,506,172	\$84.14	\$10,927,995	\$76.23
Royalties	\$699,923	\$13.07	\$1,817,974	\$12.68
Production operating costs	\$1,057,756	\$19.75	\$3,037,208	\$21.19
<b>Operational netback</b>	<b>\$2,748,493</b>	<b>\$51.32</b>	<b>\$6,072,813</b>	<b>\$42.36</b>

	<b>Three months ended September 30, 2022</b>		<b>Nine months ended September 30, 2022</b>	
		<b>Per boe</b>		<b>Per boe</b>
Production (boe)	45,538		154,487	
Average daily production (boe/d)	495		566	
Petroleum and natural gas revenue	\$4,061,493	\$89.19	\$15,715,827	\$101.73
Royalties	\$835,784	\$18.35	\$2,868,644	\$18.57
Production operating costs	\$1,211,822	\$26.61	\$2,572,613	\$16.65
<b>Operational netback</b>	<b>\$2,013,887</b>	<b>\$44.23</b>	<b>\$10,274,570</b>	<b>\$66.51</b>

The 2023 revenue for the nine months ended September 30<sup>th</sup> was \$10,927,995 as compared to \$15,715,827 in 2022, a \$4,787,832 decrease. The decrease in revenue is attributable to a realized price decrease of \$25.50 per boe and 11,123 fewer boe were produced.

The production decrease arose primarily from the Lampman wells (24,754 boe) which was partially offset by new production at the Steelman property.

The Q3 2023 revenue of \$4,506,172 was \$444,679 higher than the 2022 comparable revenue of \$4,061,493. This is a result of a lower realized price per boe of \$5.05 offset by increased production of 8,020 boe.

Royalties of \$1,817,974 were 17% of revenue for the nine months ended September 30, 2023 as compared to \$2,868,644 or 18% in 2022.

The production operating costs for the nine months ended September 30, 2023 were \$3,037,208 (\$21.19 per boe) as compared to \$2,572,613 (\$16.65 per boe) in 2022. The 2023 operating costs were negatively impacted by well workover costs of \$576,603 (2022 - \$202,697). The Q3 2023 operating costs of \$19.75 per boe were lower than the year to date of \$21.19 per boe as significant amount of the workovers occurred in Q2 2023.

In addition, the 2023 production operating costs of \$21.19 per boe were higher than the 2022 costs of \$16.65 reflecting the effect of fixed costs per boe over lower production volumes.

The operational netback for the nine months ended September 30, 2023 was \$42.36 as compared \$66.51 in 2022. The decrease in operational netback of \$24.15 reflects the decrease in realized selling price of \$25.50 and higher operating costs of \$4.54 per boe.

The depletion, depreciation and amortization expense for 2023 was \$3,021,267 (\$21.07 per boe) as compared to \$2,111,940 (\$16.25 per boe) in 2022. Depletion is calculated on a unit-of production basis.

General and administrative expenses are generally comparable for the three and nine months ended September 30<sup>th</sup>. Consulting fees have increased in 2023 with the addition of one consultant being employed on strategic business activities.

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2023	2022	2023	2022
Wages and employee benefits	\$ 78,667	\$ 69,854	\$ 160,637	\$ 143,331
Professional fees	4,792	16,710	20,000	36,710
Consulting fees	98,085	75,739	184,692	169,219
User fees	23,875	14,062	53,088	32,816
Office	33,065	31,644	66,481	70,900
	<b>\$ 238,484</b>	<b>\$ 208,009</b>	<b>\$ 484,898</b>	<b>\$ 452,976</b>

Finance costs, which includes interest expense related to the accretion of the lease liability was \$5,666 in 2023 (2022 - \$7,952).

### Net Income

The net income for the three months ended September 30, 2023 was \$1,210,993 as compared to net income of \$410,580 in 2022, an increase of \$800,413. This increase in net income was primarily impacted by the 2022 resource surcharge of \$757,643 for prior years.

### 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

	#	Amount
Balance, December 31, 2021, 2020 and 2019	82,249,971	\$ 31,740,885
Issued for cash on exercise of stock options	450,000	112,500
Transfer from contributed surplus on exercise of options		105,180
<b>Balance, December 31, 2022 and September 30, 2023</b>	<b>82,699,971</b>	<b>\$ 31,958,565</b>

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 during the nine months ended September 30, 2023 and year ended December 31, 2022 is presented below:

	2023		2022	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	750,000	\$ 0.25	1,200,000	\$ 0.25
Exercised	-	0.25	450,000	-
Outstanding, end of year	750,000	\$ 0.25	750,000	\$ 0.25
Exercisable, end of year	750,000	\$ 0.25	750,000	\$ 0.25

The details of the options outstanding at September 30, 2023 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
750,000	0.25	750,000	0.75

## Liquidity and Capital Resources

As at September 30, 2023, the Company had cash and cash equivalents of \$5,125,154 (December 31, 2022 - \$2,095,199) and working capital of \$4,587,598 (December 31, 2022 - \$1,330,006). The Corporation anticipates that the cash and cash equivalents on hand, current operations and future financings should be sufficient to sustain operations for the next twelve months.

For the nine months ended September 30, 2023, cash and cash equivalents increased by \$4,829,955 (2022 - decrease of \$816,971). This was a result of cash being provided by operations in the amount of \$4,480,909 (2022 - \$10,744,877); financing activities using cash of \$45,000 (2022 - \$45,000) and investing activities providing cash of \$394,406 (2022 - \$11,516,848 use of cash). The investing activities were primarily the redemption of guaranteed investment certificates of \$1,800,000 (2022 - purchase of short-term investments of \$3,910,363) and expenditures on oil and gas properties of \$1,514,844 (2022 - \$6,449,379).

## 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 \$2,446,750 (December 31, 2022 - \$2,486,250) which will be settled over the operating lives of the underlying assets, estimated to occur between 2022 and 2032. A risk-free interest rate ranging from 2.93% to 4.72 % (2022 - 2.17% to 3.29%) and an inflation rate of 2% (2022 - 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, 2023, \$569,979 (December 31, 2022 - \$567,729) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	September 30, 2023	December 31, 2022
<b>Balance, beginning of year</b>	<b>\$ 2,266,330</b>	<b>\$ 1,811,002</b>
Additions	122,980	176,260
Government grants	-	(75,561)
Revisions	(340,616)	311,512
Accretion	56,645	43,117
	<b>2,105,339</b>	<b>2,266,330</b>
<b>Less: current portion</b>	<b>155,000</b>	<b>213,000</b>
<b>Balance, end of period</b>	<b>\$ 1,950,339</b>	<b>\$ 2,053,330</b>

During 2023, there was a revision to the decommissioning liabilities of \$340,616 (2021 - \$311,512) as a result of changes in estimates. Property and equipment was decreased \$195,356 (note 6) (2022 –increased by \$264,967) and \$145,257 was credited (2022 - \$46,545 was charged) to the Statements of Net and Comprehensive Income. This revisionary credit of \$145,257 combined with cash expenditures of \$222,985 on properties previously impaired resulted in a charge on the Statements of Net and Comprehensive Income of \$77,728.

### Bank Loan

The Corporation has received a \$60,000 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 January 18, 2024. No principal payments are required during this period.

If the bank loan is not repaid by January 18, 2024, the bank loan may be converted into a two-year term loan at an interest rate of 5% per annum payable monthly with no principal payments until December 31, 2025. It is the Company's intention to repay this bank loan prior to December 31, 2023.

### 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.

For the nine months ended September 30, 2023, the Company incurred \$244,071 (2022 - \$165,321) in consulting fees billed from officers and companies controlled by officers and directors.

### Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - \$	September 30, 2023	June 30, 2023	March 31, 2023	December 30, 2022
Revenue	\$4,506,172	\$3,332,010	\$3,089,813	\$3,966,500
Net income (loss)	\$1,210,993	\$394,306	\$569,979	(\$1,988,452)
Income (loss) per share	\$0.02	\$0.01	\$0.01	(\$0.02)

<b>Fiscal Quarter Ended - \$</b>	<b>September 30, 2022</b>	<b>June 30, 2022</b>	<b>March 31, 2022</b>	<b>December 31, 2021</b>
<b>Revenue</b>	\$4,061,493	\$5,799,524	\$5,854,810	\$7,052,574
<b>Net income</b>	\$410,580	\$2,762,099	\$3,521,015	\$6,434,039
<b>Income per share</b>	\$0.01	\$0.03	\$0.04	\$0.08

Since Q4 2021, profitability has been positively impacted by the Lampman wells which have been on full production. The profitability in Q2 and Q3 2022 quarters reflects improved oil pricing while maintaining cost control. The Q3 profitability was impacted by a one-time charge of \$757,643 for a change in estimate of the Corporation Capital Tax Resource Surcharge in the Province of Saskatchewan. The loss in Q4 2022 was impacted by an impairment charge.

The net income in 2023 has generally been lower than in 2022 because of lower oil prices and reduced oil production.

### **Off-Balance Sheet Arrangements**

There are no off-balance sheet arrangements as at September 30, 2023.

### **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 September 30, 2023.

### **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, bank loan, loan payable 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 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 personnel.

#### *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.