

VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
December 31, 2022

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, 2022, its financial position as at December 31, 2022 and its future prospects. This Management’s Discussion and Analysis is dated as of April 26, 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 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 for 2022 of \$4,705,242 as compared to net income of \$8,945,770 in 2021.
- Revenue was \$19,682,327 for 2022 as compared to \$15,066,687 in 2021, an increase of \$4,615,640.
- The 2022 realized oil price was \$95.69 as compared to \$71.33 in 2021.
- Production exited 2022 at 507 boe/d
- The Company drilled five (5) horizontal wells in 2022 and four (4) were put on production.

Selected Financial Information

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

	Years ended December 31,		
	2022	2021	2020
Revenue	\$19,682,327	\$15,066,687	\$4,940,701
Net and comprehensive income (loss)	\$4,705,242	\$8,945,770	(\$7,564,554)
Net income (loss) per share	\$0.06	\$0.11	(\$0.09)
Total assets as at December 31	\$21,609,496	\$16,281,937	\$10,893,289
Total non-current liabilities as at December 31	\$2,143,743	\$1,755,682	\$5,476,267
Shareholders' equity	\$16,954,434	\$12,136,692	\$3,190,922

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 new SE Saskatchewan property area, West Central Alberta property area, the original SW Saskatchewan property and East Central Alberta property areas.

The SE Saskatchewan property area includes the two production properties - Lampman and Steelman, and four undeveloped and non-producing properties - Gainsborough, Dalesboro, Weyburn and Hume.

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 is uneconomic.

The Company acquired a half section and 2 LSDs of crown land in Dalesboro and Weyburn in the SE Saskatchewan property area in Q4 2022 and 5.75 sections of crown land at Pembina-2 in the West Central Alberta property area in Q1 2023.

A Waterflood Project (Enhanced Oil Recovery) has been completed in Gull Lake in SW of Saskatchewan property area in Q4 2022.

Core Properties

SE Saskatchewan property area

Lampman

Three (3) Frobisher Hz wells drilled from the same surface location 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. 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 is producing approximately 4 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 has initiated a full-scale production optimization analysis. Future work may entail a frac or acid squeeze to stimulate production.

For the year ended December 31, 2022, the average production was 211 bbls/d, (sweet light oil, API ranging from 32.5 -36.0). The three wells drilled in 2021 produced 209 bbls/d and exited the 2022 year at 150 bbls/d.

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 is 87 bbl/d in Q4 2022.

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. The Company believes that future drilling opportunities remain on these lands.

At Gull Lake, Vital's net daily oil and natural gas production for 2022 was 181 boe/d (2021 – 209 boe/d). The decrease in production was attributable to natural declines in the property. In Q4 2022, a Waterflood Project (Enhanced Oil Recovery) was completed and one well was abandoned.

Pennant

Vital is the Operator and maintains a 100% working interest in 10 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 25 bbls/d in 2022 as compared to 34 bbls/d in the comparable period in 2021. Two well workovers were completed in Q4 2022 and the crude oil production is expected to recover to 35 bbls/d. Two well were also abandoned 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.

Due to declines in the petroleum and natural gas reserves at December 31, 2022, 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 being recorded of \$1,655,238.

This area produced 89 boe/d for the year ended December 31, 2022 compared to 104 boe/d in 2021. The production rate exited 2022 at 86 boe/d.

Baxter Lake

The Company performed remedial work in 2021 to reactivate certain wells in the Baxter Lake area as oil prices have improved. In 2022, this area produced 24 boe/d.

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.

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 preliminary development plan indicates there are up to 24 Hz Cardium development wells.

Evaluation Properties

SE Saskatchewan property area

Dalesboro

The Company acquired a half section of crown land in SE Saskatchewan in Q4 2022. The Company is currently working on a detailed geology study and development plan. This may allow the drilling of up to 8 Hz Frobisher development wells.

Weyburn

The Company acquired 2 LSD sections of crown land in Q4 2022. The Company is currently working on a detailed geology study and development plan. This may allow the drilling of up to 2 Hz Midale development wells.

Hume

The property comprises 6 LSDs of crown land in SE Saskatchewan with a potential for up to five (5) Frobisher Hz development wells. In Q3 2022, one Frobisher Hz wells was drilled and was considered uneconomic. The drilling result showed Frobisher limestone target zone changes in both lateral and vertical directions that indicated that the risks of both geology and drilling engineering would be higher than expected. There were indications that main geological fractures might be encountered which could result in a much higher water cut and be uneconomic to produce. As a result, the well was abandoned after swab test.

The Company will continue to study the reservoir and geological features and reduce the uncertainties for the plan of drilling future wells.

Gainsborough

The company acquired 3 LSDs of crown land in Saskatchewan in April 2022 and had planned to drill 2 Hz wells in Q3 2022. The Gainsborough 2022 drilling project was postponed due to the risks and uncertainties related to the geology and projected higher costs than initially planned for drilling operation, surface pipeline and infrastructure.

The Company will continue work on the reservoirs and the geology and will re-evaluate the feasibility of the project at a later date. The drilling program will be resumed if risks and uncertainties are mitigated to an acceptable level.

West Central Alberta property area

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 June 2022. The Company is currently working on a detailed geology study and development plan. This may allow the drilling of up to 4 Hz Cardium development wells.

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.

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 the existing properties to choose the best properties to drill new development wells to increase the production.

The Company will optimize and re-rank the priority of the proposed wells in the SE Saskatchewan property area after completing further reservoir studies. The Company will then determine 4~5 proposed drill sites for 2023.

The Company also acquired another larger Cardium asset in Pembina area in January 2023 in the West Central Alberta property area. The Company may choose approximately up to 10 well sites to drill in 2023 after completing additional reservoir studies, engineering and facility cost estimations.

Discussion of Operations

Details of quarterly petroleum pricing in 2022 and 2021 are as follows:

2022	Q4	Q3	Q2	Q1
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%
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%

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

2022				
	Q4	Q3	Q2	Q1
Revenue	\$3,966,500	\$4,061,493	\$5,799,524	\$5,854,810
# bbls	49,298	44,622	51,427	60,338
Boe/d	542	485	565	670
Revenue per boe	\$80.46	\$91.02	\$112.77	\$97.03
WCS -\$C per bbl	77.37	\$93.62	\$122.05	\$100.99
Differential to WSC price	4.0%	(2.7%)	(7.6%)	(3.9%)

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
Boe/d	911	674	385	337
Revenue per boe	\$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%)

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

	Three months ended December 31, 2022		Year ended December 31, 2022	
		Per boe		Per boe
Production (boe)	49,298		205,685	
Average daily production (boe/d)	542		564	
Petroleum and natural gas revenue	\$3,966,500	\$80.46	\$19,682,327	\$95.69
Royalties	\$678,031	\$13.75	\$4,304,318	\$20.93
Production operating costs	\$1,588,101	\$32.21	\$4,160,714	\$20.23
Operational netback	\$1,700,368	\$34.49	\$11,217,295	\$54.54

	Three months ended December 31, 2021		Year ended December 31, 2021	
		Per boe		Per boe
Production (boe)	83,852		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

The fiscal 2022 revenue was \$19,682,327 as compared to \$15,066,687 in 2021, a \$4,615,640 increase. The annual production was comparable between 2022 and 2021, however, the realized selling price was significantly higher by \$24.36 in 2022 as compared to 2021.

Q4 2022 revenue was \$3,966,500 as compared to \$7,052,574 in Q4 2021, a decrease of \$3,086,074. This reflects a decrease in the realized selling price for petroleum and natural gas of \$3.65 per boe and decreased production of 34,553 boe in Q4 2022 as compared to Q4 2021. The production decrease arose from natural declines in the reservoir primarily from the Lampman wells (37,804 boe) and Sullivan Lake (8,278 boe). The production decreases were partially offset by new production at the Steelman property.

Royalties of \$4,304,318 were 21% of revenue in 2022 as compared to \$1,577,810 or 10% in 2021. The increase in royalties reflects the increased royalty rate on the production from the Lampman wells and the current year Saskatchewan royalty surcharge of \$1,038,888 where there was none in 2021.

During the year ended December 31, 2022, the Company determined that there was a change in the Company's interpretation of the Corporation Capital Tax Resource Surcharge in the Province of Saskatchewan in relation to successor's tax pools and as a result the Company's previous estimate has been adjusted. Based on an assessment from the provincial taxation authority, the Company has recorded of \$757,643 including interest of \$97,177 relating to the taxation years 2016 – 2021 inclusive. This amount is included in the current year royalty surcharge of \$1,038,888.

The production operating costs for 2022 were \$4,160,714 (\$20.23 per boe) as compared to \$2,681,805 (\$12.70 per boe). The 2022 operating costs were negatively impacted by late invoicing from a supplier and increases in other operational costs including equipment rental.

The 2022 Q4 production operating costs of \$32.21 per boe were significantly higher than the Q4 2021 costs of \$7.72. This reflects the effect of fixed costs per boe with lower production.

The operational netback in 2022 was \$54.54 as compared to \$51.16 in 2021. Although the operational netback was comparable between 2022 and 2021, the increase in realized selling price of \$24.36 was offset by lower production resulting in higher operating costs of \$7.53 and royalties of \$13.46 per boe.

The depletion, depreciation and amortization expense for 2022 was \$4,025,809 (\$19.57 per boe) as compared to \$2,393,666 (\$11.33 per boe) 2021. Depletion is calculated on a unit-of production basis.

The impairment charge in 2022 was \$1,655,238 as compared to a reversal of \$1,871,808. Due to declines in the petroleum and natural gas reserves at December 31, 2022, 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 being recorded.

At December 31, 2021, commodity prices had improved as compared to the historically low commodity prices at December 31, 2020 and as a result, the 2021 financial statements reflect a reversal of previously recorded impairment charges.

General and administrative expenses are as follows for the three months and year ended December 31:

	Three Months Ended		Year Ended	
	December 31,		December 31,	
	2022	2021	2022	2021
Wages and employee benefits	\$ 76,374	\$ 140,341	\$ 297,673	\$ 343,334
Professional fees	10,710	27,678	61,318	62,069
Consulting fees	91,435	101,607	328,937	297,011
User fees	17,003	18,822	66,056	67,553
Rent	-	-	-	17,158
Office	1,418	10,924	95,747	89,896
	\$ 196,940	\$ 298,372	\$ 849,731	\$ 877,021

Wages and employee benefits decreased in 2022 by \$45,661 as compared to 2021 (decrease of \$63,967 in Q4 2022 versus 2021). The decrease reflects the payment of vacation pay in 2021 where there was none in 2022.

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

Year ended December 31,	2022	2021
CEWS – reduction in wages and employee benefits	\$ -	\$ 6,961
CERS – reduction in rent	-	3,324
Total subsidies	\$ -	\$ 10,285

Professional fees, consulting fees, user fees and office expenses have remained comparable between 2022 and 2021.

There is no rent expense in 2022 because of a change in accounting rules for office rent that were implemented 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.

Finance charges in 2022 were \$10,229 being the accretion of the lease liability while 2021 finance charges of \$429,650 reflect the interest on a loan payable of \$3,800,643. The loan payable was repaid in November and December 2021.

Net Income

Q4

The net loss in Q4 2022 was \$1,988,452 as compared to net income of \$6,434,049 in Q4 2021. As previously mentioned, the Q4 income was negatively impacted by an impairment charge of \$1,655,238 while 2021 had an impairment reversal of \$1,871,808. In addition, the 2022 production was 34,553 bbls lower than 2021.

YTD

The net income for the year ended December 31, 2022 was \$4,705,242 (2021 – \$8,945,770). The decrease in net income reflects the 2022 impairment charge of \$1,655,238 as compared to the 2021 impairment reversal of \$1,871,808 in 2021 and the 2022 royalty surcharge of \$1,038,888.

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
Balance, December 31, 2022	82,699,971	\$ 31,958,565

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:

		2022		2021	
	#	Weighted average exercise price	#	Weighted average exercise price	
Outstanding, beginning of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25	
Exercised	450,000	0.25	-	-	
Outstanding, end of year	750,000	\$ 0.25	1,200,000	\$ 0.25	
Exercisable, end of year	750,000	\$ 0.25	1,200,000	\$ 0.25	

The details of the options outstanding at December 31, 2022 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
750,000	0.25	750,000	1.5

Liquidity and Capital Resources

As at December 31, 2022, the Company had cash and cash equivalents including short-term investments of \$2,095,199 (December 31, 2021 - \$1,661,863) and working capital of \$1,330,006 (December 31, 2021 - \$1,340,157). 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, 2022, cash and cash equivalents decreased by \$1,161,642 (2021 - increase of \$1,349,737). This was a result of cash being provided by operations in the amount of \$11,657,163 (2021 - \$8,052,279); financing activities providing cash of \$52,500 (2021 - use of \$3,805,643, primarily the repayment of the loan payable of \$3,800,643) and investing activities using cash of \$12,871,305 (2021 - \$2,896,899). The investing activities were primarily the purchase of guaranteed investment certificates of \$1,594,978 (2021 - redemption of short-term investments of \$401,337) and expenditures on oil and gas properties of \$10,452,146 (2021 - \$3,332,089).

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 \$2,486,250 (2021 - \$1,744,812) which will be settled over the operating lives of the underlying assets, estimated to occur between 2023 and 2032. A risk-free interest rate ranging from 3.29% to 3.77 % (2021 - 1.47%) and an inflation rate of 2% (2021 - 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, 2022, \$567,729 (December 31, 2021 - \$564,101) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	2022	2021
Balance, beginning of year	\$ 1,811,002	\$ 1,753,122
Additions	176,260	110,222
Government grants	(75,561)	(228,850)
Revisions	311,512	213,881
Accretion	43,117	39,836
Liabilities settled	-	(77,209)
	2,266,330	1,811,002
Less: current portion	213,000	258,574
Balance, end of year	\$ 2,053,330	\$ 1,552,428

During 2022, there was a revision to the decommissioning liabilities of \$311,512 (2021 - \$213,881) as a result of changes in estimates. Property and equipment was increased \$264,967 (2021 - decreased by \$20,212) and \$46,545 (2021 - \$234,093) was charged to the Statements of Net and Comprehensive Income 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 2022, under the SRP and ASCP, the Company has continued abandonment of five wells and recognized the corresponding government grant income of \$75,561 (2021 - \$228,850).

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 December 31, 2023. No principal payments are required during this period.

If the bank loan is not repaid by December 31, 2023, 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.

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.

In 2022, the Company incurred \$226,429 (2021 - \$212,929) in consulting fees billed from officers and companies controlled by officers and directors.

In, 2021, interest of \$424,545 on a loan payable to a company controlled by a director is included in finance charges in the Statements of Net and Comprehensive Income related to this debt. The loan payable of \$3,800,643 was repaid in full in 2021.

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - \$	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022
Revenue	\$3,966,500	\$4,061,493	\$5,799,524	\$5,854,810
Net income (loss)	(\$1,988,452)	\$410,580	\$2,762,099	\$3,521,015
Income (loss) per share	(\$0.02)	\$0.01	\$0.03	\$0.04

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 (loss)	\$6,434,039	\$1,875,233	\$499,659	\$136,839
(Loss) per share	\$0.08	\$0.02	\$0.01	\$0.00

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 loss in Q4 2022 has previously been discussed.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at December 31, 2022.

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, 2022.

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 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.