VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
December 31, 2017

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

The discussion and analysis that follows is a summary of Vital's activities and results for the three months and year-ended December 31, 2017, its financial position as at December 31, 2017 and its future prospects. This Management's Discussion and Analysis is dated as of April 26, 2018 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, 2017. 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.

Description of the Business

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

The Company operates from its head office in Calgary, Alberta located at Suite 888, 940 6th Avenue S.W., Calgary, Alberta, T2P 3T1.

Overall Performance

Highlights

- Production was 194 boe/d ("boe per day") in the fourth quarter of 2017 versus 233 boe/d in the third quarter of 2017. The decrease in production is primarily attributable to decreased production in the Gull Lake area of approximately 25 boe/d of oil production from the new well 2-29. This had to be limited to less than 37 bbl/d in the fourth quarter of 2017 due to an overproduction notification from the Saskatchewan government and production from other wells had to be reduced due to a regional pipeline problem in November 2017.

- Overall the company produced 17,850 boe in the fourth quarter of 2017 versus 21,496 boe in the third quarter of 2017 and again the decrease in overall production was primarily from the Gull Lake area.
- Production operating costs in the fourth quarter of 2017 were $17.53 per boe as compared to $19.36 per boe incurred for the year 2017. The fourth quarter production costs reflect a reduction in repairs and maintenance costs and haulage fees.
- Average crude oil and natural gas price realized by the Company in the fourth quarter of 2017 was $45.95 per boe as compared to $41.52 per boe for the year 2017. The fourth quarter prices reflect the general increase in crude oil prices in the latter half of 2017.
- The Company's 2017 production was weighted 79% crude oil and 21% natural gas.

Selected Financial Information

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

	Years ended December 31,		
	2017	2016	2015
Revenue	**$3,236,022**	$2,886,166	$2,174,090
Net and comprehensive loss	**$868,804**	$2,341,837	$6,410,644
Net loss per share	**$0.01**	$0.04	$0.12
Total assets as at December 31	**$13,589,011**	$13,030,589	$16,304,753
Total non-current liabilities as at December 31	**$1,115,435**	$1,051,507	$3,228,107

The decrease in the net and comprehensive loss in 2016 compared to 2017 of $1,473,033 results primarily from a reduction of general and administrative expenses of $410,270, depletion and depreciation of $302,265 and a 2016 impairment charge of $421,125. The 2015 net and comprehensive loss of $6,410,644 loss includes an impairment charge of $4,260,539.

Properties

Gull Lake

In one of the Company's core areas of operations, Gull Lake, Saskatchewan, Vital is the operator and maintains a 50% working interest. The property is covered with 3D seismic data and has 6 wells producing crude oil from the Roseray formation and one well producing oil and gas from the Cantuar formation. This project has two salt water disposal facilities and a gas collection pipeline system. In the Company's opinion there remains many drilling opportunities on these lands. A new well was drilled in the second quarter of 2017 and was completed, equipped and put on production in the third quarter.

Vital's net daily oil and natural gas production for the fourth quarter of 2017 was approximately 125 boe/d as compared to 150 boe/d for the third quarter of 2017. This decrease in production is mainly attributable to the production limit on the new well in the fourth quarter to comply with a government overproduction notification and a regional pipeline problem in November. In order to better evaluate the oil development potential, the Company had conducted a 3D seismic survey over all of its Gull Lake lands.

As of December 31, 2017, GLJ assigned 257,500 boe of proven oil and natural gas reserves net to the Company and 140,700 boe of probable oil reserves net to the Company.

Pennant
Vital is the Operator and maintains a 100% working interest in 13 contiguous sections of land. To date one (1) vertical well and five (5) horizontal wells have been drilled. Four of the horizontal wells and the vertical well are on production and a well drilled in January 2018 is still being evaluated. 3D seismic coverage on about 35% of Vital's lands indicates there may potentially be additional drilling locations.

On March 20, 2017, the Company entered into a Carried Working Interest Agreement regarding the development of lands in the Pennant area. Under the Agreement, the Carried Working Interest Partner ("Partner") would advance by December 31, 2017 up to $10,500,000 for the drilling, completion, equipping and all testing facilities for seven (7) horizontal wellbores, construction of five (5) lease pads and associated road works. In addition, the Partner would advance up to $500,000 for the acquisition of petroleum and natural gas leases.

In exchange, the Company would pay 80% of the net profits from the seven (7) horizontal wells to the Partner until such time as the Partner has recovered 180% of their investment. At that time, the carried working interest will convert to a 5% gross overriding royalty.

On April 17, 2017, the Partner made its initial advance of $360,000 to fund the acquisition of petroleum and natural gas leases.

As at December 31, 2017, the Partner had advance $1,565,840 for the drilling, completion and equipping of the first well which was drilled in November 2017. To date of this report, there have been no further wells drilled under this agreement. The partner failed to drill 7 wells or to advance $10,500,000 before December 2017, therefore the partner is technically in default under the terms of the amended carried working interest agreement.

The company's crude oil production was 51 boe/d for the fourth quarter of 2017 as compared to 60 boe/d from this area in the third quarter of 2017.

Non-core

In addition to its core properties, Vital has land holdings which may have additional drilling opportunities that Vital may attempt to have drilled primarily utilizing third party farmouts or joint ventures with other industry partners.

In the Lloydminster heavy oil area of Alberta (Baxter Lake, Standard Hill) certain wells have been suspended or shut in as production rates are allowed to decline due to not being economic. Existing wells in Baxter Lake and Standard Hill may only require remedial work in order to increase oil production, however, these heavy oil non-core assets require higher oil prices to justify expending funds for the required remedial work. Higher oil prices are needed in order to justify any further drilling activities on the Standard Hill and/or Baxter Lake properties. These areas had little affect on the Company's results in 2017 and 2016 as operations were minimal.

Outlook

Pennant

The company has five (5) producing oil wells on the lands. The medium gravity crude oil is being produced from the Upper Shaunovan formation and geology indicates that the entire land block may be prospective. The Company has acquired additional 3D seismic data and now has coverage on about 35% of the lands. The 3D seismic data confirms the geology and indicates that further drilling activities on the lands may be justified.

With the additional lands acquired in April 2017, Vital currently owns a 100% working interest in thirteen (13) contiguous sections of lands in Pennant Project Area (approximately 8,320 net acres or 3,328 net hectares). Vital is the Operator of the Pennant Area project.

Gull Lake

In 2015 the Company expended a significant amount of its capital installing water injection facilities and other infrastructure on the Gull Lake property. The result has been to lower operating costs and increase netbacks. With the infrastructure in place, there is now the capability to handle additional production. Additional drilling locations have been identified by geological and 3D seismic interpretation and mapping.

In May 2017, a new vertical test well was drilled at 2-29-13-19W3M and was completed and placed on production in late July 2017. This test well was targeting oil production from the Roseray, Cantuar and Upper Shaunavon formations and is currently producing 24-degree API medium gravity oil from the Upper Shaunavon formation. Vital is the Operator of the Gull Lake Project Area and maintains a 50% working interest.

Vital has a good land inventory with numerous identified operated drilling locations on its "Core Properties" at Gull Lake and Pennant, S.W. Saskatchewan. The pace of the drilling programs will be determined by the prevailing price of oil and available financing.

Discussion of Operations

The Company incurred a net loss of $868,804 for the year ended December 31, 2017 (2016 - $2,341,837). The decrease in the 2017 loss of $1,473,033 from the comparable period in 2016 was partially attributable to an increase in revenue of $349,856 with no significant increase in production operating costs, a decrease in non-cash charges related to depletion and depreciation of $302,205 and a decrease in the impairment charge of $421,125. In addition, general and administrative expenses decreased by $410,270.

The following tables detail the Corporation's operational netback as follows:

	Three months ended Dec. 31, 2017		**Year ended Dec. 31, 2017**	
		Per boe		**Per boe**
Production (boe)	17,850		77,943	
Average daily production (boe/d)	194		214	
Petroleum and natural gas revenue	$820,192	$45.95	$3,236,022	$41.52
Royalties	$120,747	$6.76	$350,409	$4.50
Production operating costs	$312,944	$17.53	$1,508,618	$19.36
Operational netback	$386,401	$21.66	$1,376,995	$17.66

	Three months ended Dec. 31, 2016		**Year ended Dec. 31, 2016**	
		Per boe		**Per boe**
Production (boe)	22,365		93,913	
Average daily production (boe/d)	246		257	
Petroleum and natural gas revenue	$852,428	$37.66	$2,886,166	$30.73
Royalties	$87,902	$3.88	$269,547	$2.87
Production operating costs	$331,181	$14.63	$1,470,842	$15.66
Operational netback	$433,345	$19.14	$1,145,770	$12.20

In comparing the three-month period and year-ended December 31, 2017 to the comparable periods in 2016, the overall operational netback per boe is higher due increased petroleum prices per boe. However, the petroleum pricing has been offset by increased production costs per boe. With overall production being lower in 2017 as compared to 2016, there are fewer barrels to cover the fixed operating costs.

Royalties were 10.8% of petroleum and natural gas revenues in 2017 as compared to 9.3% in 2016. The increase in royalty rates is attributable to one of the horizontal wells in the Pennant area coming off royalty incentive volume and the new vertical well 2-29 in the Gull Lake area is without royalty incentive.

Production operating costs increased by $37,746 in 2017 as compared to 2016. The increase was primarily affected by three costs – transportation and gathering costs increased by $93,699, fuel costs increased by $67,171 reflecting the colder weather in the fall and winter of 2017 and a reduction of repairs and maintenance of $109,563.

General and administrative expenses were $830,951 for 2017 as compared to $1,241,221 in 2016.

	2017	2016
Wages and employee benefits	**$ 307,979**	$ 427,786
Professional fees	**124,485**	87,251
Consulting fees	**195,324**	438,926
User fees	**54,879**	66,840
Rental	**73,625**	89,487
Office	**67,255**	115,277
Travel and entertainment	**7,404**	15,654
Total general and administration costs	**$ 830,951**	$ 1,241,221

Wages and employee benefits have decreased by $119,807 from 2016 to 2017. In light of the downturn in the oil and gas sector, employee wages were reduced.

Consulting fees decreased by $243,602 from 2016 to 2017. The reduction is largely attributable to a decrease in the rate charged by one of the consultants and a reduction in the overall number of consultants in 2017.

Office costs have decreased by $48,022 in 2017 from 2016 as a result of reduced regulatory costs and generally reduced activity in the energy sector.

Finance costs, being interest expense related to the debentures and note payable and finders' fees were $231,127 for 2017 as compared to $310,707 for the comparable period in 2016. The decrease results from finders' fees paid – $59,258 in 2017 as compared to $139,680 in 2016.

Depletion and depreciation was $1,156,416 in 2017 as opposed to $1,458,681 for the 2016 comparable period. The reduction of 20% in depletion and depreciation reflects the decrease in overall production in 2017.

In 2016, the Company reviewed the Exploration and Evaluation Expenditures for recoverability and impairment and determined that an impairment charge of $421,125 was required for the Panny and Red Willow area based on time to the expiry of the lease and near-term drilling commitments.

Fourth quarter

Three months ended December 31,		**2017**		2016
Revenue				
Oil and gas sales	**$**	**820,192**	$	852,428
Less: Crown royalties		**(120,747)**		(87,902)
		699,445		764,526
Other income				
Interest		**1,646**		995
		701,091		765,521
Expenses				
Operating expenses		**312,944**		331,181
General and administrative		**220,956**		240,244
Share-based payments		**-**		4,375
Finance charges		**84,480**		43,235
Accretion of decommissioning liabilities		**7,504**		7,732
Impairment		**-**		106,125
Depletion and depreciation		**290,176**		73,517
		916,060		806,409
Net loss and comprehensive loss for the period	**$**	**(214,969)**	$	(40,888)

The fourth quarter production of 17,850 boe was lower than the third quarter production of 21,496 boe by 3,646 boe. As discussed above, this production decrease is mainly attributed to production limit on a new well in the Gull Lake area and a regional pipeline problem in southwest Saskatchewan. The lower production was offset by an average sales price per boe in Q4 of $45.95 compared to Q3 of $42.05. The result was a decrease in revenue in the fourth quarter of $82,497.

Royalty expense in the fourth quarter of 2017 was 15% of revenue as opposed to 10% in 2016. The increase in royalties is attributable to a well coming off its royalty incentive and a well drilled in 2017 not receiving a royalty incentive.

Finance charges were $41,245 higher in the fourth quarter of 2017 as compared to 2016. The 2017 fourth quarter finance charges include the paid finders' fees of $59,258.

The depletion and depreciation charge in the fourth quarter of 2017 is significantly higher than 2016. In the fourth quarter of 2016, there was a significant increase in the resource base for calculating depletion and as such there was a significant reduction in the fourth quarter depletion.

The net loss in the fourth quarter of $214,969 is $174,081 higher than the net loss in 2016 primarily from the increase in depletion and depreciation expense.

Share capital

Authorized

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

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

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

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

Issued and outstanding – Class A common shares

	# of shares	Amount
Balance, December 31, 2015, 2016 and 2017	**60,499,971**	**$29,565,885**

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

Share-based compensation

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

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

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

A summary of the status of the stock option plan and changes during the year is presented below:

		December 31, 2017		December 31, 2016
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	**4,650,000**	**$ 0.25**	4,750,000	$ 0.25
Forfeited	**(450,000)**	**0.25**	(100,000)	0.25
Outstanding, end of period	**4,200,000**	**$ 0.25**	4,650,000	$ 0.25
Exercisable, end of period	**4,200,000**	**$ 0.25**	4,500,000	$ 0.25

The details of the options outstanding at December 31, 2017 are as follows:

Options outstanding	**Weighted average exercise price**	**Options exercisable**	**Weighted average years to expiry**
4,200,000	0.25	4,200,000	6.5

Liquidity and Capital Resources

As at December 31, 2017, the Company had cash and cash equivalents of $2,068,361 and working capital of $891,877 before the inclusion of the debentures payable of $2,175,000. This level of working capital should be sufficient for the next twelve months in order to sustain current operations in this low oil price environment assuming the terms of the debentures can be re-negotiated or re-financed. There can be no assurance that the Company will be able to repay or re-negotiate the debentures when they become due. If that were to occur, the Company may not be able to continue its operations and the amounts realizable for the assets could be less than the amounts reflected in the 2017 annual financial statements. The debentures are convertible at the option of the holders. If the debentures were converted, it could result in dilution of existing shareholdings

The Company anticipates drilling three wells (2.5 net wells) on their properties in 2018. The Company believes they will be able to finance the capital expenditures from operations and from an agreement entered into with a drilling company ("Supplier") which will provide beneficial financing terms. Under the agreement, the Supplier has agreed to drill and complete up to five wells. The Company is not obligated to drill the five wells and the Supplier will only receive their actual cost plus 12% for the work completed. The cost of the well may be paid in twelve (12) equal instalments. The Company believes that the cash flows from the wells drilled and current working capital on hand should be sufficient to pay for the wells under this program.

As discussed in the *Properties* section, the Company entered into a Carried Working Interest Agreement in 2017 on the Pennant lands. As of the date of this report, there are no plans for any further drilling under this agreement other than the one well drilled in December 2017.

In 2017, cash and cash equivalents increased by $1,214,097 (2016 – decrease of $1,145,452). This was a result of cash being provided by operations in the amount of $170,138 (2016 – decrease of $514,563)., financing activities providing $1,296,001 (2016 - $nil) offset by investing activities using cash of $252,042 (2016 – 630,889) primarily for the acquisition of property and equipment. The cash provided by financing activities of $1,296,001 is primarily a timing issue related to the Carried Interest Partner. The cash call liability and outstanding third-party supplier invoices relating to the Carried Interest Partner's drilled well amounted to $1,271,001at December 31, 2017. The use of cash provided by (used in) operating activities, improved from 2017 to 2016 as explained in the *Discussion of Operations.* The 2016 investing activities related to expenditures on property and equipment.

Debentures

In December 2017, the Company extended for one year $2,075,000 of the debentures originally issued on December 23, 2015 to December 23, 2018 and repaid one debenture in the amount of $50,000. The extended debentures have the same terms as the debentures originally issued in December 2015 being 8% per annum, interest payable quarterly, secured and convertible. The debentures are convertible at the holder's option into common shares of the Company at a conversion price of $0.10 per common share.

On December 28, 2017, the Company issued an 8% secured convertible debenture in the principal amount of $100,000 to a director. The debenture will mature one year from the date of issuance, is secured against the property of the Company and interest is paid quarterly. The debenture is convertible at the holder's option into common shares of the Company at a conversion price of $0.10 per common share.

On December 23, 2015, the Company had issued 8% secured convertible debentures in the principal amount of $2,125,000 to directors. The debentures matured two years from the date of issuance, were secured against the property of the Company and interest was paid quarterly. The debentures were convertible at the holder's option into common shares of the Company at a conversion price of $0.10 per common share. None of the debentures were converted.

Related party transactions

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

In 2017, the Company incurred $145,000 (2016 - $231,500) in consulting fees to officers or companies controlled by officers.

The debentures payable are to directors as was the note payable. Included in finance charges in the Statement of Comprehensive Loss is related interest expense of $171,868 (2016 - $171,027).

In April 2015, the Company issued 450,000 stock options to a director at an exercise price of $0.25 per common share. The stock options had a fair value of $54,000 at the date of grant and $5,250 was recorded in 2017 as share-based compensation (2016 - $15,000).

Key management includes directors involved with the daily operations of the Company. The compensation paid or payable to key management for employee services is shown below:

		2017		2016
Salaries and other short-term employee benefits	**$**	**240,000**	$	288,000
Directors fees		**-**		108,000
Share-based compensation		**5,250**		17,500
Consulting fees		**145,000**		231,500
	$	**390,250**	$	645,000

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended - $	**December 31, 2017**	**September 30, 2017**	**June 30, 2017**	**March 31, 2017**
Revenue	$820,192	$902,689	$747,881	$765,260
Net loss	$214,969	$236,976	$183,714	$233,145
Net loss per share	$0.00	$0.00	$0.00	$0.01

Fiscal Quarter Ended - $	**December 31, 2016**	**September 30, 2016**	**June 30, 2016**	**March 31, 2016**
Revenue	852,428	777,469	705,843	550,426
Net loss	40,888	472,895	521,615	1,306,439
Net loss per share	0.00	0.01	$0.01	$0.02

Generally, the quarterly results are comparable quarter over quarter other than the first quarter of 2016 where the loss of $1,306,439 includes an impairment charge of $315,000 and a finders' fees paid of $139,680.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at December 31, 2017.

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, 2017.

Accounting standards issued but not yet applied

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Corporation's financial statements are listed below:

IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss.

In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

This standard is effective for reporting periods beginning on or after January 1, 2018. On adoption, the Company does not believe this new standard will have a material impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service.

This standard is effective for reporting periods beginning on or after January 1, 2018. On adoption, the Company does not believe this new standard will have a significant impact other than enhanced disclosures.

Amendments to IAS 28 Investments in Associates and Joint Ventures

These amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

These amendments are effective for reporting periods beginning on or after January 1, 2018. On adoption, the Company does not believe this new standard will have a significant impact.

Amendments to IFRS 2 Share-based Payment

These amendments added guidance that introduces accounting requirements for cash-settled share-based payments that follow the same approach as used for equity-settled share-based payments. They introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety, provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Finally, they clarify the accounting treatment in situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions.

These amendments are effective for reporting periods beginning on or after January 1, 2018. On adoption, the Company does not believe this new standard will have a significant impact.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, deposits, accounts payable and accrued liabilities, debentures and note payable. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and that the fair value of these financial instruments approximates their carrying values, as applicable.

Risks and Uncertainties

The risks and uncertainties set out below and elsewhere in this MD&A are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the business and operations of the Company and cause the price of the Common Shares to decline. If any of the following risks actually occur, the Company's business may be harmed and the financial condition and results of operations may suffer significantly. In that event, the trading price of the Common Shares could decline and holders of Common Shares may lose all or part of their investment.

Stage of Development

An investment in the Company is subject to certain risks related to the nature of the Company's business and its stage of development. There are numerous factors which may affect the success of the Company's business which are beyond the Company's control including local, national and international economic and political conditions. The Company's business involves a high degree of risk which a combination of experience, knowledge and careful evaluation may not overcome. The Company has had no earnings to date and there can be no assurance that the Company's business will be successful or profitable or that additional commercial quantities of crude oil and natural gas will be discovered by the Company. The Company has not paid any dividends and it is unlikely to pay dividends in the immediate or foreseeable future.

Additional Funding Requirements

The Company's cash on hand and cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, the Company may require additional financing in order to carry out its oil and gas acquisition, exploration and development activities. Failure to obtain such financing on a timely basis could cause the Company to forfeit its interest in certain properties, miss certain acquisition opportunities and reduce or terminate its operations, and may affect the Company's ability to expend the capital required to replace its reserves or to maintain its production. There can be no assurance that additional debt or equity financing will be available to meet these requirements or, if available, on terms acceptable to the Company. This may be complicated by the limited market liquidity for the shares of smaller companies, restricting access to some institutional investors. Continued uncertainty in domestic and international credit markets could also materially affect the Company's ability to access sufficient capital for its capital expenditures

and acquisitions. Furthermore, if additional financing is raised through the issuance of equity, control of the Company may change and the shareholders may suffer dilution. The Company may also consider asset dispositions or farm-out or joint venture arrangements in order to fund or implement its exploration and development activities; however, there can be no assurance that the Company will be able to secure such dispositions or arrangements on acceptable terms or at all. The inability of the Company to access sufficient capital for its operations and/or to secure acceptable alternative arrangements may have a material adverse effect on the Company's ability to execute its business strategy and on its business, financial condition, results of operations and prospects.

Competitive Conditions
The oil and natural gas industry is highly competitive and the Company competes with a substantial number of other companies that have greater resources. Many of these companies explore for, produce and market oil and natural gas, carry on refining operations and market the resultant products on a worldwide basis. The primary areas in which the Company encounter substantial competition are in locating and acquiring desirable leasehold acreage for drilling and development operations, locating and acquiring attractive producing oil and natural gas properties, and obtaining purchasers and transporters of the oil and natural gas they produce. Many of these competitors have financial, technical and other resources substantially greater than those of the Company. To the extent that these companies enjoy technological advantages, they may be able to implement new technologies more rapidly than the Company. There is also competition between producers of oil and natural gas and other industries producing alternative energy and fuel. The inability to acquire desirable properties, assets or service providers as a result of competition may have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.

Crude Oil and Natural Gas Exploration and Development
Crude oil and natural gas exploration involves a high degree of risk and there is no assurance that expenditures made on future exploration or development activities by the Company will result in discoveries of crude oil, condensate or natural gas that are commercially or economically feasible. It is difficult to project the costs of implementing any exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the shortages of and delays in the availability of drilling rigs and equipment, the costs associated with encountering various drilling conditions such as over pressured zones and tools lost in the hole, and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The Company's operations are subject to all the risks normally associated with the exploration, development and operation of crude oil and natural gas properties and the drilling of crude oil and natural gas wells, including encountering unexpected formations or pressures, mechanical failures, premature declines of reservoirs, environmental damage, blow outs, cratering, fires and spills, all of which could result in personal injuries, loss of life and damage to property of the Company and others. In accordance with customary industry practice the Company does maintain insurance coverage, but are not fully insured against all risks, nor are all such risks insurable. Environmental regulation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing.

Exploration, appraisal and development of crude oil and natural gas reserves is speculative and involves a significant degree of risk. Few properties that are explored are ultimately developed into new reserves. If at any stage the Company is precluded from pursuing its exploration or development program, or such program is otherwise not continued, the Company's business, financial condition and/or results of operations and, accordingly, the trading price of the Common Shares is likely to be materially adversely affected.

Volatility of Crude Oil and Natural Gas Prices and Markets
The Company's financial condition, operating results and future growth are dependent on the prevailing prices for crude oil and natural gas production. Historically, the markets for crude oil and natural gas have been volatile and such markets are likely to continue to be volatile in the future. Prices for crude oil and

natural gas are subject to large fluctuations in response to relatively minor changes to the demand for crude oil and natural gas, whether the result of uncertainty or a variety of additional factors beyond the control of the Company. The Company must periodically negotiate contracts with a limited number of potential purchasers. The price negotiated is influenced by the size of the crude oil or natural gas stream, the nature of the crude oil or natural gas and its location when produced. Any substantial decline in the prices of crude oil and natural gas could have a material adverse effect on the Company and the level of its crude oil and natural gas reserves. Additionally, the economics of producing from some wells may change as a result of lower prices, which could result in a suspension of production. No assurance can be given that crude oil and natural gas prices will be sustained at levels which will enable the Company to operate profitably. From time to time the Company may avail itself of forward sales or other forms of hedging activities with a view to mitigating its exposure to the risk of price volatility.

Loss of Key Personnel
The Company depends to a large extent on the efforts and continued employment of the Management Team, who has developed the operations of the Company. The loss of the services of these officers and other key personnel could adversely affect the Company's business, and the Company does not maintain key man insurance on any of these persons. The success of drilling operations and other activities integral to its business will depend in part on the ability to attract and retain experienced geologists, engineers and other professionals. Competition for experienced geologists, engineers and some other professionals is extremely intense. The Company's ability to compete in the oil and natural gas exploration and production industry will be harmed to the extent that the Company is unable to retain and attract experienced technical personal.

Operating and Insurance Risks
The operations of the Company are subject to hazards and risks inherent in drilling for, producing and transporting crude oil and natural gas. These risks include, among others, fires, explosions, geologic formations with abnormal pressures, collapses of casing surrounding the drill pipe in wells, mechanical failures, failure of oilfield drilling and service tools, uncontrollable flows of underground natural gas, oil and formation water, changes in below ground pressure in a formation that causes the surface to collapse or crater, pipeline ruptures and cement failures, and environmental hazards such as leaks, spills and toxic discharges. These risks can cause substantial losses resulting from personal injury or loss of life, damage and destruction of property and equipment, pollution and other environmental damage, regulatory investigations and penalties, and suspension of operations. As protection against operating hazards and in accordance with customary industry practices, the Company maintains insurance coverage against some, but not all, potential losses because the insurance coverage is not available or because premium costs are considered too high. Losses could occur for uninsured risks or in amounts exceeding the insurance coverage and these losses could have a materially adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.

Equipment Unavailability
The Company does not own the drilling rigs and related equipment required to develop its oil and gas properties and relies on third parties to provide drilling and other oil field services. Demand is high for equipment and services in the geographic areas that the Company has selected for exploration and development. This demand may reduce the availability of that equipment and services and could delay the Company's exploration, development and exploitation activities. The leases under which the Company develops properties provide time periods during which it must generate production of oil or gas or the lease expires. Any delay that prevented completion of drilling on leased property during the term of the lease would require additional expenditures by the Company to renew the lease or possibly the loss of any benefit from past development expenditures and future production revenue. In addition, the high demand for equipment and services increases the costs to the Company of the equipment and associated supplies and personnel. Any substantial delays to gain access to equipment and services or material increases in costs could adversely affect the Company's business and financial condition and have a material adverse effect on the Company's business, financial condition, results of operations and trading price of the Common Shares.