VITAL ENERGY INC.
MANAGEMENT DISCUSSION and ANALYSIS
December 31, 2024

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, 2024, its financial position as at December 31, 2024 and its future prospects. This Management’s Discussion and Analysis is dated as of April 17, 2025, and provides information on the activities of the Company and should be read in conjunction with the annual audited financial statements for the year ended December 31, 2024. All amounts are expressed in accordance with IFRS Accounting Standards (“IFRS”) issued by the International Accounting Standards Board 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.sedarplus.ca.

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 a net income in 2024 of $4,000,304 as compared to net loss of $5,374,865 in 2023.
- The 2024 production was 250,446 boe as compared to 194,251 boe in 2023.
- The 2024 realized oil price was $83.36 as compared to $74.26 in 2023.
  In Q3, 2024, the Company drilled, fractured and completed an additional six (6) Cardium Hz wells, which were placed into production in late Q4 2024.

Selected Financial Information

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

	2024	**2023**	2022
Revenue	**$20,903,967**	**$14,425,222**	$19,682,327
Net and comprehensive income (loss)	**$4,000,304**	**$(5,374,865)**	$4,705,242
Net income (loss) per share	**$0.05**	**$(0.06)**	$0.06
Total assets	**$37,062,882**	**$29,741,773**	$21,609,496
Total non-current liabilities	**$3,343,366**	**$2,843,220**	$2,143,743
Shareholders' equity	**$15,579,873**	**$11,579,569**	$16,954,434

Properties

The Company currently has four core property areas: the SE Saskatchewan property area, the SW Saskatchewan property area, the East Central Alberta property area and the North and NW Alberta property area.

The SE Saskatchewan property area includes two producing properties - Lampman and Steelman.

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 North and NW Alberta property area includes one producing and developing property - Pembina and two evaluation properties - Ante Creek and Athabasca.

Core Properties

SE Saskatchewan property area

Lampman

Three (3) Frobisher Hz wells were drilled from one pad in July 2021 and completed in August 2021. All three (3) Hz wells have been demonstrating stable production rates with very reasonable natural production declines. During the initial year of production, the three wells reflected the Frobisher formation production type curve in the Estevan area. Starting in July 2022, the three wells had a relatively stabilized water cut and have now transitioned into a low natural decline producing phase. Based on current well performance, the forecasted annual oil decline in 2025 will be around 5~10 %. All wells are fully equipped with electrical primer drivers and pipelines and are periodically tested with the Company's own onsite 2 phase separator (satellite).

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

For the year ended December 31, 2024, the average production at Lampman was 71 bbls/d, (sweet light oil, API ranging from 32.5 -36.0) as compared to 139 boe/d in 2023. The four (4) wells are in a lower production rate stage with high-water production, but over life of the wells, they have produced a cumulative total of 226,607 bbls of crude oil with an average of 56,652 bbls per well.

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. In response to declining production in Q1 2024, the Company completed an additional branch of the main production intervals for the three wells in Q2 2024 to enhance output. As a result, production stabilized at 50 boe/day throughout Q3 and Q4 2024.

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 8 wells producing, or capable of producing, crude oil from the Roseray, Cantuar and Upper Shaunavon formations. This project has a salt-water disposal facility and a gas collection pipeline system. A Waterflood Project (Enhanced Oil Recovery) was completed in Gull Lake Upper Shaunavon reservoir in Q4 2022. The Company believes that future drilling opportunities remain on these lands.

At Gull Lake, Vital's net daily oil and natural gas production for the year ended December 31, 2024 was 150 boe/d (2023 – 182 boe/d).

Pennant

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

The company's crude oil production was 27 boe/d for 2024 as compared to 37 boe/d in 2023.

East Central Alberta property area

Sullivan Lake

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

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

This area produced 50 boe/d in 2024 as compared to 67 boe/d in 2023.

Baxter Lake
The Company performed remedial work in 2021 to reactivate certain wells in the Baxter Lake area as oil prices have improved. In 2024, this area produced 21 boe/d as compared to 21 boe/d in 2023.

North and NW Alberta property area

Pembina
The Company acquired 5.75 sections of crown land in Alberta in Q1 2023. It drilled, fractured and completed six (6) Cardium Hz wells in this new core property area. Following the completion and equipping in March 2024, the six wells were put into production. In Q3, 2024, the Company drilled, fractured and completed an additional six (6) Cardium Hz wells, which were placed into production in late Q4 2024. During 2024, this area produced a total of 76,717 boe, averaging approximately 280 boe/d. There are over ten potential additional horizontal wells.

Evaluation Properties

North and NW Alberta property area

Ante Creek
The Company purchased 2.5 sections of crown land in Alberta in Q1 2021, with mineral rights from the surface to the base of the Triassic system within the Ante Creek North Montney reservoir. This reservoir is well-identified through over 50 existing vertical and directional wells.

In January 2025, the Company drilled a Montney development appraisal horizontal well. Detailed post-drilling analysis indicates that the reservoir characteristics, oil shows, and Pasion gas properties observed in the well are consistent with those of other horizontal wells drilled in the same formation zone within the Ante Creek North Montney reservoir. The Company anticipates fracturing and completing the well in Q2 2025. Vital's Ante Creek North Montney asset has the potential to drill over 20 additional horizontal wells.

Athabasca
In December 2024, the Company acquired two sections of Crown land in Alberta. The acquired lands include oil sands rights from the top of the Viking Formation to the base of the Woodbend Group, with a 15-year term. The lands are located in the Pelican Field within the Athabasca Oil Sands Area of Alberta, and contain multiple potential reservoirs, including the Grand Rapids, Clearwater Group, and Wabiskaw-McMurray formations.

Outlook

The Company expects continued volatility in crude oil and natural gas prices through 2025, influenced by global economic conditions, geopolitical developments, and OPEC+ decisions.

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.

In 2025, The Company intends to reduce its outstanding debt and strengthen its property portfolio in 2025 by acquiring additional lands with reserve potential.

Discussion of Operations

Details of quarterly petroleum pricing in 2024 and 2023 are as follows:

2024	Q4	Q3	Q2	Q1
WTI - $US/bbl	70.27	75.13	78.98	76.13
WCS Benchmark –US$/bbl	58.11	62.15	67.18	51.36
WCS Dollar Differential –US$/bbl	(12.16)	(12.98)	(11.80)	(24.77)
WCS % Differential	17%	17%	15%	33%
2023	**Q4**	**Q3**	**Q2**	**Q1**
WTI - $US/bbl	78.32	82.26	73.78	76.13
WCS Benchmark –US$/bbl	56.44	69.37	58.71	51.36
WCS Dollar Differential –US$/bbl	(21.88)	(12.89)	(15.07)	(24.77)
WCS % Differential	28%	16%	20%	33%

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

2024

	Q4	Q3	Q2	Q1
Revenue	$6,337,745	$4,800,502	$6,316,062	$3,449,658
# bbls	77,395	56,903	65,572	47,049
Boe/d	841	618	720	517
Revenue per boe	$81.89	$84.36	$96.32	$73.32
WCS -$C per bbl	81.32	$84.93	$91.93	$77.73
Differential to WSC price	0.7%	(0.7%)	5%	(5.7%)

2023

	Q4	Q3	Q2	Q1
Revenue	$3,497,227	$4,506,172	$3,332,010	$3.089,813
# bbls	50,887	53,558	44,448	45,358
Boe/d	553	589	488	504
Revenue per boe	$68.73	$84.14	$74.96	$68.12
WCS -$C per bbl	$76.86	$93.02	$78.85	$69.44
Differential to WSC price	(10.8%)	(9.5%)	(5.1%)	(1.8%)

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

	Three months ended December 31, 2024		Year ended December 31, 2024	
		Per boe		**Per boe**
Production (boe)	77,395		250,446	
Average daily production (boe/d)	841		685	
Petroleum and natural gas revenue	$6,337,745	$81.89	$20,903,967	$83.46
Royalties	$544,000	$7.03	$2,043,429	$8.16
Production operating costs	$1,629,198	$21.05	$5,147,821	$20.55
Operational netback	$4,164,547	$53.81	$13,712,717	$54.75

	Three months ended December 31, 2023		Year ended December 31, 2023	
		Per boe		**Per boe**
Production (boe)	50,887		194,251	
Average daily production (boe/d)	553		532	
Petroleum and natural gas revenue	$3,497,227	$68.73	$14,425,222	$74.26
Royalties	$515,873	$10.14	$2,333,847	$12.01
Production operating costs	$1,135,762	$22.32	$4,172,970	$21.48
Operational netback	$1,845,592	$36.27	$7,918,405	$40.77

Revenue in 2024 increased by 45% compared to 2023, primarily due to a 12% increase in the realized sales price to $83.36 per boe and a production increase of 56,195 boe, largely resulting from newly drilled wells in Pembina.

The 2024 production operating costs of $20.55 per boe improved compared to 2023, reflecting the benefit of fixed costs being spread over higher production volumes.

The operational netback in 2024 increased by $13.98 primarily due to increase in the realized sale price.

Impairment expense was $503,236 in 2024 as compared to $6,653,631 in 2023. The impairment charge was related to Baxter Lake and Sullivan Lake CGUs as there are no current plans on incurring further substantive expenditures.

The depletion, depreciation and amortization expense for 2024 was $6,636,962 ($26.50 per boe) as compared to $5,302,556 ($27.29 per boe) in 2023. Depletion is calculated on a unit-of production basis.

General and administrative expenses are comparable for the three months and year ended December 31s.t . Increase in office expense was mainly due to increased insurance expense in 2024.

	Three Months Ended December 31		Year Ended December 31	
	2024	**2023**	**2024**	**2023**
Wages and employee benefits	**$ 84,817**	$ 79,133	**$ 323,103**	$ 316,397
Professional fees	**31,029**	12,500	**131,473**	71,831
Consulting fees	**101,007**	93,607	**356,983**	379,199
User fees	**18,629**	19,828	**79,374**	87,252
Office	**70,135**	35,623	**216,823**	127,063
	$ 305,617	$ 240,691	**$ 1,107,756**	**$ 981,742**

Finance charges of $1,359,480 (2023 - $76,835) consists of interest expense related to the accretion of the lease liability of $3,896 (2023 - $7,158) and interest on the loan payable of $1,355,084 (2023 - $69,677).

Net Income

The net income for the year ended December 31, 2024 was $4,000,304 as compared to net loss of $5,374,865 in 2023, an increase of $9,375,169. This increase in net income was primarily impacted by the 2023 non- cash impairment charge of $6,653,631 and increased in revenue in 2024.

Q4

The financial results for the three months ended December 31st are as follows:

	2024	2023
Revenue		
Oil and gas sales	**$ 6,337,745**	$ 3,497,227
Less: Crown royalties	**(544,000)**	(515,873)
Net revenue	**5,793,745**	2,981,354
Other income		
Interest	**(8,112)**	750
Bank loan forgiveness	**-**	20,000
Gain on disposal of exploration and evaluation asset	**-**	18,283
Government grant	**-**	-
	(8,112)	39,033
	5,785,633	3,020,387
Expenses		
Production operating costs	**1,629,198**	1,135,762
General and administrative	**305,617**	240,692
Finance charges	**453,117**	71,169
Accretion of decommissioning liabilities	**20,979**	14,745
Revision to decommissioning liabilities	**(4,127)**	120,018
Impairment	**503,236**	6,653,631
Depletion, depreciation and amortization	**2,367,789**	2,334,513
	5,275,809	10,570,530
Net and comprehensive income (loss) for the quarter	**$ 509,824**	$ (7,550,143)

Revenue for Q4 2024 increased to $6,337,745 from $3,497,227 in Q4 2023. The increase was driven by higher realized sale prices and higher production volumes, primarily from new wells drilled in the Pembina area.

Finance charges increased to $453,117 in Q4 2024 (2023 – $71,169), mainly due to interest expenses related to the $15,000,000 credit facility drawn during the year.

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, 2023 and 2024	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.

As at December 31, 2024, there were no stock options outstanding (2023 – 750,000), as the previously outstanding options had expired.

Liquidity and Capital Resources

As at December 31, 2024, the Company had cash and GIC's of $1,024,325 (2023 - $7,114,981) and working capital deficit of $13,928,558 (2023 – working capital deficit of $6,257,509). The Company anticipates that the cash and cash equivalents on hand, current operations and future financings should be sufficient to sustain operations for the next twelve months.

On December 4, 2023, the Company entered into a loan agreement with a company controlled by a director and this loan agreement was subsequently assigned to an unrelated third-party lender effective December 4, 2023. The loan agreement provides for a $10,000,000 credit facility (the "Credit Facility"). that is unsecured and matures on December 4, 2024. Funds advanced under the Credit Facility bear interest at a rate of 12% per annum, payable monthly. On August 28, 2024, the Company increased its existing $10,000,000 credit facility to $15,000,000. The amended credit facility matures on August 28, 2025, and funds advanced bear interest at a rate of $12% per annum, payable on the maturity date. As at December 31, 2024, a total of $15,000,000 had been drawn pursuant to the credit facility and used for the drilling activities and general working capital purposes. The Company anticipates repaying a portion of the credit facility in 2025 using cash flows from oil and gas production, and is also considering an extension of the maturity date.

For the year ended December 31, 2024, cash and cash equivalents increased by $909,344 (2023 – decrease of $180,218). This was a result of cash being provided by operations in the amount of $10,245,950 (2023 – $5,864,557); financing activities providing cash of $5,940,000 (2023 – $8,900,000) primarily from the previously mentioned credit facility and investing activities using cash of $15,276,606 (2023 – $15,944,775). The investing activities were primarily the redemptions of guaranteed investment certificates of $7,000,000, net of expenditures on oil and gas properties of $18,667,318 (2023 - $14,219,492).

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 $4,469,551 (2023 - $3,144,518) which will be settled over the operating lives of the underlying assets, estimated to occur between 2025 and 2034. A risk-free interest rate ranging from 2.87% to 3.23% (2023 – 3.06% to 3.70%) and an inflation rate of 2% (2023 – 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, 2024, $579,729 (2023 - $570,729) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

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		2024		2023
Balance, beginning of year	**$**	**2,858,907**	$	2,266,330
Additions		**677,257**		782,195
Revisions		**(14,628)**		306,857
Accretion		**84,567**		71,390
Abandonment costs incurred		**(76,929)**		(567,865)
		3,529,174		2,858,907
Less: current portion		**185,808**		50,000
Balance, end of year	**$**	**3,343,366**	$	2,808,907

During 2024, there was a revision to the decommissioning liabilities of ($14,628) (2023 - $306,857) as a result of changes in estimates. Property and equipment was increased $11,350 (2023 –$59,739), exploration and evaluation assets was increased by $nil (2023 - $49,372) and recovery of $25,978 (2023 - expense $197,746) was recorded in the statements of net and comprehensive income (loss) representing the impact of the revisions on previously impaired properties.

In 2024, the Company paid decommissioning costs of $76,929 (2023 - $567,865).

Related party transactions

Transactions with related parties are incurred in the normal course of business and are measured at the exchange amount which is the amount of consideration established and approved by the related parties.

For the year ended December 31, 2024, the Company incurred $248,428 (2023 - $317,429) in consulting fees billed from officers and companies controlled by officers and directors, of which $22,813 is included in accounts payable and accrued liabilities as at December 31, 2024 (2023 - $30,163).

Summary of Quarterly Results

Fiscal Quarter Ended - $	**December 31, 2024**	**September 30, 2024**	**June 30, 2024**	**March 31, 2024**
Revenue	$6,337,745	$4,800,502	$6,316,062	$3,449,658
Net income (loss)	$509,824	$1,099,767	$1,924,822	$465,891
Income (loss) per share	$0.01	$0.01	$0.02	$0.01

Fiscal Quarter Ended - $	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Revenue	$3,497,227	$4,506,172	$3,332,010	$3,089,813
Net income (loss)	$(7,550,143)	$1,210,993	$394,306	$569,979
Income (loss) per share	$(0.09)	$0.02	$0.01	$0.01

Revenue in 2024 increased in all quarters compared to 2023. The growth was driven by higher realized sales prices throughout the year, with Q2 and Q4 2024 showing strong increases due to higher production from new wells in Pembina.

Quarterly net income also improved significantly in Q4 2024. Q4 2023 recorded a large loss, mainly due to a substantial non-cash impairment charge of $6.65 million, compared to $0.50 million in Q4 2024.

Off-Balance Sheet Arrangements
There are no off-balance sheet arrangements as at December 31, 2024.

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, 2024.

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 and loan 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 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.

In June 2023, the International Sustainability Standards Board (ISSB) issued IFRS S1 and IFRS S2, effective for annual reporting periods beginning on or after January 1, 2024. The Canadian Sustainability Standards Board (CSSB) has released the corresponding Canadian Sustainability Disclosure Standards (CSDS) 1 and 2, effective January 1, 2025. Adoption of these standards in Canada remains voluntary until mandated by the Canadian Securities Administrators (CSA) and other regulatory authorities. The Company is monitoring developments and has not yet determined the impact on future financial statements or the costs associated with compliance.