VITAL ENERGY INC.

Management Discussion and Analysis

For the Three Months Ended March 31, 2016

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MANAGEMENT DISCUSSION and ANALYSIS
THREE MONTHS MARCH 31, 2016

Vital Energy Inc. (the "Company" or "Vital") is a public company and is incorporated in the Province of Alberta, Canada. Vital became a public company from the result of an amalgamation with Sundance Energy Corporation on June 18, 2014. 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 ended March 31, 2016, its financial position as at March 31, 2016 and its future prospects. This Management's Discussion and Analysis is dated as of May 25, 2016 and provides information on the activities of the Corporation and should be read in conjunction with the condensed interim financial statements for the three months ended March 31, 2016 and the annual audited financial statements for the year ended December 31, 2015. 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 and is incorporated in the Province of Alberta, Canada. Vital became a public company as a result of the amalgamation of the publicly traded company, Sundance Energy Corporation ("SNY" TSXV) and the private company Ceno Energy Limited. ("Ceno"), on June 18, 2014. The Company's 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 500, 940 6th Avenue S.W., Calgary, Alberta, T2P 3T1.

Overall Performance

Highlights

- Production increased to 296 boe/d ("boe per day") in the first quarter of 2016 versus 146 boe/d in 2015.

- Operating Costs have been significantly reduced due to installation of water injection and other company owned infrastructure in the Gull lake area. The operating costs were $13.58 for the three months ended March 31, 2016 as compared to $20.13 per boe in the last six months of 2015.

- Average crude oil and natural gas price realized by the Company in the first quarter of 2016 was $20.53 per boe as compared $39.98 per boe realized in the same period in 2015.

- The Company's production was weighted 71% crude oil and 29% natural gas.

For the three months ended March 31, 2016 the Company's average crude oil and natural gas production was 296 boe/day ("boe/d") as compared to 76 boe/d for the comparable period in 2015. Crude oil comprised 71% of production. The increase in production in 2016 is due to three horizontal wells coming on production at Pennant and an additional two wells at Gull Lake in 2015.

In one of the Company's core areas of operations, Gull Lake, Saskatchewan, Vital's net daily oil and natural gas production in the first quarter of 2016 was approximately191 boe/d as compared to 37 boe/d for the first quarter of 2015. The water disposal scheme was completed in June 2015 and as a result, oil production started to increase considerably and operating costs have decreased significantly. In order to better evaluate the oil development potential, the Company had conducted a 3D seismic survey over all of its Gull Lake lands. At December 31, 2015 GLJ assigned 272,600 boe (2014 -149,800 boe) of proven oil and natural gas reserves net to the Company and 494,700 boe (2014 -309,900 boe) of probable oil reserves net to the Company.

In the Pennant Project area, the initial exploratory vertical test well, located at 1-15 -18-17 W3M has been on production since December 2014. The 1-15 vertical well is producing medium gravity oil from the Upper Shaunavon formation. Based on the positive results of the 1-15 vertical well and validation of Vital's 3D seismic data interpretation, Vital subsequently drilled 3 horizontal well locations in the Pennant Project Area, located at 2A8-15-3A2-15-18-17 W3M, 3D1-15-2D9-15-18-17 W3M and 4D7-15-3B2-15-18-17W3M. The 2A8-15 well was not fraced and has been on production since February 2015. The 4D7-15 well was fracked and has been on production since June 13, 2015. The 3D1-15 well was fracked and completed in the Upper Shaunovan formation in July 2015. The well was put on production on September 23. The 2A8-15 well was fracked and placed back on production in July 2015. As of December 2015, Vital has licensed and spudded another horizontal well located at 2A11-16-2A9-16-18-17W3M. The 2A11-16 well also targets oil production from the Upper Shaunovan formation. The well was completed in July and is standing pending further evaluation. Vital owns a 100% interest in six (6) contiguous sections of lands in Pennant Project Area (3,840 net acres or 1,536 net hectares). Vital is the Operator of the Pennant Area development project. The company's crude oil production was 86 boe/d in the first quarter of 2016 as compared to 27 boe/d from this area in the comparable period in 2015.

In the area of Panny, Alberta the Company has recorded an impairment expense of $315,000 due to the near term expiry of the leases and lack of drilling commitments.

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. Wells in Baxter Lake and Standard Hill simply 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.

Overall operating costs are $13.58 per boe for the first three months of 2016 and compared to $28.24 per boe in the 2015 comparable period. The 2015 operating costs do not reflect the annual savings from the operation of the salt water disposal facility at Gull Lake and increased production.

Vital's 2016 net back for the three months ended March 31, 2016 is $5.13 per boe as compared to $8.41 per boe in the first quarter of 2015. The decrease in net back of approximately 39% reflects the decrease in realized sales price per boe of approximately 49% from $20.53 in 2016 as compared to $39.98 in 2015.

Outlook

In 2015, Vital increased its 100% landholdings in the Pennant Area to six (6) contiguous sections of lands. The company now has four (4) producing oil wells on the lands. The medium gravity crude oil is from the Upper Shaunovan formation. Geology indicates that the entire land block is prospective for oil production from the Upper Shaunovan formation. The Company has acquired additional 3D seismic data and now has coverage over 75% of the lands. The 3D seismic data confirms the geology and indicates that there are numerous additional horizontal development drilling locations. The development drilling program will not be as aggressive as management would like due to the current low oil price environment and financing constraints, however additional development drilling may be commenced before the end of 2016.

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 significantly lower operating costs and increase netbacks. In the second quarter of 2015, the Company drilled a well located at 3-32 and in addition to establishing more production from the Roseray formation a new productive formation was discovered. Oil and gas production from the Cantuar formation commenced in the fourth quarter 2015. With the new infrastructure in place there is now the capability to handle additional production. Numerous vertical development drilling locations for oil and gas production from both the Roseray and the Cantuar formations have been identified by geological and 3D seismic interpretation and mapping. Additional drilling operations may commence in 2016 should oil pricing improve.

Vital Energy Inc. is in a good position to be able to add value and increase shareholder equity. Vital has a good land inventory with numerous operated development drilling locations identified on its "Core Properties" at Gull Lake and Pennant, S.W. Saskatchewan. The pace of the development drilling program will be driven by the prevailing price of oil and available financing.

Gull Lake

Vital is the Operator for exploration and development drilling 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. A salt water disposal facility has been constructed and became operational in June 2015. A second salt water disposal well was added and a gas collection pipeline system constructed in the 4th quarter of 2015. The lands are also prospective for oil production from the Cantuar and Shaunovan formations with significant vertical and horizontal well potential. There are potentially 20 vertical and horizontal well locations existing on these lands.

Pennant

Vital is the Operator and maintains a 100% working interest. The Company owns 6 contiguous sections of land (3,813 acres), all prospective for medium gravity crude oil production from the Upper Shaunovan formation. To date 1 vertical well and 4 horizontal wells have been drilled. Three of the horizontal wells and the vertical well have been producing. 3D seismic coverage on most of Vital's lands indicates potentially over 20 horizontal drilling locations.

In addition to its core properties, Vital has large land holdings with low risk exploration drilling opportunities that Vital will attempt to have drilled primarily utilizing third party farmouts or joint ventures with other industry partners.

Selected Financial Information

Selected financial information for the three months ended and as at March 31 is as follows:

	2016	2015
Revenue	**$550,426**	$273,765
Net and comprehensive loss	**$1,306,439**	$540,938
Net loss per share	**$0.022**	$0.011
Total assets as at March 31	**$14,688,625**	$19,709,339
Total non-current liabilities as at March 31	**$3,241,101**	$1,059,724

Discussion of Operations

The Company incurred a loss of $1,306,439 in the first three months of 2016 (2015 - $540,938). The increase in the 2016 loss of $450,501 from the comparable period in 2015 was partially attributable to an increase in depletion and depreciation of $355,007 and an impairment charge of $315,000. The 2016 loss was impacted by non-cash expenses of $865,206 which includes depletion and depreciation of $532,837, impairment expense of $315,000, stock-based compensation expense of $4,375 and an accretion charge of $12,994 relating to the decommissioning liabilities.

Vital has not drilled any new wells in 2016. In 2015, the Company did drill four horizontal wells (100% at Pennant) and two wells (50%) at Gull Lake.

Revenue increased from $273,765 for the first quarter of 2015 to $550,426 for the comparable period in 2016. This is a result of a 293% increase in production being offset by a 49% decrease in realized oil prices.

	Three months ended March 31,	
	2016	2015
Oil Sales (bbls)	**26,900**	6,847
Average Daily Oil Sales (bbls)	**296**	76
Average Price ($/bbl)	**$20.53**	$39.98
Sales Revenue	**$550,426**	$273,765
Royalty	**$47,076**	$23,792
Production Operating Cost	**$365,369**	$193,327
Net Operational Income	**$137,981**	$56,646
Operating Netback ($/bbl)	**$5.13**	$8.27

General and administrative expenses were $398,732 for 2016 as compared to $409,051 in 2015.

	2016	2015
Wages and employee benefits	**$ 117,328**	$ 135,117
Professional fees	**38,827**	52,705
Consulting fees	**147,638**	157,853
User fees	**20,069**	22,478
Rental	**22,547**	24,961
Office	**45,905**	12,506
Travel and entertainment	**6,418**	3,431
Total general and administration costs	**$ 398,732**	$ 409,051

The general and administrative costs are comparable period over period. The increase in office expenses from $12,506 to $45,905 on a quarter to quarter basis represents increase filing costs with certain regulatory agencies.

Finance costs were $181,472 in the first quarter of 2016 and are comprised of $139,680 paid as a finder's fee for sourcing new capital and $41,792 in interest expense related to the debentures and note payable.

Depletion and depreciation was $532,837 in 2016 as opposed to $177,830. The increase of $355,007 results from the increased production in 2016 as compared to 2016.

As at March 31, 2016, the Company reviewed the Exploration and Evaluation Expenditures for recoverability and impairment and determined that an impairment charge of $315,000 was required for the Panny area based on time to the expiry of the lease and near term drilling commitments.

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

	# of shares	Amount
Balance, December 31, 2014	**49,999,971**	28,515,885
Issued for cash	**10,500,000**	1,050,000
Balance, December 31, 2015 and March 31, 2016	**60,499,971**	$29,565,885

On November 3, 2015, the Company issued 10,500,000 common shares to a director at $0.10 per common share for gross proceeds of $1,050,000.

There have been no changes in share capital since December 31, 2015.

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:

	March 31, 2016		December 31, 2015	
			#	Weighted average exercise price
Outstanding, beginning of year	**4,650,000**	**$ 0.25**	4,650,000	$0.25
Forfeited	**(450,000)**	**0.25**	(450,000)	0.25
Issued	**550,000**	**0.25**	550,000	0.25
Outstanding, end of period	**4,750,000**	**$ 0.25**	4,750,000	$0.25
Exercisable, end of period	**4,400,000**	**$ 0.25**	4,400,000	$0.25

The details of the options outstanding at March 31, 2016 are as follows:

Options outstanding	**Weighted average exercise price**	**Options exercisable**	**Weighted average years to expiry**
4,200,000	0.25	4,200,000	8.25
450,000	0.25	150,000	4.00
100,000	0.25	50,000	4.00
4,750,000	0.25	4,400,000	8.00

Liquidity and Capital Resources

As at March 31, 2016 the Company had cash and cash equivalents of $1,073,379 and working capital of $764,134. This level of working capital should be sufficient for 2016 in order to sustain current operations in this low oil price environment. Any capital spending will be minimal until such time as the energy prices improve from current levels.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements as at March 31, 2016.

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, 2015.

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, deposits, cash held in trust, accounts payable and accrued liabilities, debentures, note payable and abandonment deposit 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.

Summary of Quarterly Results (unaudited)

Fiscal Quarter Ended	2016	2015				2014		
	March 31	Dec 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Revenue	$550,426	741,814	748,013	410,498	358,372	514,823	474,889	404,207
Net loss	$(1,306,439)	5,041,996	609,487	218,223	149,361	2,595,472	345,025	2,764,594
Net loss per share	$(0.022)	0.09	0.012	0.004	0.01	0.06	.01	0.07

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.

During the three months ended March 31, 2016, the Company incurred $83,000 (2015 - $67,500) in consulting fees payable to officers or companies controlled by officers and directors.

The debentures and note payable are to directors. Included in accounts payable and accrued liabilities is $45,984 in related interest payable. Included in finance costs in the Statements of Comprehensive Loss is related interest expense of $41,792.

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 compete 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 or 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.