

**Vital Energy Inc.**

**Financial Statements**

**September 30, 2017**

*(Expressed in Canadian Dollars)*

## **THIRD QUARTER 2017 FINANCIAL STATEMENTS**

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### **UNAUDITED INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited condensed interim financial statements for the period ended September 30, 2017.

### **NOTICE TO READER OF THE INTERIM FINANCIAL STATEMENTS**

The condensed interim financial statements of Vital Energy Inc. comprising the accompanying condensed interim balance sheets as at September 30, 2017 and the condensed interim statements of comprehensive loss, changes in equity and cash flows for the three and nine months period then ended are the responsibility of the Company's management.

These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Crowe MacKay LLP. The condensed interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

Signed: "Nick Zhang"

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Nick Zhang  
Chief Executive Officer

signed: "Robert Gillies"

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Robert Gillies  
Chief Financial Officer

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## Vital Energy Inc.

### Condensed Interim Balance Sheets

#### Unaudited

(Expressed in Canadian Dollars)

	Notes	September 30, 2017	December 31, 2016
<b>Assets</b>			
<b>Current</b>			
Cash and cash equivalents		\$ 927,849	\$ 854,264
Trade and other receivables		327,004	277,359
Prepaid expenses		22,409	18,715
		1,277,262	1,150,338
<b>Deposits</b>	7	534,790	531,607
<b>Property and equipment</b>	4	10,757,330	11,348,644
		\$ 12,569,382	\$ 13,030,589
<b>Liabilities</b>			
<b>Current</b>			
Accounts payable and accrued liabilities		\$ 534,540	\$ 353,214
Goods and services tax payable		-	13,843
Current portion of note payable and debentures payable	5,6	2,150,000	2,150,000
		2,684,540	2,517,057
<b>Decommissioning liabilities</b>	7	1,071,402	1,051,507
		3,755,942	3,568,564
<b>Shareholders' Equity</b>			
Share capital	8	29,565,885	29,565,885
Contributed surplus		1,406,451	1,401,201
Deficit		(22,158,896)	(21,505,061)
		8,813,440	9,462,025
		\$ 12,569,382	\$ 13,030,589

General information and going concern (note 1)

Commitments (note 13)

Subsequent event (note 14)

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**Vital Energy Inc.****Condensed Interim Statements of Comprehensive Loss****Unaudited***(Expressed in Canadian Dollars)*

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	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
<b>Revenue</b>				
Petroleum and natural gas sales	\$ 902,689	\$ 777,469	\$ 2,415,830	\$ 2,033,738
Less: crown royalties	85,155	101,427	229,662	181,645
	<b>817,534</b>	676,042	<b>2,186,168</b>	1,852,093
<b>Interest income</b>	<b>1,192</b>	1,005	<b>3,698</b>	4,236
	<b>818,726</b>	677,047	<b>2,189,866</b>	1,856,329
<b>Expenses</b>				
Production operating costs	468,466	372,264	1,195,674	1,139,691
General and administrative (note 11)	204,641	311,596	609,995	1,000,977
Finance charges	61,354	42,783	146,647	267,472
Share-based compensation (note 9)	-	4,375	5,250	13,125
Accretion of decommissioning liabilities	6,747	12,001	19,895	35,849
Impairment	-	-	-	315,000
Depletion and depreciation	314,494	406,923	866,240	1,385,164
	<b>1,055,702</b>	1,149,942	<b>2,843,701</b>	4,157,278
<b>Net and comprehensive loss for the period</b>	<b>\$ (236,976)</b>	\$ (472,895)	<b>\$ (653,835)</b>	\$ (2,300,949)
<b>Net loss per share – basic and diluted (note 10)</b>	<b>\$ (0.00)</b>	\$ (0.01)	<b>\$ (0.01)</b>	\$ (0.01)

## Vital Energy Inc.

### Condensed Interim Statements of Changes in Shareholders' Equity

Unaudited

(Expressed in Canadian Dollars)

	Notes	Share capital	Contributed surplus	(Deficit)	Total equity
<b>Balance, December 31, 2016</b>		<b>\$ 29,565,885</b>	<b>\$ 1,401,201</b>	<b>\$ (21,505,061)</b>	<b>\$ 9,462,025</b>
Share-based compensation	9	-	5,250	-	5,250
Net and comprehensive loss		-	-	(653,835)	(653,835)
<b>Balance, September 30, 2017</b>		<b>\$ 29,565,885</b>	<b>\$ 1,406,451</b>	<b>\$ (22,158,896)</b>	<b>\$ 8,813,440</b>
Balance, December 31, 2015		\$ 29,565,885	\$ 1,383,701	\$ (19,163,224)	\$ 11,786,362
Share-based compensation	9	-	13,125	-	13,125
Net and comprehensive loss		-	-	(2,300,949)	(2,300,949)
<b>Balance, September 30, 2016</b>		<b>\$ 29,565,885</b>	<b>\$ 1,396,826</b>	<b>\$ (21,464,173)</b>	<b>\$ 9,498,538</b>

## Vital Energy Inc.

### Condensed Interim Statements of Cash Flows Unaudited

(Expressed in Canadian Dollars)

<b>Nine months ended September 30,</b>	<b>2017</b>	<b>2016</b>
<b>Operating activities</b>		
Net and comprehensive loss for the period	\$ (653,835)	\$ (2,300,949)
Non-cash items:		
Depletion and depreciation	866,240	1,385,164
Impairment	-	315,000
Accretion of decommissioning liabilities	19,895	35,849
Share-based payments	5,250	13,125
	<b>237,550</b>	<b>(551,811)</b>
Changes in non-cash working capital		
Trade and other receivables	(49,645)	118,083
Goods and services tax	-	14,220
Prepaid expenses	(3,694)	(7,309)
Accounts payable and accrued liabilities	30,191	(323,321)
	<b>214,402</b>	<b>(750,138)</b>
<b>Investing activities</b>		
Deposits paid	(3,183)	100,011
Expenditures on property and equipment	(274,926)	(525,048)
Changes in accounts payable and accrued liabilities	137,292	-
	<b>(140,817)</b>	<b>(425,038)</b>
<b>Increase (decrease) in cash</b>	<b>73,585</b>	<b>(1,175,176)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>854,264</b>	<b>1,999,716</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 927,849</b>	<b>\$ 824,540</b>
<b>Cash and cash equivalents consist of:</b>		
Cash at bank	\$ 815,066	\$ 712,269
Cashable guaranteed investment certificate	112,783	112,271
	<b>\$ 927,849</b>	<b>\$ 824,540</b>

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# Vital Energy Inc.

## Notes to the Condensed Interim Financial Statements

### Unaudited

(Expressed in Canadian Dollars)

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## For the nine and three months ended September 30, 2017 and 2016

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### 1. General information and going concern

Vital Energy Inc. (“the Company”) is an oil and gas exploration and development company incorporated in the province of Alberta on November 14, 2006 with its head and registered office at Suite 888, 940 - 6<sup>th</sup> Avenue SW, Calgary, Alberta, T2P 3T1. The Company is engaged in the acquisition of, exploration for and development of crude oil and natural gas in Western Canada.

The Company continues to incur losses from operations and has a working capital deficiency of \$1,407,278 (December 31, 2016 - working capital deficiency of \$1,366,719) and which also includes \$2,150,000 owing to directors pursuant to debentures and a note payable maturing in December 2017. These amounts are classified as current liabilities in the September 30, 2017 condensed interim financial statements. If the Company is unable to repay the debentures and note payable at maturity, it will need to re-negotiate the terms of the debt which will require the continued support and forbearance from the directors.

There can be no assurance that the Company will be able to repay or re-negotiate the debentures and notes payable 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 these financial statements.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of the statement of financial position items if the going concern assumption is inappropriate and these adjustments could be material.

### 2. Basis of preparation, significant estimates and judgments

#### Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards (“IFRS”). These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2016.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 23, 2017.

#### Basis of preparation

The condensed interim financial statements of the Company are stated and recorded in Canadian dollars (\$) which is the Company’s functional currency and have been prepared on a historical cost basis, except for certain financial instruments and share-based compensation that have been measured at fair value.

#### Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are outlined in the Company’s financial statements for the year ended December 31, 2016.

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

(Expressed in Canadian Dollars)

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### For the nine and three months ended September 30, 2017 and 2016

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#### 3. Significant accounting policies

These condensed interim financial statements should be read in conjunction with the annual financial statements and accompanying notes for the year ended December 31, 2016. These condensed interim financial statements have been prepared following the same accounting policies as described in note 3 of the Company's annual consolidated financial statements for the year ended December 31, 2016.

#### 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:

In May 2014, the IASB issued IFRS 15, "*Revenue from Contracts with Customers*" ("IFRS 15") to replace IAS 11, "*Construction Contracts*", IAS 18, "*Revenue*" and a number of revenue-related interpretations. IFRS 15 specifies how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures. IFRS is effective for years beginning on or after January 1, 2018 with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Corporation is currently evaluating the impact of adopting IFRS 15 on the Corporation's consolidated financial statements but at this time, believes the impact if any, will be minimal. Additional disclosure may be required upon implementation of IFRS 15 in order to provide sufficient information to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

In July 2014, the IASB issued IFRS 9, "*Financial Instruments*" ("IFRS 9") which is intended to replace IAS 39, "*Financial Instruments: Recognition and Measurement*". IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Corporation is currently evaluating the impact of adopting IFRS 9 on the Corporation's consolidated financial statements.

In January 2016, the IASB issued IFRS 16, "*Leases*" ("IFRS 16") to replace IAS 17, "*Leases*". Under IFRS 16, a single recognition and measurement model will apply for lessees, which will require recognition of assets and liabilities for most leases. IFRS 16 is effective for years beginning on or after January 1, 2019 with earlier adoption permitted. The Corporation is currently evaluating the impact of adopting IFRS 16 on the Corporation's consolidated financial statements.

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

(Expressed in Canadian Dollars)

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#### For the nine and three months ended September 30, 2017 and 2016

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#### 4. Property and equipment

Petroleum and natural gas properties are as follows:

	2017	2016
Cost, beginning of year	\$ 24,613,193	\$ 24,455,915
Additions	274,926	227,459
Revisions to decommissioning liabilities	-	(70,181)
Cost, end of period	<b>24,888,119</b>	24,613,193
Accumulated depletion, beginning of year	13,264,549	11,805,868
Depreciation and depletion	866,240	1,458,681
Accumulated depletion, end of period	<b>14,130,789</b>	13,264,549
<b>Carrying value, end of period</b>	<b>\$ 10,757,330</b>	<b>\$ 11,348,644</b>

At September 30, 2017, future development costs of \$6,978,000 (2016 - \$7,270,000) associated with proved and probable reserves are included in costs subject to depletion.

#### 5. Debenture payable

On December 23, 2015, the Company issued 8% secured convertible debentures in the principal amount of \$2,125,000 to directors and a former director. The debentures mature two years from the date of issuance, are secured against the property of the Company and interest is paid quarterly. 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.

The fair value of the convertible debenture was allocated solely to the liability based on the fair value of the liability component, which was determined to be its face value \$2,125,000 using future cash flows discounted at a rate of 8% estimated as the interest rate for a comparable financial instrument.

#### 6. Note payable

On December 29, 2015, the Company issued an 8% unsecured promissory note in the principal amount of \$25,000 to an officer. The promissory note matures two years from the date of issuance and interest is paid quarterly.

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

(Expressed in Canadian Dollars)

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#### For the nine and three months ended September 30, 2017 and 2016

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#### 7. 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 \$1,200,700 (2016 - \$1,200,700) which will be settled over the operating lives of the underlying assets, estimated to occur between 2018 and 2041. A credit adjusted interest rate of 7% and an inflation rate of 2% were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal. As at September 30, 2017, \$534,790 (2016- \$530,614) has been paid as deposits to the applicable regulatory bodies for settlement of these obligation. Changes to the liabilities were as follows:

	2017	2016
<b>Balance, beginning of year</b>	<b>\$ 1,051,507</b>	<b>\$ 1,078,107</b>
Revisions	-	(70,181)
Accretion	19,895	43,581
<b>Balance, end of period</b>	<b>\$ 1,071,402</b>	<b>\$ 1,051,507</b>

#### 8. Share capital

##### a. 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

##### b. Issued and outstanding - Class A common shares

	# of shares	Amount
<b>Balance, December 31, 2016 and September 30, 2017</b>	<b>60,499,971</b>	<b>\$ 29,565,885</b>

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

(Expressed in Canadian Dollars)

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#### For the nine and three months ended September 30, 2017 and 2016

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#### 9. 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 period is presented below:

	September 30, 2017		December 31, 2016	
	#	Weighted average exercise price	#	Weighted average exercise price
<b>Outstanding, beginning of year</b>	<b>4,650,000</b>	<b>\$ 0.25</b>	4,750,000	\$ 0.25
Forfeited	(450,000)	0.25	(100,000)	0.25
<b>Outstanding, end of period</b>	<b>4,200,000</b>	<b>\$ 0.25</b>	4,650,000	\$ 0.25
<b>Exercisable, end of period</b>	<b>4,200,000</b>	<b>\$ 0.25</b>	4,500,000	\$ 0.25

The details of the options outstanding at September 30, 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	6.25

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

(Expressed in Canadian Dollars)

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#### For the nine and three months ended September 30, 2017 and 2016

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### 10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares issued during the year excluding ordinary shares purchased by the Company and held as treasury shares. Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

	2017	2016
Loss attributable to equity holders of the Company	\$ (653,835)	\$ (2,300,949)
Weighted average number of common shares outstanding - basic and diluted	60,499,971	60,499,971

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The Company has dilutive instruments outstanding, which consist of stock options. The dilutive impact of these instruments using the treasury stock method results in anti-dilution as a result of the Company incurring losses during the years presented. As a result, diluted loss per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in the financial statements.

### 11. Expenses by nature

	2017	2016
Wages and employee benefits	\$ 232,792	\$ 350,150
Professional fees	94,395	76,948
Consulting fees	134,852	360,638
User fees	41,153	53,074
Rental	59,080	68,341
Office	40,880	76,171
Travel and entertainment	6,843	15,655
<b>Total general and administration costs</b>	<b>\$ 609,995</b>	<b>\$ 1,000,977</b>

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### 12. 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.

For the nine months ended September 30, 2017, the Company incurred \$139,500 (2016 - \$240,000) in consulting fees to officers or companies controlled by officers.

The debentures and note payable are to directors and a former director. Interest expense of \$128,647 (2016 - \$126,792) is included in finance costs in the Condensed Interim Statements of Comprehensive Loss related to this debt.

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## Vital Energy Inc.

### Notes to the Condensed Interim Financial Statements

#### Unaudited

*(Expressed in Canadian Dollars)*

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#### For the nine and three months ended September 30, 2017 and 2016

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#### 13. Commitments

The Company is committed under an office lease that expires on July 31, 2021 and requires minimum annual rent of \$11,655 payable during the first two years of the term of the lease and \$14,245 during the final two years of the lease.

#### 14. Subsequent event

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") will advance 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 will advance up to \$500,000 for the acquisition of petroleum and natural gas leases.

In exchange, the Company will 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 to fund the acquisition of petroleum and natural gas leases.

In November 2017, the Partner advanced \$1,000,000 in drilling funds and the first well was spud.