

Vital Energy Inc.

Financial Statements

September 30, 2019

(Expressed in Canadian Dollars)

THIRD QUARTER 2019 FINANCIAL STATEMENTS

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, 2019.

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, 2019 and the condensed interim statements of comprehensive income (loss), changes in equity and cash flows for the three and nine-month 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: *"Yingchuan Wu"*

Yingchuan Wu
Chief Executive Officer

signed: *"Robert Gillies"*

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Balance Sheets

(Expressed in Canadian Dollars)

	Notes	September 30, 2019	December 31, 2018
Assets			
Current			
Cash and cash equivalents		\$ 1,059,438	\$ 1,034,365
Trade and other receivables		942,335	221,807
Prepaid expenses		29,177	30,418
		2,030,950	1,286,590
Deposits	6	553,263	545,026
Property and equipment	4	11,128,232	12,190,105
		\$ 13,712,445	\$ 14,021,721
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,186,810	\$ 1,304,993
Contract liabilities	5	954,389	1,823,246
		2,141,199	3,128,239
Decommissioning liabilities	6	1,064,858	990,151
		3,206,057	4,118,390
Shareholders' Equity			
Share capital	7	31,740,885	31,740,885
Contributed surplus		1,406,451	1,406,451
Deficit		(22,640,948)	(23,244,005)
		10,506,388	9,903,331
		\$ 13,712,445	\$ 14,021,721

General information and going concern (note 1)
Commitment (note 11)

Vital Energy Inc.

Statements of Net and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenue				
Petroleum and natural gas sales (note 8)	\$ 2,010,983	\$ 1,454,524	\$ 5,648,675	\$ 3,536,676
Less: crown and other royalties	406,838	302,763	1,024,303	579,162
	1,604,145	1,151,761	4,624,372	2,957,514
Interest income	2,780	2,234	10,863	6,394
	1,606,925	1,153,995	4,635,235	2,963,908
Expenses				
Production operating costs	538,762	427,971	1,653,850	1,178,260
General and administrative (note 9)	184,319	266,340	820,066	791,821
Finance charges	-	43,857	-	130,142
Accretion of decommissioning liabilities	18,315	8,113	53,825	21,846
Depletion and depreciation (note 4)	586,021	389,597	1,504,437	1,071,451
	1,327,417	1,135,878	4,032,178	3,193,520
Earnings (loss) before income taxes	279,508	18,117	603,057	(229,612)
Provision for income taxes:				
Current	75,500	-	162,800	-
Deferred	(75,500)	-	(162,800)	-
	-	-	-	-
Net and comprehensive income (loss) for the period	\$ 279,508	\$ 18,117	\$ 603,057	\$ (229,612)
Net income (loss) per share – basic and diluted (note 9)	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.01)

Vital Energy Inc.

Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

	Share capital	Contributed surplus	(Deficit)	Total equity
Balance, January 1, 2019	\$ 31,740,885	\$ 1,406,451	\$ (23,244,005)	\$ 9,903,331
Net and comprehensive income	-	-	603,057	603,057
Balance, September 30, 2019	\$ 31,740,885	\$ 1,406,451	\$ (22,640,948)	\$ 10,506,388
Balance, January 1, 2018	\$ 29,565,885	\$ 1,406,451	\$ (22,373,865)	\$ 8,598,471
Net and comprehensive loss	-	-	(229,612)	(229,612)
Balance, September 30, 2018	\$ 29,565,885	\$ 1,406,451	\$ (22,603,477)	\$ 8,368,859

Vital Energy Inc.

Statements of Cash Flows

(Expressed in Canadian Dollars)

Nine months ended September 30,	2019	2018
Operating activities		
Net and comprehensive income (loss) for the period	\$ 603,057	\$ (229,612)
Non-cash items:		
Depletion and depreciation	1,504,437	1,071,451
Accretion of decommissioning liabilities	53,825	21,846
	2,161,319	863,685
Changes in non-cash working capital		
Trade and other receivables	(720,528)	(250,571)
Prepaid expenses	1,241	(21,420)
Accounts payable and accrued liabilities	1,275,248	66,574
	2,717,280	658,268
Investing activities		
Deposits paid	(8,237)	(6,081)
Change in contract liabilities	(868,857)	-
Expenditures on property and equipment	(421,682)	(1,700,771)
Changes in accounts payable and accrued liabilities	(1,393,431)	1,542,985
	(2,692,207)	(163,867)
Financing activities		
Carried interest funds received	-	135,000
Carried interest expenditures paid	-	(1,406,001)
	-	(1,271,001)
Increase (decrease) in cash	25,073	(776,600)
Cash and cash equivalents, beginning of year	1,034,365	2,068,361
Cash and cash equivalents, end of period	\$ 1,059,438	\$ 1,291,761
Cash and cash equivalents consist of:		
Cash at bank	\$ 944,801	\$ 1,178,665
Cashable guaranteed investment certificate	114,637	113,096
	\$ 1,059,438	\$ 1,291,761

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

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 - 6th 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 has a working capital deficiency of \$110,249 at September 30, 2019 (December 31, 2018 - \$1,841,649).

There can be no assurance that in the future the Company will be able to generate profits and cash flow from operations. If that were not 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. The Company will require the continued support from its key creditors, officers and directors in conjunction with achieving profitable operations in the near future.

These 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, 2018.

These condensed interim financial statements were authorized for issuance by the Corporation’s Board of Directors on November 27, 2019.

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, 2018.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

3. Significant and changes in 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, 2018. 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, 2018 except as noted below:

IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. The new standard did not have a material impact when adopted.

This standard was effective for reporting periods beginning on or after January 1, 2019.

4. Property and equipment

Petroleum and natural gas ("PNG") properties are as follows:

	2019	2018
Cost, beginning of year	\$ 24,076,562	\$ 24,881,547
Additions	442,564	3,478,068
Revisions	-	(259,982)
Expired PNG leases	-	(4,023,071)
Cost, end of period	24,519,126	24,076,562
Accumulated depletion and impairment, beginning of year	11,886,457	14,420,965
Depreciation and depletion	1,504,437	1,488,563
Expired PNG leases	-	(4,023,071)
Accumulated depletion and impairment, end of period	13,390,894	11,886,457
Carrying value, end of period	\$ 11,128,232	\$ 12,190,105

At September 30, 2019, future development costs of \$5,893,400 (2018 - \$7,537,000) associated with proved and probable reserves are included in costs subject to depletion.

5. Contract liabilities

During 2018, the Company entered into an agreement with an exploration drilling contractor whereby the contractor agreed to drill and complete up to five wells and finance the expenditures over a twelve (12) month period from date of invoice. In consideration of the financing terms, the Company is charged a 12% fee based on contract invoices. The invoices shall be paid by the Company within twelve months of issuance in equal monthly payments starting the month following the invoice date. The balance owing is non-interest bearing if all payments are made on schedule. Interest accrues at a rate of 18% per annum on all invoiced amounts not paid by the Company pursuant to the above terms.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

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For the three and nine months ended September 30, 2019 and 2018

As at September 30, 2019, all wells have been drilled under this agreement.

6. 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 \$1,457,132 (December 31, 2018 - \$1,423,400) which will be settled over the operating lives of the underlying assets, estimated to occur between 2020 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, 2019, \$553,263 (December 31, 2018 - \$545,026) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	2019	2018
Balance, beginning of year	\$ 990,151	\$ 1,115,435
Additions	20,882	101,496
Revisions	-	(259,982)
Accretion	53,825	33,202
Balance, end of period	\$ 1,064,858	\$ 990,151

7. 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
Balance, December 31, 2018 & September 30, 2019	82,249,971	\$ 31,740,885

c. 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.

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Notes to the Condensed Interim Financial Statements

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For the three and nine months ended September 30, 2019 and 2018

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, 2019		December 31, 2018	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	4,200,000	\$ 0.25	4,200,000	\$ 0.25
Forfeited	3,000,000	\$ 0.25	-	-
Outstanding, end of period	1,200,000	\$ 0.25	4,200,000	\$ 0.25
Exercisable, end of period	1,200,000	\$ 0.25	4,200,000	\$ 0.25

The details of the options outstanding at September 30, 2019 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
1,200,000	0.25	1,200,000	5.00

c. 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.

	2019	2018
Weighted average number of common shares	82,249,971	60,499,971

The Company has dilutive instruments outstanding, which consist of stock options and are not dilutive at this time.

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For the three and nine months ended September 30, 2019 and 2018

8. Revenue

On January 1, 2018, the Company adopted *IFRS 15, "Revenue from Contracts with Customers"*.

The Company sells its production pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price and then adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable depending on the contract terms. Revenue is recognized when a unit of production is delivered to the counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Company's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Crude oil and natural gas are sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Company's oil and gas revenues disaggregated by revenue source. All of the Company's revenues are earned in Canada.

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Oil	\$ 1,999,060	\$ 1,448,521	\$ 5,595,789	\$ 3,446,171
Natural gas	11,923	6,003	52,886	70,505
	\$ 2,010,983	\$ 1,454,524	\$ 5,648,675	\$ 3,536,676

9. Expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Wages and employee benefits	\$ 69,062	\$ 130,889	\$ 383,160	\$ 313,484
Professional fees	10,449	13,678	79,072	67,868
Consulting fees	58,777	86,964	219,921	267,419
User fees	19,904	16,238	53,005	40,433
Rent	15,067	17,276	46,529	44,637
Office	11,060	1,295	38,382	54,788
Travel and entertainment	-	-	-	3,192
	\$ 184,319	\$ 266,340	\$ 820,066	\$ 791,821

Finance costs were \$nil for the nine months ended September 30, 2019 (2018 - \$130,142).

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

10. 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, 2019, the Company incurred \$156,500 (2018 - \$185,500) in consulting fees to an officer and companies controlled by officers and directors.

Debentures of \$2,175,000 were payable to directors at September 30, 2018. Interest expense of \$130,142 is included in 2018 finance costs in the Statements of Net and Comprehensive Loss related to this debt.

11. Commitment

The Company is committed under an office lease that commenced August 1, 2017 and expires on July 31, 2021.

The minimum annual payments are \$11,665 during the first two years of the lease and then increase to \$14,245 per year for the remainder of the lease.

12. Financial instruments

The Company's financial instruments recognized on the balance sheet includes cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities, contract liabilities and debentures payable.

Fair value

The fair value of these financial instruments approximates their carrying value due to their short-term nature.

Risks associated with financial assets and liabilities

The Company's activities are exposed to a variety of financial risks such as credit risk, market risk and liquidity risk that arise as a result of its exploration, development and production activities. Management has primary responsibility for monitoring and managing financial instrument risks under the direction of the Board of Directors, which has overall responsibility for establishing the Company's risk management framework.

a. Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company limits its exposure to credit risk related to cash and cash equivalents by only investing in liquid securities and only with counterparties that have an acceptable credit rating. Given these factors, management does not expect any counterparty to fail to meet its obligations.

Credit risk is primarily related to the Company's trade receivables from petroleum and natural gas marketers and the risk of financial loss if a marketer fails to meet its contractual obligation. The Company's policy to mitigate credit risk associated with these receivables is to establish marketing relationships with large, credit worthy purchasers. The Company has not experienced any collection issues with its petroleum and natural gas marketers. As at September 30, 2019 and December 31,

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

2018, the majority of the Company's trade receivable are all current. No default on outstanding receivables is anticipated and, as such, no provision for loss allowances has been recorded.

b. Liquidity risk

Liquidity risk relates to the risk the Company will encounter should it have difficulty in meeting obligations associated with the financial liabilities which are due within one year. The financial liabilities on its balance sheet consist of accounts payable and accrued liabilities and contract liabilities which are due within one year. The Company manages its liquidity through continuously monitoring its cash flows from operating activities and review of its actual capital expenditure program against budget. Liquidity difficulties would emerge if the Company was unable to establish a profitable production base to generate sufficient cash flow to cover both operating and capital requirements and service debt financing arrangements. The Company anticipates it will continue to have adequate liquidity to fund its financial liabilities through its future funds from operations and issuance of debt or equity instruments. The Company has no bank debt as at September 30, 2019.

c. Market risk

Market risk is the risk that changes in market prices, such as commodity prices, interest rates and foreign exchange rates will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

d. Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted by world and continental/regional economic and other events that dictate the level of supply and demand. The Company has no commodity hedges in place as at September 30, 2019.

e. Foreign currency risk

Foreign currency risk is the risk that future cash flow will fluctuate as a result of changes in foreign exchange rates. Although all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market price in Canada for petroleum and natural gas are impacted by changes in the exchange rate between the Canadian dollar and the United States dollar. The Company has no forward exchange rate contracts in place as at September 30, 2019.

f. Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate risk to the extent the changes in market interest rates will impact the Company's cash and cash equivalents that are at a floating or short-term rate of interest. The Company does not have any floating interest rate contracts in place as at September 30, 2019 and 2018. The contract liabilities are at a fixed interest rate and therefore not exposed to interest rate risk.

13. Capital risk management

The Company's policy is to maintain a strong capital base for the objectives of maintaining financial flexibility in order to preserve its ability to meet financial obligations, to execute on strategic acquisitions, and to provide an appropriate return on investment to its shareholders.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

For the three and nine months ended September 30, 2019 and 2018

The Company manages its capital structure and makes adjustments to respond to changes in economic conditions and the risk characteristics of the underlying petroleum and natural gas assets. The Company considers its capital structure to include shareholders' equity. In order to maintain or adjust its capital structure, the Company may from time to time issue new shares or debentures and adjust its capital spending.

In order to facilitate the management of capital expenditures, the Company prepares annual budgets which are updated as necessary depending upon varying factors including current and forecast crude oil and natural gas prices, capital expenditure and general industry conditions.

The Company's share capital is not subject to external restrictions. The Company has not declared or paid any dividends since inception and does not contemplate doing so in the foreseeable future.