

Vital Energy Inc.

Financial Statements

September 30, 2020

(Expressed in Canadian Dollars)

THIRD QUARTER 2020 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, 2020.

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, 2020 and the condensed interim statements of net and comprehensive income (loss), changes in equity and cash flows for the three and nine-month periods 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 Office

signed: "*Robert Gillies*"

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets

(Expressed in Canadian Dollars)

	Note	September 30, 2020	December 31 2019
Assets		(unaudited)	(audited)
Current			
Cash and cash equivalents		\$ 1,528,028	\$ 413,663
Trade and other receivables		872,976	999,755
Prepaid expenses		35,358	66,199
		2,436,362	1,479,617
Deposits	9	560,351	556,027
Property and equipment	5	11,723,147	13,467,104
		\$ 14,719,860	\$ 15,502,748
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,632,811	\$ 1,110,015
Contract liabilities	6	1,591,182	1,979,677
Current portion of decommissioning liabilities	9	207,444	262,432
		3,431,437	3,352,124
Bank loan	6	40,000	-
Loan payable	8	3,800,643	-
Decommissioning liabilities	9	1,552,585	1,395,148
		8,824,665	4,747,272
Shareholders' Equity			
Share capital	10	31,740,885	31,740,885
Contributed surplus		1,406,451	1,406,451
Deficit		(27,252,141)	(22,391,860)
		5,895,195	10,755,476
		\$ 14,719,860	\$ 15,502,748
General information and going concern	1		
Commitment	14		
Subsequent events	16		

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenue				
Petroleum and natural gas sales (note 11)	\$ 1,447,721	\$ 2,010,983	\$ 3,261,338	\$ 5,648,675
Less: crown and other royalties	238,024	406,838	494,975	1,024,303
	1,209,697	1,604,145	2,766,363	4,624,372
Interest income	2,796	2,780	8,501	10,863
	1,212,493	1,606,925	2,774,864	4,635,235
Expenses				
Production operating costs	627,371	538,762	1,496,226	1,653,850
General and administrative (note 12)	151,727	184,319	526,298	820,066
Finance charges	114,956	-	147,179	-
Revision to decommissioning liabilities	-	-	22,932	-
Accretion of decommissioning liabilities	7377	18,315	22,125	53,825
Impairment (note 5)	(67,563)	-	4,122,088	-
Depletion and depreciation	521,521	586,021	1,298,297	1,504,437
	1,355,389	1,327,417	7,635,145	4,032,178
Earnings (loss) before income taxes	(142,896)	279,508	(4,860,281)	603,057
Provision for income taxes:				
Current	-	75,500	-	162,800
Deferred	-	(75,500)	-	(162,800)
	-	-	-	-
Net and comprehensive income (loss) for the period	\$ (142,896)	\$ 279,508	\$ (4,860,281)	\$ 603,057
Net income (loss) per share – basic and diluted (note 10)	\$ (0.00)	\$ 0.00	\$ (0.06)	\$ 0.01

Vital Energy Inc.**Condensed Interim Statements of Changes in Shareholders' Equity***(Expressed in Canadian Dollars)**(Unaudited)*

	Share capital	Contributed surplus	(Deficit)	Total equity
Balance, January 1, 2020	\$ 31,740,885	\$ 1,406,451	\$ (22,391,860)	\$ 10,755,476
Net and comprehensive loss	-	-	(4,860,281)	(4,860,281)
Balance, September 30, 2020	\$ 31,740,885	\$ 1,406,451	\$ (27,252,141)	\$ 5,895,195
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

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

For the nine months ended September 30,	2020	2019
Operating activities		
Net and comprehensive income (loss) for the period	\$ (4,860,281)	\$ 603,057
Non-cash items:		
Impairment	4,122,088	-
Depletion and depreciation	1,298,297	1,504,437
Revision to decommissioning liabilities (note 9)	22,932	-
Accretion of decommissioning liabilities (note 9)	22,125	53,825
	605,161	2,161,319
Changes in non-cash working capital		
Trade and other receivables	120,949	(720,528)
Prepaid expenses	30,841	1,241
Accounts payable and accrued liabilities	239,133	1,275,248
	996,084	2,717,280
Financing activities		
Proceeds of bank loan payable (note 7)	40,000	-
Proceeds of loan payable (note 8)	3,800,643	-
	3,840,643	-
Investing activities		
Deposits paid	(4,324)	(8,237)
Expenditures on property and equipment	(3,661,145)	(421,682)
Changes in accounts payable and accrued liabilities	331,602	(1,393,431)
Changes in contract liabilities	(388,495)	(868,857)
	(3,722,362)	(2,692,207)
Increase in cash and cash equivalents	1,114,365	25,073
Cash and cash equivalents, beginning of year	413,663	1,034,365
Cash and cash equivalents, end of period	\$ 1,528,028	\$ 1,059,438
Cash and cash equivalents:		
Cash at bank and on hand	\$ 911,306	\$ 944,801
Cashable guaranteed investment certificate	616,722	114,637
	\$ 1,528,028	\$ 1,059,438

Non-cash transactions – (notes 5 and 9)

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

(Expressed in Canadian Dollars)

(Unaudited)

For the nine months ended September 30, 2020 and 2019

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 working capital deficiency of \$995,075 (December 31, 2019 - \$1,872,507) and an accumulated deficit of \$27,252,141 (December 31, 2019 - \$22,391,860). There can be no assurance that in the future the Company will be able to generate profits and cash flow from operations in order to improve the working capital position. 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 in conjunction with maintaining profitable operations in the near future. In addition, there was a world-wide outbreak of a novel coronavirus known as Covid-19 which has impacted the global economy and there has been extreme volatility in global oil commodity prices (note 16). These factors give rise to a material uncertainty that may cast significant doubt on the Company’s ability to continue as a going concern.

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, 2019.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 25, 2020.

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, 2019.

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(Unaudited)

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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, 2019. 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, 2019.

4. Newly adopted accounting standards and pronouncements

Amendments to IFRS 3 Business Combinations

Amendments to IFRS 3, Business Combinations assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits.

These amendments are effective for reporting periods beginning on or after January 1, 2020. This amendment is not expected to have any impact on the financial statements when adopted.

5. Property and equipment

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

	2020	2019
Cost, beginning of year	\$ 27,298,800	\$ 24,076,562
Additions	3,661,144	2,786,025
Decommissioning liability revisions (note 9)	124,955	436,213
Cost, end of period	31,084,899	27,298,800
Accumulated depletion and impairment, beginning of year	13,831,696	11,886,457
Depreciation and depletion	1,298,297	1,945,239
Impairment	4,231,759	-
Accumulated depletion and impairment, end of period	19,361,752	13,831,696
Carrying value, end of period	\$ 11,723,147	\$ 13,467,104

At September 30, 2020, future development costs of \$6,040,800 (September 30, 2019 - \$5,893,400) associated with proved and probable reserves are included in costs subject to depletion.

As at March 31, 2020, the Company recorded an impairment charge of \$4,231,759 (2019 - \$nil), which was reduced by a write-off of an accounts payable amount of \$42,108 and a reduction in decommissioning liabilities of 67,563 (note 9), related to various properties and equipment due to a significant decline in forecasted commodity prices. Recoverable amounts were determined using the fair value less costs to sell method and based on internally generated cash flow projections. In determining fair value less costs to sell, the Company considered recent transactions within the industry, long-term views of oil prices, externally evaluated reserve volumes, and discount rates specific to the

Vital Energy Inc.

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asset. The estimated future cash flows were estimated as the proved plus probable reserve value for the property in each CGU discounted at 10% per annum and were based on the Company's December 31, 2019 independent engineering report with certain updates to March 31, 2020.

Impairments were in the following areas:

	2020	2019
Baxter Lake	\$ 1,193,954	\$ -
Pennant	1,607,153	-
Sullivan Lake	1,430,652	-
Hayter – reduction in abandonment costs (note 9)	(67,563)	-
Other – reversal of a trade payable on a property previously impaired	(42,108)	-
	\$ 4,122,088	\$ -

The benchmark prices used by the independent reserve evaluators in preparing the update at March 31, 2020 were also used in determining whether impairment of the carrying value of the CGU's existed at March 31, 2020. The prices are referenced for medium crude oil based on Western Canadian Select ("WCS") Crude Oil at Hardisty:

	2020	2021	2022	2023	2024	2025	2026
Cdn\$/bbl	\$25.00	\$40.00	\$50.00	\$56.00	\$58.00	\$60.00	+2%/yr thereafter

6. 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 (amended in 2019 for a further two 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. All the wells have been drilled pursuant to the contract and any further wells are drilled on a one-off basis under the same terms of the prior contract. 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.

7. Bank loan

In September 2020, the Corporation received a \$40,000 bank loan that is guaranteed by the Canadian government under the Canada Emergency Business Account program in response to the Covid-19 pandemic. The bank loan is interest-free and 25% of the loan principal is eligible for loan forgiveness if fully repaid on or before December 31, 2022. No principal payments are required during this period.

If the bank loan is not repaid by December 31, 2022, the bank loan may be converted into a three-year term loan at an interest rate of 5% per annum payable monthly with no principal payments until December 31, 2025.

The amount initially attributed to the debt should equal the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument. The difference between the cash flows

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For the nine months ended September 30, 2020 and 2019

discounted using a market rate of interest and the cash flows discounted using the coupon rate would be accreted to the Statement of Comprehensive Income (Loss) over the term of the debt. This non-interest bearing bank loan was compared to a similar loan based with a market rate of interest and it was determined that the principal amounts were not materially different.

8. Loan Payable

On May 22, 2020, the Corporation entered into a loan agreement with a director that provides for a \$4,000,000 credit facility (the "Credit Facility") that is unsecured and matures on May 22, 2022. Funds advanced under the Credit Facility bear interest at a rate of 12% per annum, payable annually. As at September 30, 2020, \$1,800,643 had been received pursuant to the credit facility and used to pay down the contract liabilities (note 6) and a further \$2,000,000 was received and was used for general working capital purposes.

9. 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 \$1,548,800 (December 31, 2019 - \$1,612,500) which will be settled over the operating lives of the underlying assets, estimated to occur between 2020 and 2041. A risk-free interest rate of 0.71% (December 31, 2019 - 1.7%) 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, 2020, \$560,351 (December 31, 2019 - \$556,027) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	Nine months ended September 30, 2020	Year ended December 31, 2019
Balance, beginning of year	\$ 1,657,580	\$ 990,151
Additions	-	110,540
Settlement of obligations	(67,563)	(28,453)
Revisions (note 5)	147,887	518,865
Accretion	22,125	66,477
	1,760,029	1,657,580
Less: current portion	207,444	262,432
Balance, end of period	\$ 1,552,585	\$ 1,395,148

In the second quarter of 2020, there was a revision to the decommissioning liabilities of \$147,887 (2019 - \$518,865) because of changes in estimates. Property and Equipment was increased \$124,955 (2019 - increased \$436,213) and \$22,932 (2019 - \$82,652) was charged to the Statement of Net and Comprehensive Loss representing the impact of the revisions on previously impaired properties.

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In May 2020, the Government of Alberta announced the Site Rehabilitation Program ("SRP") whereby qualified contractors (the "Contractors") could apply for grants to assist with the abandonment and reclamation activities of upstream oil and gas wells, pipelines and associated facilities.

The SRP will provide grant funding to successful Contractors in the oil field services sector who have entered into, and comply with, an oil field service contract with an oil and gas company, who has a qualified business. The grant payments are made directly to the Contractors and not the oil and gas company.

Under the SRP, the Corporation is a qualified business and had one well in the Hayter area abandoned in the third quarter. As such, the decommissioning liabilities were reduced \$67,563 related to the downhole work. Since this well had been fully impaired in a previous year, the current period impairment expense has been reduced by \$67,563 (note 5).

10. 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, Dec. 31, 2018 and 2019 and September 30, 2020	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. 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.

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(Unaudited)

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

	September 30, 2020		December 31, 2019	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	1,200,000	\$ 0.25	4,200,000	\$ 0.25
Forfeited	-	\$ 0.25	(3,000,000)	\$ 0.25
Outstanding, end of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25
Exercisable, end of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25

The details of the options outstanding as at September 30, 2020 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
1,200,000	0.25	1,200,000	3.75

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.

	2020	2019
Weighted average number of common shares being the issued and outstanding at beginning and end of period	82,249,971	82,249,971

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, diluted income (loss) per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in the financial statements.

Vital Energy Inc.

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(Unaudited)

For the nine months ended September 30, 2020 and 2019

11. Revenue

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	
	2020	2019	2020	2019
Oil	\$ 1,435,682	\$ 1,999,060	\$ 3,211,576	\$ 5,595,789
Natural gas	12,039	11,923	49,762	52,886
	\$ 1,447,721	\$ 2,010,983	\$ 3,261,338	\$ 5,648,675

12. Expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Wages and employee benefits	\$ 35,743	\$ 69,062	\$ 170,019	\$ 383,160
Professional fees	1,636	10,449	30,574	67,868
Consulting fees	78,450	58,777	209,752	267,419
User fees	15,218	19,904	47,958	40,433
Rent	2,406	15,067	22,743	44,637
Office	18,274	11,060	45,252	57,980
	\$ 151,727	\$ 184,319	\$ 526,298	\$ 820,066

In recognition of the impact of Covid-19, the Government of Canada has provided financial assistance to Canadian companies through various programs. The Corporation has received the Canada Emergency Wage Subsidy ("CEWS") in the amount of \$41,856 to September 30, 2020 which has reduced salaries and benefits expense. The Corporation was approved in April 2020 for this subsidy which may reimburse the Corporation a portion of a qualified employee's weekly wage to a maximum amount which is currently \$734 per week. This subsidy was extended in November 2020 to June 2021.

The Corporation was approved in August for the Canada Emergency Commercial Rent Relief Assistance ("CERCA"). Under this program, the Corporation's monthly rent is reduced by 75% from \$5,169 per month (including operating costs) to \$3,877 for the months of April to September 2020 inclusive.

In November 2020, the Canada Emergency Rent Subsidy became effective for the periods September 27, 2020 to June 2021 and replaces the CERCA program which had expired. Under this program, an eligible business may apply for a maximum subsidy equal to 65% of eligible expenses depending upon certain criteria.

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(Unaudited)

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13. 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 nine months ended September 30, 2020, the Company incurred \$154,821 (2019 - \$156,500) in consulting fees to an officer, a director and a company controlled by a director.

As disclosed in note 7, there is a loan payable to a director in the amount of \$3,800,643. Interest payable of \$147,179 is included in finance charges on the Statement of Net and Comprehensive Income (Loss) and in accounts payable and accrued liabilities on the Balance Sheet.

14. Commitment

The Company is committed under an office lease that expires on July 31, 2021. The minimum annual payments are \$14,245 per year for the remainder of the lease.

15. 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, loan payable and contract liabilities.

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.

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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 (note 7).

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 (note 15). The Company has no commodity hedges in place as of September 30, 2020 and 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 of September 30, 2020 and 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 of September 30, 2020 and 2019.

16. Subsequent events

a. Covid-19

In 2020, there was a global outbreak of a novel coronavirus identified as "COVID-19". On March 11, 2020, the World Health Organization declared a global pandemic. In order to combat the spread of COVID-19 governments worldwide have enacted emergency measures including travel bans, legally enforced or self-imposed quarantine periods, social distancing and business and organization closures. These measures have caused material disruptions to businesses, governments and other

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organizations resulting in an economic slowdown and increased volatility in national and global equity and commodity markets.

Central banks and governments, including Canadian federal and provincial governments, have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of any interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operations in future periods.

The outbreak and subsequent measures intended to limit the pandemic contributed to significant declines and volatility in financial markets. The pandemic adversely impacted global commercial activity, including significantly reducing worldwide demand for crude oil. The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements for future periods, particularly related to the following key sources of estimation uncertainty:

i) Reserve estimates, impairment indicators and discount rates

Determining the recoverable amount of a cash-generating unit (“CGU”) or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in commodity prices, due to reasons noted above, have increased the risk of measurement uncertainty in determining the recoverable amounts, especially in the estimation of economic crude oil and natural gas reserves and forward commodity prices.

ii) Decommissioning Costs

Provisions are recorded for the future decommissioning and restoration of the Company’s properties and facilities at the end of their economic lives. Management uses judgment to assess the existence and to estimate the future liability. Market conditions have increased the measurement uncertainty inherent in determining the estimation of decommissioning liabilities, especially estimating the expected timing of settlement.

iii) Measurement of share-based compensation

The measurement of the fair value of stock options requires the use of assumptions, which include the estimated volatility of the Company’s stock price over the life of the options, forfeiture rates, future interest rates and the estimated life of the option. Financial market volatility as a result of the events noted above increases the measurement uncertainty inherent in the inputs used to estimate the fair values.

b. Commodity prices

Crude oil prices have also been severely impacted by increased global supply due to disagreements over production restrictions between the Organization of Petroleum Exporting Countries (“OPEC”) and non-OPEC members, primarily Saudi Arabia and Russia.