

Vital Energy Inc.

Financial Statements

September 30, 2021

(Expressed in Canadian Dollars)

THIRD QUARTER 2021 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, 2021.

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, 2021 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 Office

signed: *"Robert Gillies"*

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets

(Expressed in Canadian Dollars)

	Note	September 30, 2021	December 31 2020
Assets			
Current			
Cash and cash equivalents		\$ 383,991	\$ 107,104
Short-term investments	5	215,385	606,359
Trade and other receivables		2,705,074	710,678
Prepaid expenses		43,520	32,887
		3,347,970	1,457,028
Deposits	13	563,399	561,288
Exploration and evaluation assets	6	-	224,085
Right-of-use asset	8	204,031	-
Property and equipment	7	10,736,319	8,650,888
		\$ 14,851,719	\$ 10,893,289
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,537,060	\$ 970,252
Contract liabilities	9	1,718,425	1,138,350
Loan payable	11	3,800,643	-
Current portion of lease liability	12	49,033	-
Current portion of decommissioning liabilities	13	-	117,498
		7,105,163	2,226,100
Bank loan	10	60,000	40,000
Loan payable	11	-	3,800,643
Lease liability	12	155,978	-
Decommissioning liabilities	13	1,827,925	1,635,624
		9,149,066	7,702,367
Shareholders' Equity			
Share capital	14	31,740,885	31,740,885
Contributed surplus		1,406,451	1,406,451
Deficit		(27,444,683)	(29,956,414)
		5,702,653	3,190,922
		\$ 14,851,719	\$ 10,893,289
General information and going concern	1		

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

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Revenue				
Petroleum and natural gas sales (note 15)	\$ 4,153,408	\$ 1,447,721	\$ 8,014,113	\$ 3,261,338
Less: crown and other royalties	439,346	238,024	1,060,850	494,975
	3,714,062	1,209,697	6,953,263	2,766,363
Government grant (note 13)	228,300	-	228,300	-
Interest income	709	2,796	11,603	8,501
	3,943,071	1,212,493	7,193,166	2,774,864
Expenses				
Production operating costs	851,539	627,371	2,034,609	1,496,226
General and administrative (note 16)	186,867	151,727	578,749	526,298
Finance charges	113,708	114,956	338,208	147,179
Revision to decommissioning liabilities	-	-	-	22,932
Accretion of decommissioning liabilities	7,214	7,377	16,239	22,125
Impairment (note 13)	228,300	(67,563)	228,300	4,122,088
Depletion, depreciation and amortization	680,210	521,521	1,485,330	1,298,297
	2,067,838	1,355,389	4,681,435	7,635,145
Income (loss) before income taxes	1,875,233	(142,896)	2,511,731	(4,860,281)
Provision for income taxes:				
Current	443,800	-	602,800	-
Deferred income tax recovery	(443,800)	-	(602,800)	-
	-	-	-	-
Net and comprehensive income (loss) for the period	\$ 1,875,233	\$ (142,896)	\$ 2,511,731	\$ (4,860,281)
Net income (loss) per share – basic and diluted (note 9)	\$ 0.02	\$ 0.00	\$ 0.03	\$ (0.06)

Vital Energy Inc.

Condensed Interim Statements of Changes in Shareholders' Equity (Expressed in Canadian Dollars)

	Share capital	Contributed surplus	(Deficit)	Total equity
Balance, December 31, 2020	\$ 31,740,885	\$ 1,406,451	\$ (29,956,414)	\$ 3,190,922
Net and comprehensive income	-	-	2,511,731	2,511,731
Balance, September 30, 2021	\$ 31,740,885	\$ 1,406,451	\$ (27,444,683)	\$ 5,702,653
Balance, December 31, 2019	\$ 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

Vital Energy Inc.

Condensed Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

Nine months ended September 30,	2021	2020
Operating activities		
Net and comprehensive income (loss) for the period	\$ 2,511,731	\$ (4,860,281)
Non-cash items:		
Current income taxes	602,800	-
Deferred income tax recovery	(602,800)	-
Depletion, depreciation and amortization	1,485,330	1,298,297
Impairment	228,300	4,122,088
Government grant	(228,300)	-
Lease liability accretion	2,109	-
Revision to decommissioning liabilities	-	22,932
Accretion of decommissioning liabilities	16,239	22,125
	4,015,409	605,161
Changes in non-cash working capital		
Trade and other receivables	(1,994,396)	120,949
Prepaid expenses	(10,633)	30,841
Accounts payable and accrued liabilities	280,786	239,133
Cash flows provided by operating activities	2,291,166	996,084
Investing activities		
Deposits paid	(2,111)	(4,324)
Expenditures on property and equipment	(3,077,739)	(3,661,145)
Changes in accounts payable and accrued liabilities	286,024	331,602
Expenditures on exploration and evaluation assets	(201,505)	-
Cash flows used in investing activities	(2,995,328)	(3,333,867)
Financing activities		
Proceeds of loan payable (note 11)	-	3,800,643
Lease liability payments	(10,000)	-
Changes in contract liabilities	580,075	(388,495)
Redemption of short-term investments	390,974	-
Bank loan proceeds (note 10)	20,000	40,000
Cash flows provided by financing activities	981,409	3,452,148
Increase in cash and cash equivalents	276,887	1,114,365
Cash and cash equivalents, beginning of year	107,104	413,663
Cash and cash equivalents, end of period	\$ 383,991	\$ 1,528,028
Cash and cash equivalents:		
Cash at bank and on hand	\$ 383,991	\$ 911,306
Cashable guaranteed investment certificate	-	616,722
	\$ 383,991	\$ 1,528,028
Supplemental cash flow information:		
Interest paid	\$ 338,208	\$ -

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

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 620, 634 - 6th Avenue SW, Calgary, Alberta, T2P 0S4. 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 \$3,757,193 at September 30, 2021 (December 31, 2020 - \$769,072) and an accumulated deficit of \$27,444,683 (December 31, 2020 - \$29,956,414). There are no assurances that the Company will be able to generate sufficient profits and cash flows from operations in future periods to eliminate the working capital deficiency. The Company will require the continued support from its key creditors and lenders in conjunction with maintaining profitable operations in the near future.

In March 2020, the World Health Organization declared COVID-19 to be a pandemic. The pandemic and subsequent measures intended to limit its spread, contributed to significant declines and volatility in financial markets. The pandemic has adversely impacted global commercial activity, including significantly worldwide demand for certain commodities, such as crude oil, natural gas and natural gas liquids.

There is no certainty when the volatility in demand levels will stabilize and therefore the situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and financial effect on the Company is not known at this time. These events have resulted in a volatile and challenging economic environment which had adversely affected the Company’s previous operational results and financial position. There has been a significant improvement in the third quarter of 2021 where oil prices have improved dramatically and the Company has returned to profitability.

The outbreak and market conditions increase the complexity of estimates and assumptions used to prepare financial statements for future periods. The most significant estimates and judgments impacted are the estimated recoverable amount of the Company’s petroleum and natural gas assets and the appropriateness of the going concern assumption.

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 balance sheet 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, 2020.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 25, 2021.

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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

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, 2020.

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, 2020. 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, 2020.

The Company has adopted the following accounting policy in the third quarter of 2021:

Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. Contracts that convey the right to control the use of an identified asset for a period of time in exchange for consideration are accounted for as leases giving rise to right-of-use assets.

At the commencement date, a right-of-use asset is measured at cost, where cost comprises: (a) the amount of the initial measurement of the lease liability; (b) any lease payments made at or before the commencement date, less any lease incentives received; (c) any initial direct costs incurred by the Company; and (d) an estimate of costs to be incurred by the Company dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The right-of-use asset is being amortized over the term of the lease.

A lease liability is initially measured at the present value of the unpaid lease payments discounted using the interest rate implicit in the lease or if that rate cannot be reliably determined, the Company's incremental borrowing rate which is 6%. Subsequently, the Company measures a lease liability at amortized cost using the effective interest method. It is then remeasured to reflect revised in-substance fixed lease payments. Except where the costs are included in the carrying amount of another asset, the Company recognizes in profit or loss (a) the interest on a lease liability and (b) variable lease payments not included in the measurement of a lease liability in the period in which the event or condition that triggers those payments occurs. The Company subsequently measures a right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses; and adjusted for any remeasurement of the lease liability. Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term.

4. Newly adopted accounting standards and pronouncements

Future accounting standards and pronouncements

Onerous Contracts—Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments to IAS 37 specify which costs an entity includes in determining the cost of fulfilling a

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

contract for the purpose of assessing whether the contract is onerous. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

These amendments are effective for reporting period beginning on or after January 1, 2022.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

5. Short-term investments

The short-term investments consist primarily of a cashable guaranteed investment certificate of \$205,022 issued by the Company's bank. The certificate matures in June 2023 and earns interest at 0.49% per annum.

6. Exploration and evaluation assets

Exploration and evaluation expenditures consist of the Company's exploration projects which are pending the determination of proven or probable reserves.

	September 30,	December 31,
	2021	2020
Cost, beginning of year	\$ 224,085	\$ -
Additions	201,505	224,085
Reclassified to Property and Equipment (note 7)	(425,590)	224,085
Cost, end of period	\$ -	\$ 224,085

As at September 30, 2021, the Company assessed its exploration and evaluation assets for indications of impairment and determined that no indications existed at this time as the Company plans on incurring further substantive expenditures on the assets.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

7. Property and equipment

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

	September 30, 2021	December 31, 2020
Cost, beginning of year	\$ 31,152,061	\$ 27,298,800
Additions	3,145,853	3,748,528
Reclassified from Exploration & Evaluation Assets (note 6)	425,590	3,748,528
Decommissioning liability revisions (note 13)	(51,659)	104,733
Cost, end of period	34,671,845	31,152,061
Accumulated depletion and impairment, beginning of year	22,501,173	13,831,696
Depreciation and depletion	1,476,460	2,062,589
Impairment	-	6,606,888
Accumulated depletion and impairment, end of period	23,935,526	22,501,173
Carrying value, end of period	\$ 10,736,319	\$ 8,650,888

At September 30, 2021, future development costs of \$5,421,600 (December 31, 2020 - \$4,256,600) associated with proved and probable reserves are included in costs subject to depletion.

As at September 30, 2021, the Company assessed its property and equipment for indications of impairment and determined that no indications existed at this time.

8. Right-of-use asset

	September 30, 2021
Addition in the period	\$ 212,902
Amortization	(8,871)
Balance, end of period	204,031

9. 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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

10. Bank loan

In the first quarter of 2021, the Corporation received an additional \$20,000 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 initial tranche of \$40,000 and 50% of the second tranche of \$20,000 are 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 discounted using a market rate of interest and the cash flows discounted using the coupon rate would be accreted to the Statement of Net and Comprehensive Income (Loss) over the term of the debt. This non-interest bearing bank loan was compared to a similar loan based on a market rate of interest and it was determined that the principal amounts were not materially different.

11. Loan Payable

On May 22, 2020, the Corporation entered into a loan agreement with a company controlled by 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. In May 2020, \$1,800,643 was received pursuant to the credit facility and was used to pay down the contract liabilities (note 9) and a further \$2,000,000 was received and used for general working capital purposes.

Interest expense of \$338,208 (2020 - \$147,719) was recorded as finance charges in the Condensed Interim Statement of Net and Comprehensive Income (Loss) and in accounts payable and accrued liabilities in the Condensed Interim Balance Sheets.

12. Lease liability

	September 30, 2021
Additions	\$ 212,902
Payments	(10,000)
Accretion	2,109
	205,011
Less: current portion	(49,033)
Balance, end of period	\$ 155,978

The Company is committed under an office lease that expires on July 31, 2025. The minimum monthly payment is \$5,000.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

13. 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 \$1,523,697 (December 31, 2020 - \$1,570,887) which will be settled over the operating lives of the underlying assets, estimated to occur between 2021 and 2031. A risk-free interest rate of 1.51% (December 31, 2020 – 0.71%) 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, 2021, \$563,399 (December 31, 2020 - \$561,288) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	2021	2020
Balance, beginning of year	\$ 1,753,122	\$ 1,657,580
Additions	110,223	23,893
SRP grant	-	(80,935)
Revisions	(51,659)	127,664
Accretion	16,239	24,920
	1,827,925	1,753,122
Less: current portion	-	117,498
Balance, end of period	\$ 1,827,925	\$ 1,635,624

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 Government of Saskatchewan announced a similar program called the Accelerated Site Closure Program ("ASCP").

These government programs are designed to 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 a qualifying energy company. The funding is provided directly to the Contractors by the provincial governments.

In 2021, under the SRP and ASCP, the Company has continued abandonment of five wells and recognized the corresponding government grant income of \$228,300. Since these wells have been previously impaired and the decommissioning liability adjusted accordingly, an impairment charge has been recorded which offsets the government grant income of \$228,300.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

14. 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, September 30, 2021 and December 31, 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.

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

	2021		2020	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25
Outstanding, end of period	1,200,000	\$ 0.25	1,200,000	\$ 0.25
Exercisable, end of year	1,200,000	\$ 0.25	1,200,000	\$ 0.25

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

The details of the options outstanding at September 30, 2021 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
1,200,000	0.25	1,200,000	2.75

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.

	2021	2020
Weighted average number of common shares –basic and diluted	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.

15. 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	
	2021	2020	2021	2020
Oil	\$ 3,974,210	\$ 1,435,682	\$ 7,753,047	\$ 3,211,576
Natural gas	179,198	12,039	261,066	49,762
	\$ 4,153,408	\$ 1,447,721	\$ 8,014,113	\$ 3,261,338

16. Expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
	2021	2020	2021	2020
Wages and employee benefits	\$ 68,797	\$ 35,743	\$ 202,994	\$ 170,019
Professional fees	14,410	1,636	34,391	30,574
Consulting fees	61,234	78,450	195,404	209,752
User fees	18,050	15,218	49,731	47,958
Rent	4,734	2,406	16,982	22,743
Office	19,642	18,274	79,247	45,252
	\$ 186,867	\$ 151,727	\$ 578,749	\$ 526,298

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

Finance costs, which consist of interest expense, were \$338,208 (2020 - \$147,719) for the nine months ended September 30, 2021.

During fiscal 2020 and 2021, the Company became entitled to government assistance in the form of the Canada Emergency Wage Subsidy ("CEWS"), the Canada Emergency Commercial Rent Assistance ("CECRA") and the Canada Emergency Rent Subsidy ("CERS"). The subsidies received and receivable were recorded as a reduction of the related expenses as follows:

	2021	2020
CEWS – reduction in wages and employee benefits	\$ 6,961	\$ 41,856
CERS – reduction in rent	3,324	7,752
Total subsidies	\$ 10,285	\$ 49,608

17. 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, 2021, the Company incurred \$160,071 (2020 - \$154,821) in consulting fees billed from officers and companies controlled by officers and directors.

Interest of \$338,208 (2020 - \$147,719) on the loan payable to a company controlled by a director (note 10) is included in finance charges in the Statements of Net and Comprehensive Income (Loss) and in accounts payable accrued liabilities in the Condensed Interim Balance Sheets related to this debt.

18. Financial instruments

The Company's financial instruments recognized on the balance sheet includes cash and cash equivalents, short-term investments, trade and other receivables, accounts payable and accrued liabilities, bank loan, 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

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2021 and 2020 (Expressed in Canadian Dollars)

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, 2021 and December 31, 2020, the majority of the Company's trade receivable are all current. No default on outstanding receivables is anticipated and, as such, no provision for expected credit losses 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, bank loan, loan payable 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.

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 global economic and other events that dictate the level of supply and demand (note 1). The Company has no commodity hedges in place as at September 30, 2021 and December 31, 2020.

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, 2021 and December 31, 2020.

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 and short-term investments that are at a floating or short-term rates of interest. The Company does not have any floating interest rate contracts in place as at September 30, 2021 and December 31, 2020.