

Vital Energy Inc.

Financial Statements

September 30, 2022 and 2021

(Expressed in Canadian Dollars)

THIRD QUARTER 2022 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, 2022.

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, 2022 and the condensed interim statements of net and comprehensive income, 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*"

signed: "*Robert Gillies*"

Yingchuan Wu
Chief Executive Office

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets

(Unaudited - Expressed in Canadian Dollars)

	Note	September 30, 2022	December 31 2021
Assets			
Current			
Cash and cash equivalents		\$ 639,870	\$ 1,456,841
Short-term investments	5	4,115,385	205,022
Trade and other receivables		1,814,897	2,050,711
Prepaid expenses and deposits		136,659	17,146
		6,706,811	3,729,720
Deposits	12	566,229	564,101
Exploration and evaluation assets	6	3,059,241	66,273
Right-of-use asset	8	150,807	190,725
Property and equipment	7	15,158,295	11,731,118
		\$ 25,641,383	\$ 16,281,937
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 4,576,791	\$ 792,568
Contract liabilities	9	133,670	1,288,648
Current portion of lease liability	11	52,058	49,773
Current portion of decommissioning liabilities	12	305,739	258,574
		5,068,258	2,389,563
Bank loan	10	60,000	60,000
Lease liability	11	103,921	143,254
Decommissioning liabilities	12	1,578,818	1,552,428
		6,810,997	4,145,245
Shareholders' Equity			
Share capital	13	31,740,885	31,740,885
Contributed surplus		1,406,451	1,406,451
Deficit		(14,316,950)	(21,010,644)
		18,830,386	12,136,692
		\$ 25,641,383	\$ 16,281,937
General information and uncertainties	1		

Vital Energy Inc.

Condensed Interim Statements of Net and Comprehensive Income (Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Revenue				
Petroleum and natural gas sales (note 15)	\$ 4,061,493	\$ 4,153,408	\$ 15,715,827	\$ 8,014,113
Less: crown and other royalties	835,784	439,346	2,868,644	1,060,850
	3,225,709	3,714,062	12,847,183	6,953,263
Government grant (note 15)	-	228,300	-	228,300
Interest income	868	709	8,975	11,603
	3,226,577	3,943,071	12,856,158	7,193,166
Expenses				
Production operating costs	1,211,822	851,539	2,572,613	2,034,609
General and administrative (note 15)	199,816	186,867	652,792	578,749
Finance charges	2,466	113,708	7,952	338,208
Resource surcharge (note 16)	757,643	-	757,643	-
Accretion of decommissioning liabilities	25,037	7,214	59,524	16,239
Impairment	-	228,300	-	228,300
Depletion, depreciation and amortization	619,213	680,210	2,111,940	1,485,330
	2,815,996	2,067,838	6,162,464	4,681,435
Income before income taxes	410,580	1,875,233	6,693,694	2,511,731
Provision for income taxes:				
Current	101,000	443,800	1,640,000	602,800
Deferred income tax recovery	(101,000)	(443,800)	(1,640,000)	(602,800)
	-	-	-	-
Net and comprehensive income for the period	\$ 410,580	\$ 1,875,233	\$ 6,693,694	\$ 2,511,731
Net income per share – basic and diluted (note 13)	\$ 0.01	\$ 0.02	\$ 0.08	\$ 0.03

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, 2021	\$ 31,740,885	\$ 1,406,451	\$ (21,010,644)	\$ 12,136,692
Net and comprehensive income	-	-	6,693,694	6,693,694
Balance, September 30, 2022	\$ 31,740,885	\$ 1,406,451	\$ (14,316,950)	\$ 18,830,386
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

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

Nine months ended September 30,	2022	2021
Operating activities		
Net and comprehensive income for the period	\$ 6,693,694	\$ 2,511,731
Non-cash items:		
Current income taxes	1,640,000	602,800
Deferred income tax recovery	(1,640,000)	(602,800)
Depletion, depreciation and amortization	2,111,940	1,486,330
Impairment	-	228,300
Government grant	-	(228,300)
Finance charges – lease liability accretion	7,952	2,109
Accretion of decommissioning liabilities	59,524	16,239
	8,873,110	4,015,409
Changes in non-cash working capital		
Trade and other receivables	235,814	(1,994,396)
Prepaid expenses	(119,513)	(10,633)
Accounts payable and accrued liabilities	1,755,466	280,788
	10,744,877	2,291,166
Cash flows provided by operating activities	10,744,877	2,291,166
Investing activities		
Deposits paid	(2,128)	(2,111)
(Acquisition) redemption of short-term investments	(3,910,363)	390,974
Expenditures on property and equipment	(5,485,168)	(3,077,739)
Changes in accounts payable and accrued liabilities	2,028,757	286,027
Changes in contract liabilities	(1,154,978)	580,075
Expenditures on exploration and evaluation assets	(2,992,968)	(201,505)
	(11,516,848)	(2,024,279)
Cash flows used in investing activities	(11,516,848)	(2,024,279)
Financing activities		
Bank loan proceeds (note 10)	-	20,000
Lease liability repayments	(45,000)	(10,000)
	(45,000)	10,000
Cash flows (used in) provided by financing activities	(45,000)	10,000
Increase (decrease) in cash and cash equivalents	(816,971)	276,887
Cash and cash equivalents, beginning of year	1,456,841	107,104
Cash and cash equivalents, end of period	\$ 639,870	\$ 383,991
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, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

1. General information and uncertainties

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.

COVID-19 and the war in Ukraine has contributed to significant volatility in financial and commodity markets. They have impacted global commercial activity, including causing significant fluctuations in worldwide demand and prices for certain commodities, including crude oil, natural gas and natural gas liquids.

The pandemic and the war in Ukraine remain 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 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.

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, 2021.

These condensed interim financial statements were authorized for issue by the Board of Directors on August 25, 2022.

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, 2021.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

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, 2021. 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, 2021.

4. Newly adopted accounting standards and pronouncements

Future accounting standards and pronouncements

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

Short-term investments consist of one-year cashable guaranteed investment certificates issued by the Company's bank. The certificates mature primarily in May 2023 and earn interest at 1.65% 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, 2022	December 31, 2021
Cost, beginning of year	\$ 66,273	\$ 224,085
Additions	2,992,968	66,273
Reclassified to property and equipment (note 7)	-	(224,085)
Cost, end of period	\$ 3,059,241	\$ 66,273

As at September 30, 2022, 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, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

7. Property and equipment

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

	2022	2021
Cost, beginning of year	\$ 34,731,972	\$ 31,152,061
Additions	5,614,656	3,376,038
Reclassified from exploration & evaluation assets, (note 6)	-	224,085
Decommissioning liability revisions (note 12)	(115,457)	(20,212)
Cost, end of period	40,231,171	34,731,972
Accumulated depletion and impairment, beginning of year	23,000,854	22,501,173
Depreciation and depletion	2,072,022	2,371,489
Impairment (reversal)	-	(1,871,808)
Accumulated depletion and impairment, end of period	25,072,876	23,000,854
Carrying value, end of period	\$ 15,158,295	\$ 11,731,118

At September 30, 2022, future development costs of \$3,232,000 (December 31, 2021 - \$3,232,000) associated with proved and probable reserves are included in costs subject to depletion.

As at September 30, 2022, the Company assessed its property and equipment 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.

8. Right-of use asset

	September 30, 2022	December 31, 2021
Balance, beginning of year	\$ 190,725	\$ -
Addition (note 11)	-	212,902
Amortization	(39,918)	(22,177)
Balance, end of year	\$ 150,807	\$ 190,725

The right-of-use asset relates to an office lease that commenced in 2021 and is being amortized on a straight-line basis over four years, being the term of the lease.

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, 2022 and 2021 (Unaudited - 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, 2023. No principal payments are required during this period.

If the bank loan is not repaid by December 31, 2023, the bank loan may be converted into a two-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 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. Lease liability

	September 30, 2022	December 31, 2021
Balance, beginning of year	\$ 193,027	\$ -
Addition (note 8)	-	212,902
Payments	(45,000)	(25,000)
Accretion	7,952	5,125
	155,979	193,027
Less: current portion	(52,058)	(49,773)
Balance, end of period	\$103,921	\$ 143,254

The Company is committed under an office lease that expires on July 31, 2025. The minimum monthly payment is \$5,000 and has been discounted at a rate of 6%.

The accretion expense of \$7,952 (2021 - \$nil) was recorded as finance charges in the Statement of Net and Comprehensive Income.

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Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

12. 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 \$1,899,052 (December 31, 2021 - \$1,744,812) 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 3.80% (December 31, 2021 - 1.47%) and an inflation rate of 2% (2021 - 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, 2022, \$566,229 (December 31, 2021 - \$564,101) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	September 30, 2022	December 31, 2021
Balance, beginning of year	\$ 1,811,002	\$ 1,753,122
Additions	129,488	110,222
Government grants	-	(228,850)
Revisions (note 7)	(115,457)	213,881
Accretion	59,524	39,836
Liabilities settled	-	(77,209)
	1,884,557	1,811,002
Less: current portion	305,739	258,574
Balance, end of period	\$ 1,578,818	\$ 1,552,428

During the nine months ended September 30, 2022, there was a revision to the decommissioning liabilities of \$115,457 (2021 - \$51,659) as a result of changes in estimates. Accordingly, property and equipment was decreased by the same amount.

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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

13. 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 Sept. 30, 2022 and December 31, 2021 and 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:

	September 30, 2022		December 31, 2021	
	#	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 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 at September 30, 2022 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
1,200,000	0.25	1,200,000	1.75

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

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.

	September 30, 2022	December 31, 2021
Weighted average number of common shares –basic	82,249,971	82,249,971
Dilutive effect of stock options	410,526	-
Weighted average number of common shares –diluted	82,660,497	82,249,971

The Company has one dilutive instrument outstanding being the stock options. The dilutive impact of these instruments using the treasury stock method is not material.

14. Revenue

The following table presents the Company's oil and gas revenues for the three and nine months ended September 30th disaggregated by revenue source. All of the Company's revenues are earned in Canada.

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Oil	\$ 3,886,483	\$ 3,974,210	\$ 15,192,313	\$ 3,211,576
Natural gas	175,010	179,198	523,514	49,762
	\$ 4,061,493	\$ 4,153,408	\$ 15,715,827	\$ 3,261,338

15. Expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
	2022	2021	2022	2021
Wages and employee benefits	\$ 77,968	\$ 68,797	\$ 221,299	\$ 202,994
Professional fees	13,898	14,410	50,608	34,391
Consulting fees	68,282	61,234	237,501	195,404
User fees	16,238	18,050	49,054	49,731
Rent	-	4,734	-	16,982
Office	23,430	19,642	94,330	79,247
	\$ 199,816	\$ 186,867	\$ 652,792	\$ 578,749

Finance costs consist of accretion of the lease liability in 2022 of \$7,952 and interest expense on the loan payable in 2021 of \$224,500.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

During fiscal 2020 and 2021, the Company was 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:

Nine months ended September 30,	2022	2021
CEWS – reduction in wages and employee benefits	\$ -	\$ 6,961
CERS – reduction in rent	-	3,324
Total subsidies	\$ -	\$ 10,285

16. Resource Surcharge

During the period ended September 30, 2022, the Company determined that there was a change in the Company's interpretation of the Corporation Capital Tax Resource Surcharge in the Province of Saskatchewan and as a result the Company's previous estimate has been adjusted. Based on an assessment from the provincial taxation authority, the Company has recorded a liability of \$757,643 including interest of \$97,177 relating to the taxation years 2016 – 2021 inclusive.

The Company believes it will be subject to the resourced surcharge in 2022 and for the foreseeable future.

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, 2022, the Company incurred \$165,321 (2021 - \$160,071) in consulting fees billed from officers and companies controlled by officers and directors.

For the nine months ended September 30, 2021, interest of \$338,208 on a loan payable to a company controlled by a director is included in finance charges in the Statements of Net and Comprehensive Income related to this debt. This loan payable was repaid in full in 2021.

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, contract liabilities and lease liability.

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

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

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, 2022 and 2021, 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, and a lease liability which is due over the next three years. 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. The Company has no commodity hedges in place as at September 30, 2022 and 2021.

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, 2022 and 2021.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2022 and 2021 (Unaudited - Expressed in Canadian Dollars)

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, 2022 and 2021.

19. 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.

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 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 expenditures 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.

There have been no changes in the composition of capital or how the Company manages these risks.