

Vital Energy Inc.

Financial Statements

September 30, 2023

(Expressed in Canadian Dollars)

THIRD QUARTER 2023 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, 2023.

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, 2023 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, 2023	December 31 2022
Assets			
Current			
Cash and cash equivalents		\$ 5,125,154	\$ 295,199
Short-term investments		-	1,800,000
Trade and other receivables		2,059,145	1,678,845
Prepaid expenses		35,919	67,281
		7,220,218	3,841,325
Deposits	10	569,979	567,729
Exploration and evaluation assets	5	5,652,562	3,969,202
Right-of-use asset	7	97,581	137,501
Property and equipment	6	10,220,985	13,093,739
		\$ 23,761,325	\$ 21,609,496
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 2,362,352	\$ 2,185,476
Current portion of lease liability	9	55,268	52,843
Current portion of decommissioning liabilities	10	155,000	213,000
Bank loan	8	60,000	60,000
		2,632,620	2,511,319
Lease liability	9	48,654	90,413
Decommissioning liabilities	10	1,950,339	2,053,330
		4,631,613	4,655,062
Shareholders' Equity			
Share capital	11	31,958,565	31,958,565
Contributed surplus		1,301,271	1,301,271
Deficit		(14,130,124)	(16,305,402)
		19,129,712	16,954,434
		\$ 23,761,325	\$ 21,609,496
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	
	2023	2022	2023	2022
Revenue				
Petroleum and natural gas sales (note 12)	\$ 4,506,172	\$ 4,061,493	\$10,927,995	\$15,715,827
Less: crown and other royalties	699,923	835,784	1,817,974	2,868,644
	3,806,249	3,225,709	9,110,021	12,847,183
Interest income	750	868	4,821	8,975
	3,806,999	3,226,577	9,114,842	12,856,158
Expenses				
Production operating costs	1,057,756	1,211,822	3,037,208	2,572,613
General and administrative (note 13)	256,152	199,816	741,050	652,792
Finance charges	1,592	2,466	5,666	7,952
Resource surcharge (note 17)	-	757,643	-	757,643
Settlement and revision of decommissioning liabilities (note 10)	77,728	-	77,728	-
Accretion of decommissioning liabilities	23,108	25,037	56,645	59,524
Depletion, depreciation and amortization	1,179,670	619,213	3,021,267	2,111,940
	2,596,006	2,815,996	6,939,564	6,162,464
Income before income taxes	1,210,993	410,580	2,175,278	6,693,694
Provision for income taxes:				
Current	297,000	101,000	533,000	1,640,000
Deferred income tax recovery	(297,000)	(101,000)	(533,000)	(1,640,000)
	-	-	-	-
Net and comprehensive income for the period	\$ 1,210,993	\$ 410,580	\$ 2,175,278	\$ 6,693,694
Net income per share – basic and diluted (note 11)	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.08

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, 2022	\$ 31,958,565	\$ 1,301,271	\$ (16,305,402)	\$ 16,954,434
Net and comprehensive income	-	-	2,175,278	2,175,278
Balance, September 30, 2023	\$ 31,958,565	\$ 1,301,271	\$ (14,130,124)	\$ 19,129,712
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

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

Nine months ended September 30,	2023	2022
Operating activities		
Net and comprehensive income for the period	\$ 2,175,278	\$ 6,693,694
Non-cash items:		
Current income taxes	533,000	1,640,000
Deferred income tax recovery	(533,000)	(1,640,000)
Depletion, depreciation and amortization	3,021,267	2,111,940
Revision of decommissioning liabilities (note 10)	(145,257)	-
Finance charges - lease liability accretion	5,666	7,952
Accretion of decommissioning liabilities	56,645	59,524
	5,113,599	8,873,110
Changes in non-cash working capital		
Trade and other receivables	(380,300)	235,814
Prepaid expenses	31,362	(119,513)
Accounts payable and accrued liabilities	(283,752)	1,755,466
Cash flows provided by operating activities	4,480,909	10,744,877
Investing activities		
Deposits paid	(2,250)	(2,128)
Redemption (purchase) of short-term investments	1,800,000	(3,910,363)
Expenditures on property and equipment	(180,972)	(5,485,168)
Changes in accounts payable and accrued liabilities	460,628	2,028,757
Changes in contract liabilities	-	(1,154,978)
Expenditures on exploration and evaluation assets	(1,683,360)	(2,992,968)
Cash flows provided by (used in) investing activities	394,046	(11,516,848)
Financing activities		
Lease liability payments	(45,000)	(45,000)
Cash flows used in financing activities	(45,000)	(45,000)
Increase (decrease) in cash and cash equivalents	4,829,955	(816,971)
Cash and cash equivalents, beginning of year	295,199	1,456,841
Cash and cash equivalents, end of period	\$ 5,125,154	\$ 639,870
Supplemental cash flow information:		
Interest paid	\$ -	\$ -
Non-cash transactions – (notes 6 and 10)		

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (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.

The war in Ukraine has contributed to significant volatility in financial and commodity markets. It has 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 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 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, 2022.

These condensed interim financial statements were authorized for issue by the Board of Directors on November 29, 2023.

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, revenue 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, 2022.

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, 2022. 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, 2022.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

4. Newly adopted accounting standards and pronouncements

The Company has adopted these accounting standards effective January 1, 2023:

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

These amendments clarify how companies account for deferred taxes on transactions such as leases and decommissioning obligations, with a focus on reducing diversity in practice. They narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognize a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision.

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

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

Future accounting standards and pronouncements

The following accounting standards and amendments are effective for future periods beginning on or after January 1, 2024.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

These amendments require a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows: (i) on initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction; (ii) after initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

Amendment to IAS 1 – Non-current Liabilities with Covenants

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

5. 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, 2023	December 31, 2022
Cost, beginning of year	\$ 3,969,202	\$ 66,273
Additions	1,683,360	3,902,929
Cost, end of period	\$ 5,652,562	\$ 3,969,202

As at September 30, 2023 and December 31, 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.

6. Property and equipment

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

	September 30, 2023	December 31, 2022
Cost, beginning of year	\$ 41,722,416	\$ 34,731,972
Additions	303,949	6,725,477
Decommissioning liability revisions (note 10)	(195,356)	264,967
Cost, end of period	41,831,009	41,722,416
Accumulated depletion and impairment, beginning of year	28,628,677	23,000,854
Depreciation and depletion	2,981,347	3,972,585
Impairment	-	1,655,238
Accumulated depletion and impairment, end of period	31,610,024	28,628,677
Carrying value, end of period	\$ 10,220,985	\$ 13,093,739

At September 30, 2023, future development costs of \$3,232,000 associated with proved and probable reserves are included in costs subject to depletion.

As at September 30, 2023, 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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

7. Right-of use asset

	September 30, 2023	December 31, 2022
Balance, beginning of year	\$ 137,501	\$ 190,725
Amortization	(39,920)	(53,224)
Balance, end of period	\$ 97,581	\$ 137,501

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.

8. Bank loan

The Corporation has received a \$60,000 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 January 18, 2024. No principal payments are required during this period.

If the bank loan is not repaid by January 18, 2024, 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. It is the Company's intention to repay this bank loan prior to December 31, 2023.

9. Lease liability

	September 30, 2023	December 31, 2022
Balance, beginning of year	\$ 143,256	\$ 193,027
Payments	(45,000)	(60,000)
Accretion	5,666	10,229
	103,922	143,256
Less: current portion	55,268	52,843
Balance, end of period	\$ 48,654	\$ 90,413

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 \$5,666 (2022 - \$7,952) was recorded as finance charges in the Statement of Net and Comprehensive Income.

10. 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

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

statements could be significant. The total undiscounted amount of the estimated cash flows required to settle its decommissioning liabilities are approximately \$2,446,750 (December 31, 2022 - \$2,486,250) which will be settled over the operating lives of the underlying assets, estimated to occur between 2022 and 2032. A risk-free interest rate ranging from 2.93% to 4.72 % (2022 – 2.17% to 3.29%) and an inflation rate of 2% (2022 – 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, 2023, \$569,979 (December 31, 2022 - \$567,729) has been paid as deposits to the applicable regulatory bodies for settlement of these obligations.

	September 30, 2023	December 31, 2022
Balance, beginning of year	\$ 2,266,330	\$ 1,811,002
Additions	122,980	176,260
Government grants	-	(75,561)
Revisions	(340,616)	311,512
Accretion	56,645	43,117
	2,105,339	2,266,330
Less: current portion	155,000	213,000
Balance, end of period	\$ 1,950,339	\$ 2,053,330

During 2023, there was a revision to the decommissioning liabilities of \$340,616 (2021 - \$311,512) as a result of changes in estimates. Property and equipment was decreased \$195,356 (note 6) (2022 – increased by \$264,967) and \$145,257 was credited (2022 - \$46,545 was charged) to the Statements of Net and Comprehensive Income. The revised credit of \$145,257 combined with cash expenditures of \$222,985 on properties previously impaired resulted in a charge on the Statements of Net and Comprehensive Income of \$77,728.

11. Share capital

a. Authorized

- Unlimited number of voting Class A, B and C common shares
- Unlimited number of non-voting Class D, E and F common shares
- Unlimited number of non-voting, non-cumulative, redeemable Class A preferred shares
- Unlimited number of non-voting, cumulative, redeemable Class B preferred shares

b. Issued and outstanding - Class A common shares

	# of shares	Amount
Balance, December 31, 2021	82,249,971	\$ 31,740,885
Issued for cash on exercise of stock options	450,000	112,500
Transfer from contributed surplus on exercise of options	-	105,180
Balance, December 31, 2022 and September 30, 2023	82,699,971	\$ 31,958,565

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

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 nine months ended September 30, 2023 and year ended December 31, 2022 is presented below:

		2023		2022	
	#	Weighted average exercise price	#	Weighted average exercise price	
Outstanding, beginning of year	750,000	\$ 0.25	1,200,000	\$ 0.25	
Exercised	-	0.25	450,000	-	
Outstanding, end of year	750,000	\$ 0.25	750,000	\$ 0.25	
Exercisable, end of year	750,000	\$ 0.25	750,000	\$ 0.25	

The details of the options outstanding at September 30, 2023 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
750,000	0.25	750,000	0.75

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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

The Company has dilutive instruments outstanding, which consist of stock options. The dilutive impact of these instruments using the treasury stock method is calculated as follows for the nine months ended September 30:

	2023	2022
Number of common shares – basic, end of period	82,699,971	82,249,971
Dilutive effect of stock options	125,000	-
Number of common shares – diluted, end of year	82,824,971	82,249,971

The dilutive impact of these instruments using the treasury stock method were not dilutive for the three or nine months ended September 30, 2023 and 2022.

12. Revenues

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Oil	\$ 4,415,696	\$ 3,886,483	\$ 10,664,839	\$ 15,192,313
Natural gas	90,476	175,010	263,156	523,514
	\$ 4,506,172	\$ 4,061,493	\$ 10,927,995	\$ 15,715,827

13. Expenses by nature

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Wages and employee benefits	\$ 76,627	\$ 77,968	\$ 237,264	\$ 221,299
Professional fees	39,331	13,898	59,331	50,608
Consulting fees	100,900	68,282	285,592	237,501
User fees	14,336	16,238	67,424	49,054
Office	24,958	23,430	91,439	94,330
	\$ 256,152	\$ 199,816	\$ 741,050	\$ 652,792

14. 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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

For the nine months ended September 30, 2023, the Company incurred \$244,071 (2022 - \$165,321) in consulting fees billed from officers and companies controlled by officers and directors.

15. 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 and bank loan.

Fair value

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

Risks associated with financial assets and liabilities

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

a. Credit risk

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

Credit risk is primarily related to the Company's trade receivables from petroleum and natural gas marketers and the risk of financial loss if a marketer fails to meet its contractual obligation. The Company's policy to mitigate credit risk associated with these receivables is to establish marketing relationships with large, credit worthy purchasers. The Company has not experienced any collection issues with its petroleum and natural gas marketers. As at September 30, 2023 and December 31, 2022, 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 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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

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, 2023 and 2022.

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, 2023 and 2022.

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, 2023 and 2022.

16. 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 capital structure 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.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements For the three and nine months ended September 30, 2023 and 2022 (Expressed in Canadian Dollars)

17. 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 recorded a liability of \$757,643 including interest of \$97,177 relating to the taxation years 2016 – 2021 inclusive.