Vital Energy Inc.

Financial Statements

June 30, 2017

(Expressed in Canadian Dollars)

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 June 30, 2017.

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 June 30, 2017 and the condensed interim statements of comprehensive loss, changes in equity and cash flows for the three and six 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: "Nick Zhang"	signed: "Robert Gillies"
Nick Zhang Chief Executive Officer	Robert Gillies Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets
Unaudited
(Expressed in Canadian Dollars)

	Notes		June 30, 2017		December 31, 2016
Assets					
Current					
Cash and cash equivalents		$	980,483	$	854,264
Trade and other receivables			238,068		277,359
Prepaid expenses			20,761		18,715
			1,239,312		1,150,338
Deposits	7		533,598		531,607
Property and equipment	4		11,039,809		11,348,644
		$	12,812,719	$	13,030,589
Liabilities					
Current					
Accounts payable and accrued liabilities		$	547,648	$	353,214
Goods and services tax payable			-		13,843
Current portion of note payable and debentures payable	5,6		2,150,000		2,150,000
			2,475,154		2,517,057
Decommissioning liabilities	7		1,064,655		1,051,507
			3,762,303		3,568,564
Shareholders' Equity					
Share capital	8		29,565,885		29,565,885
Contributed surplus			1,406,451		1,401,201
Deficit			(21,921,920)		(21,505,061)
			9,050,416		9,462,025
		$	12,812,719	$	13,030,589

General information and going concern (note 1)
Commitments (note 13)
Subsequent event (note 14)

Vital Energy Inc.

Condensed Interim Statements of Comprehensive Loss
Unaudited
(Expressed in Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2017	2016	**2017**	2016
Revenue				
Petroleum and natural gas sales	**$ 747,881**	$ 705,843	**$ 1,513,141**	$ 1,256,269
Less: crown royalties	**65,434**	33,142	**144,507**	80,218
	682,447	672,201	**1,368,634**	1,176,051
Interest income	**1,520**	2,241	**2,506**	3,231
	683,967	674,942	**1,371,140**	1,179,282
Expenses				
Production operating costs	**324,322**	402,058	**727,208**	767,427
General and administrative (note 11)	**219,424**	290,649	**405,354**	689,381
Finance charges	**43,375**	43,217	**85,293**	224,689
Share-based compensation (note 9)	**1,500**	4,375	**5,250**	8,750
Accretion of decommissioning liabilities	**6,631**	10,854	**13,148**	23,848
Impairment	**-**	-	**-**	315,000
Depletion and depreciation	**272,429**	445,404	**551,746**	978,241
	867,681	1,196,557	**1,787,999**	3,007,336
Net and comprehensive loss for the period	**$ (183,714)**	$ (521,615)	**$ (416,859)**	$ (1,828,054)
Net loss per share – basic and diluted (note 10)	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.03)

Vital Energy Inc.

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

	Notes	Share capital	Contributed surplus	(Deficit)	Total equity
Balance, December 31, 2016		**$ 29,565,885**	**$ 1,401,201**	**$ (21,505,061)**	**$ 9,462,025**
Share-based compensation	9	**-**	**5,250**	**-**	**5,250**
Net and comprehensive loss		**-**	**-**	**(416,859)**	**(416,859)**
Balance, June 30, 2017		**$ 29,565,885**	**$ 1,406,451**	**$ (21,921,920)**	**$ 9,050,416**
Balance, December 31, 2015		$ 29,565,885	$ 1,383,701	$ (19,163,224)	$ 11,786,362
Share-based compensation	9		8,750	-	8,750
Net and comprehensive loss		-	-	(1,828,054)	(1,828,054)
Balance, June 30, 2016		$ 29,565,885	$ 1,392,451	$ (20,991,278)	$ 9,967,058

Vital Energy Inc.

Condensed Interim Statements of Cash Flows
Unaudited
(Expressed in Canadian Dollars)

Six months ended June 30,		2017		2016
Operating activities				
Net and comprehensive loss for the period	**$**	**(416,859)**	$	(1,828,054)
Non-cash items:				
Depletion and depreciation		**551,746**		978,241
Impairment		**-**		8,750
Accretion of decommissioning liabilities		**13,148**		315,000
Share-based payments		**5,250**		23,848
		153,285		(502,215)
Changes in non-cash working capital				
Trade and other receivables		**39,291**		(193,858)
Goods and services tax		**-**		11,909
Prepaid expenses		**(2,046)**		4,554
Accounts payable and accrued liabilities		**120,936**		29,449
		311,466		(650,161)
Investing activities				
Deposits paid		**(1,991)**		(1,994)
Expenditures on property and equipment		**(242,911)**		(500,760)
Changes in accounts payable and accrued liabilities		**59,655**		-
		(185,247)		(502,754))
Increase (decrease) in cash		**126,219**		(1,152,915)
Cash and cash equivalents, beginning of year		**854,264**		1,999,716
Cash and cash equivalents, end of period	**$**	**980,483**	$	846,801
Cash and cash equivalents consist of:				
Cash at bank	**$**	**867,700**	$	734,530
Cashable guaranteed investment certificate		**112,783**		112,271
	$	**980,483**	$	846,801

1. General information and going concern

Vital Energy Inc. ("the Company") is an oil and gas exploration and development company incorporated in the province of Alberta on November 14, 2006 with its head and registered office at Suite 888, 940 - 6th Avenue SW, Calgary, Alberta, T2P 3T1. The Company is engaged in the acquisition of, exploration for and development of crude oil and natural gas in Western Canada.

The Company continues to incur losses from operations and has a working capital deficiency of $1,235,842 (December 31, 2016 - working capital deficiency of $1,366,719) and which also includes $2,150,000 owing to directors pursuant to debentures and a note payable maturing in December 2017. These amounts are classified as current liabilities in the June 30, 2017 condensed interim financial statements. If the Company is unable to repay the debentures and note payable at maturity, it will need to re-negotiate the terms of the debt which will require the continued support and forbearance from the directors.

There can be no assurance that the Company will be able to repay or re-negotiate the debentures and notes payable when they become due. If that were to occur, the Company may not be able to continue its operations, and the amounts realizable for the assets could be less than the amounts reflected in these financial statements.

These condensed interim financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported amounts of revenues and expenses and the classification of the statement of financial position items if the going concern assumption is inappropriate and these adjustments could be material.

2. Basis of preparation, significant estimates and judgments

Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS"). These condensed interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2016.

These condensed interim financial statements were authorized for issue by the Board of Directors on August 25, 2017.

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, 2016.

(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, 2016. 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, 2016.

4. Property and equipment

Petroleum and natural gas properties are as follows:

	2017	2016
Cost, beginning of year	**$ 24,613,193**	$ 24,455,915
Additions	**242,911**	227,459
Revisions to decommissioning liabilities	**-**	(70,181)
Cost, end of period	**24,856,104**	24,613,193
Accumulated depletion, beginning of year	**13,264,549**	11,805,868
Depreciation and depletion	**551,746**	1,458,681
Accumulated depletion, end of period	**13,816,295**	13,264,549
Carrying value, end of period	**$ 11,039,809**	$ 11,348,644

At June 30, 2017, future development costs of $6,978,000 (2015 - $7,270,000) associated with proved and probable reserves are included in costs subject to depletion.

5. Debenture payable

On December 23, 2015, the Company issued 8% secured convertible debentures in the principal amount of $2,125,000 to directors. The debentures mature two years from the date of issuance, are secured against the property of the Company and interest is paid quarterly. The debentures are convertible at the holder's option into common shares of the Company at a conversion price of $0.10 per common share.

The fair value of the convertible debenture was allocated solely to the liability based on the fair value of the liability component, which was determined to be its face value $2,125,000 using future cash flows discounted at a rate of 8% estimated as the interest rate for a comparable financial instrument.

6. Note payable

On December 29, 2015, the Company issued an 8% unsecured promissory note in the principal amount of $25,000 to an officer. The promissory note matures two years from the date of issuance and interest is paid quarterly.

(Expressed in Canadian Dollars)

7. 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 $1,200,700 (2016 - $1,200,700) which will be settled over the operating lives of the underlying assets, estimated to occur between 2018 and 2041. A credit adjusted interest rate of 7% and an inflation rate of 2% were used to calculate the decommissioning liability. Settlement of the liability will be funded from general corporate funds at the time of retirement or removal. As at June 30, 2017, $533,598 (2016- $532,591) has been paid as deposits to the applicable regulatory bodies for settlement of these obligation. Changes to the liabilities were as follows:

	2017	2016
Balance, beginning of year	**$ 1,051,507**	**$ 1,078,107**
Revisions	**-**	**(70,181)**
Accretion	**13,148**	**43,581**
Balance, end of period	**$ 1,064,655**	**$ 1,051,507**

8. 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, 2015, 2016 and June 30, 2017	**60,499,971**	**$ 29,565,885**

(Expressed in Canadian Dollars)

9. 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 period is presented below:

		June 30, 2017		December 31, 2016
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	**4,650,000**	**$ 0.25**	4,750,000	$ 0.25
Forfeited	**-**	**0.25**	(100,000)	0.25
Outstanding, end of period	**4,650,000**	**$ 0.25**	4,650,000	$ 0.25
Exercisable, end of period	**4,650,000**	**$ 0.25**	4,500,000	$ 0.25

The details of the options outstanding at June 30, 2017 are as follows:

Options outstanding	**Weighted average exercise price**	**Options exercisable**	**Weighted average years to expiry**
4,200,000	0.25	4,200,000	7.00
450,000	0.25	450,000	0.25
4,650,000	0.25	4,650,000	6.40

(Expressed in Canadian Dollars)

10. 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.

		2017		2016
Loss attributable to equity holders of the Company	**$**	**(416,859)**	$	(1,306,439)
Weighted average number of common shares outstanding - basic and diluted		**60,499,971**		60,499,971

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 of the Company incurring losses during the years presented. As a resulted, diluted loss per share and the impact of these instruments on the weighted average number of shares outstanding is not presented in the financial statements.

11. Expenses by nature

		2017		2016
Wages and employee benefits	**$**	**155,343**	$	230,776
Professional fees		**53,022**		54,663
Consulting fees		**94,050**		258,475
User fees		**30,477**		36,834
Rental		**42,382**		45,764
Office		**25,494**		54,519
Travel and entertainment		**4,586**		8,350
Total general and administration costs	**$**	**405,354**	$	689,381

12. 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 six months ended June 30, 2017, the Company incurred $75,500 (2017 - $137,000) in consulting fees to officers or companies controlled by officers.

The debentures and note payable are to directors. Interest payable of $nil (2016 - $42,268) is included in accounts payable and accrued liabilities in the Condensed Interim Balance Sheets and interest expense of $84,031 (2016 - $84,060) is included in finance costs in the Condensed Interim Statements of Comprehensive Loss related to this debt.

13. Commitments

The Company is committed under an office lease that expires on July 31, 2021 and requires minimum annual rent of $11,655 payable during the first two years of the term of the lease and $14,245 during the final two years of the lease.

14. Subsequent event

On March 20, 2017, the Company entered into a Carried Working Interest Agreement regarding the development of lands in the Pennant area. Under the Agreement, the Carried Working Interest partner ("Partner") will advance up to $10,500,000 for the drilling, completion, equipping and all testing facilities for seven (7) horizontal wellbores, construction of five (5) lease pads and associated road works. In addition, the Partner will advance up to $500,000 for the acquisition of petroleum and natural gas leases.

In exchange, the Company will pay 80% of the net profits from the seven (7) horizontal wells to the Partner until such time as the Partner has recovered 180% of their investment. At that time, the carried working interest will convert to a 5% gross overriding royalty.

On April 17,2017, the Partner made its initial advance to fund the acquisition of petroleum and natural gas leases.