

Vital Energy Inc.

Financial Statements

June 30, 2018

(Expressed in Canadian Dollars)

SECOND QUARTER 2018 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 June 30, 2018.

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, 2018 and the condensed interim statements of comprehensive loss, changes in equity and cash flows for the six and three month periods then ended are the responsibility of the Company's management.

These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, Crowe MacKay LLP. The condensed interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

Signed: "Yingchuan Wu"

Yingchuan Wu
Chief Executive Officer

Signed: "Robert Gillies"

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets

Unaudited

(Expressed in Canadian Dollars)

	Notes	June 30, 2018	December 31, 2017
Assets			
Current			
Cash and cash equivalents		\$ 1,131,030	\$ 2,068,361
Trade and other receivables		725,186	493,725
Prepaid expenses		26,897	29,906
		1,883,113	2,591,992
Deposits	6	540,284	536,437
Property and equipment	4	10,838,358	10,460,582
		\$ 13,261,755	\$ 13,589,011
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 1,580,757	\$ 1,700,105
Current portion of debentures payable	5	2,175,000	2,175,000
		3,755,757	3,875,105
Decommissioning liabilities	6	1,155,256	1,115,435
		4,911,013	4,990,540
Shareholders' Equity			
Share capital	7	29,565,885	29,565,885
Contributed surplus		1,406,451	1,406,451
Deficit		(22,621,594)	(22,373,865)
		8,350,742	8,598,471
		\$ 13,261,755	\$ 13,589,011

General information and going concern (note 1)
Commitment (note 13)

Vital Energy Inc.

Condensed Interim Statements of Comprehensive Loss

Unaudited

(Expressed in Canadian Dollars)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenue				
Petroleum and natural gas sales	\$ 1,233,688	\$ 747,881	\$ 2,082,152	\$ 1,513,141
Less: crown royalties	197,196	65,434	276,399	144,507
	1,036,492	682,447	1,805,753	1,368,634
Interest income	2,038	1,520	4,160	2,506
	1,038,530	683,967	1,809,913	1,371,140
Expenses				
Production operating costs	418,801	324,322	750,289	727,208
General and administrative (note 11)	264,889	219,424	525,481	405,354
Finance charges	22,915	43,375	86,285	85,293
Share-based compensation (note 9)	-	1,500	-	5,250
Accretion of decommissioning liabilities	7,415	6,631	13,733	13,148
Depletion and depreciation	363,429	272,429	681,854	551,746
	1,077,449	867,681	2,057,642	1,787,999
Net and comprehensive loss for the period	\$ (38,919)	\$ (183,714)	\$ (247,729)	\$ (416,859)
Net loss per share – basic and diluted (note 9)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)

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, 2017		\$ 29,565,885	\$ 1,406,451	\$ (22,373,865)	\$ 8,598,471
Net and comprehensive loss		-	-	(247,729)	(247,929)
Balance, June 30, 2018		\$ 29,565,885	\$ 1,406,451	\$ (22,621,594)	\$ 8,350,742
Balance, December 31, 2016		\$ 29,565,885	\$ 1,401,201	\$ (21,505,061)	\$ 9,462,025
Share-based compensation		-	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

Vital Energy Inc.

Condensed Interim Statements of Cash Flows Unaudited

(Expressed in Canadian Dollars)

Six months ended June 30,	2018	2017
Operating activities		
Net and comprehensive loss for the period	\$ (247,729)	\$ (416,859)
Non-cash items:		
Depletion and depreciation	681,854	551,746
Accretion of decommissioning liabilities	13,733	13,148
Share-based payments	-	5,250
	447,858	153,285
Changes in non-cash working capital		
Trade and other receivables	(231,461)	39,291
Prepaid expenses	3,009	(2,046)
Accounts payable and accrued liabilities	(39,047)	120,936
	180,359	311,466
Investing activities		
Deposits paid	(3,847)	(1,991)
Expenditures on property and equipment	(1,033,542)	(242,911)
Changes in accounts payable and accrued liabilities	1,024,789	59,655
	12,600	(185,247)
Financing activities		
Carried interest funds received	135,000	-
Carried interest expenditures paid	(1,240,090)	-
	(1,105,090)	-
Increase (decrease) in cash	(937,331)	126,219
Cash and cash equivalents, beginning of year	2,068,361	854,264
Cash and cash equivalents, end of period	\$ 1,131,030	\$ 980,483
Cash and cash equivalents consist of:		
Cash at bank	\$ 1,017,934	\$ 867,700
Cashable guaranteed investment certificate	113,096	112,783
	\$ 1,131,030	\$ 980,483

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

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 \$1,872,644 (December 31, 2017 - \$1,283,113) which includes \$2,175,000 owing to debentures pursuant to debentures that mature in December 2018. These amounts are classified as current liabilities in the June 30, 2018 condensed interim financial statements. If the Company is unable to repay the debentures 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 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, 2017.

These condensed interim financial statements were authorized for issue by the Board of Directors on August 28, 2018.

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, 2017.

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

3. Significant and changes in accounting policies

These condensed interim financial statements should be read in conjunction with the annual financial statements and accompanying notes for the year ended December 31, 2017. 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, 2017 except as noted below:

IFRS 9 - Financial Instruments

Effective January 1, 2018, the Corporation adopted *IFRS 9 – Financial Instruments* (“IFRS 9”) which supersedes *IAS 39 – Financial instruments: recognition and measurement* (“IAS 39”). The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classifications: amortized cost and fair value. Under IFRS 9, where the fair value option is applied to financial liabilities, any change in fair value resulting from an entity's own credit risk is recorded through other comprehensive income (loss) rather than net income (loss). The new standard also introduces a credit loss model for evaluating impairment of financial assets. There is no significant effect on the carrying value of other financial instruments under IFRS 9 related to this new requirement.

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (“FVTOCI”) and fair value through profit and loss (“FVTPL”). The IFRS 9 accounting model for financial liabilities is broadly the same as that in IAS 39 meaning that most financial liabilities will continue to be measured at amortized cost.

IFRS 9 replaces the “incurred loss” model in IAS 39 with a forward-looking “expected credit loss” (“ECL”) model for determining impairment or recognition of credit losses on financial assets measured at amortized cost (“AC”) or at FVTOCI. There is no impact to the Corporation as credit losses have been non-existent as the customers have had strong credit.

Below is a summary indicating the classification and measurement bases of the Corporation's financial instruments as at January 1, 2018, as a result of adopting IFRS 9 along with a comparison to IAS 39.

Financial Instrument	IAS 39		IFRS 9	
	Classification	Measurement	Classification	Measurement
Asset				
Cash and cash equivalents	FVTPL	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Liabilities				
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost
Debentures < 1 year	Other financial liabilities	Amortized cost	Amortized cost	Amortized cost

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

IFRS 15 – Revenue from Contracts with Customers

This standard provides a single model that applies to contracts with customers as well as two revenue recognition approaches: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, when and the amount of revenue is recognized. The new standard applies to contracts with customers. The new revenue standard permits a full retrospective method of adoption with restatement of all prior periods presented, or a modified retrospective method with the cumulative effect of applying the new standard recognized as an adjustment to opening retained earnings in the period of adoption.

The Corporation reviewed its revenue streams and major contracts with customers under IFRS 15 and determined there were not material changes to net loss or timing of oil and natural gas revenue recognized.

Under IFRS 15, revenue from the sale of commodities is calculated by reference to consideration specified in contracts with customers and recognized when control of the product is transferred to the buyer. The nature of each its performance obligations, including roles of their parties and partners, are evaluated to determine if the Company acts as a principal and therefore revenues on a gross basis or as an agent and therefore recognizes revenue on a net basis. The Corporation would act as a principal when it controls the product delivered before the control passes to the customer.

Revenue from the sale of crude oil and natural gas is recognized based on the consideration specified in contracts with customers. The Corporation recognizes revenue when control of the product transfers to the buyer and collection is reasonably assured. This is generally at the point in time when the customer obtains legal title to the product which is when it is physically transferred to the pipeline or battery.

When allocating the transaction price realized in contracts with multiple performance obligations, the Corporation is required to make estimates of the prices at which the product would sell separately to customers. The corporation does not currently have ant contracts with multiple performance obligations.

See note 10 for additional disclosures required by IFRS 15.

4. Property and equipment

Petroleum and natural gas properties are as follows:

	June 30 2018	December 31 2017
Cost, beginning of year	\$ 24,881,547	\$ 24,613,193
Additions	1,059,630	268,354
Cost, end of period	25,941,177	24,881,547
Accumulated depletion, beginning of year	14,420,965	13,264,549
Depreciation and depletion	681,854	1,156,416
Accumulated depletion, end of period	15,102,819	14,420,965
Carrying value, end of period	\$ 10,838,358	\$ 10,460,582

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

At June 30, 2018, future development costs of \$7,537,000 (2015 - \$6,978,000) associated with proved and probable reserves are included in costs subject to depletion.

5. Debentures payable

In December 2017, the Company extended for one year \$2,075,000 of the debentures originally issued on December 23, 2015 to December 23, 2018. The extended debentures have the same terms as the debentures originally issued in December 2015 being 8% per annum, interest payable quarterly, secured and convertible. 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.

On December 28, 2017, the Company issued an 8% secured convertible debenture in the principal amount of \$100,000 to a director. The debenture will mature one year from the date of issuance, is secured against the property of the Company and interest is paid quarterly. The debenture is convertible at the holder's option into common shares of the Company at a conversion price of \$0.10 per common share.

6. 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 \$1,301,700 (December 31, 2017 - \$1,259,700) 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, 2018, \$540,284 (December 31, 2017 - \$536,437) has been paid as deposits to the applicable regulatory bodies for settlement of these obligation. Changes to the liabilities were as follows:

	2018	2017
Balance, beginning of year	\$ 1,115,435	\$ 1,051,507
Additions	26,088	36,529
Accretion	13,733	27,399
Balance, end of period	\$ 1,155,256	\$ 1,115,435

7. 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

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

b. Issued and outstanding - Class A common shares

	# of shares	Amount
Balance, December 31, 2016 & 2017 and June 30, 2018	60,499,971	\$ 29,565,885

8. 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, 2018		December 31, 2017	
	#	Weighted average exercise price	#	Weighted average exercise price
Outstanding, beginning of year	4,200,000	\$ 0.25	4,650,000	\$ 0.25
Forfeited	-	0.25	(450,000)	0.25
Outstanding, end of period	4,200,000	\$ 0.25	4,200,000	\$ 0.25
Exercisable, end of period	4,200,000	\$ 0.25	4,200,000	\$ 0.25

The details of the options outstanding at June 30, 2018 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
4,200,000	0.25	4,200,000	6.00

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

9. 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.

	2018	2017
Loss attributable to equity holders of the Company	\$ (247,729)	\$ (416,859)
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 result, 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.

10. Revenue

On January 1, 2018, the Corporation adopted *IFRS 15, "Revenue from Contracts with Customers"* as detailed in note 3. For the first quarter of 2018, there was no impact to oil and natural gas revenues as a result of adopting IFRS 15.

The Corporation sells its production pursuant to variable price contracts. The transaction price for variable price contracts is based on the commodity price and then adjusted for quality, location or other factors whereby each component of the pricing formula can be either fixed or variable depending on the contract terms. Revenue is recognized when a unit of production is delivered to the counterparty. The amount of revenue recognized is based on the agreed transaction price, whereby any variability in revenue relates specifically to the Corporation's efforts to transfer production and therefore the resulting revenue is allocated to the production delivered in the period during which the variability occurs. As a result, none of the variable revenue is considered constrained.

Crude oil and natural gas are sold under contracts of varying price and volume terms of up to one year. Revenues are typically collected on the 25th day of the month following production.

The following table presents the Corporation's oil and gas revenues disaggregated by revenue source for the six and three months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Oil	\$ 1,213,526	675,752	2,023,746	\$ 1,360,652
Natural gas	20,162	72,129	58,406	152,489
	\$ 1,233,688	747,881	2,082,152	\$ 1,513,141

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

11. Expenses by nature

	Three Months Ended June 30		Six Months Ended June 30	
	2018	2017	2018	2017
Wages and employee benefits	\$ 90,237	\$ 76,100	\$ 182,595	\$ 155,343
Professional fees	41,580	43,022	54,190	53,022
Consulting fees	86,885	54,573	180,455	94,050
User fees	9,760	9,528	24,195	30,477
Rental	14,159	21,175	27,361	42,382
Office	19,076	10,440	53,493	25,494
Travel and entertainment	3,192	4,586	3,192	4,586
	\$ 264,889	\$ 219,424	\$ 525,481	\$ 405,354

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, 2018, the Company incurred \$165,500 (2017 - \$75,500) in consulting fees to officers or companies controlled by an officer and a director.

The debentures are payable to directors. Interest expense of \$86,285 (2017 - \$84,031) is included in finance costs in the Condensed Interim Statements of Comprehensive Loss related to this debt.

13. Commitment

The Company is committed under an office lease that commenced August 1, 2017 and expires on July 31, 2021. The minimum annual payments are \$11,665 during the first two years of the lease and then increase to \$14,245 per year for the remainder of the lease.

14. Carried working interest arrangement

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") would advance by December 31, 2017 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 would 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.

As at June 30, 2018, the Partner had advanced \$1,700,840 (December 31, 2017 - \$1,565,840) for the drilling, completion and equipping of the first well which was drilled in December 2017. The partner failed

Vital Energy Inc.

Notes to the Condensed Interim Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three and six months ended June 30, 2018 and 2017

to drill 7 wells or to advance \$10,500,000 before December 2017, therefore the partner is technically in default under the terms of the amended carried working interest agreement.

As at June 30, 2018, the Company has a net cash call liability position of \$107,609 (December 31, 2017 - \$25,298) and third-party invoices of \$nil (December 31, 2017 - \$1,245,703), which are included in accounts payable and accrued liabilities in these financial statements. As of the date of these financial statements, there have been no further wells drilled.

In addition, the net operating loss earned by the Carried Working Interest Partner for the six months ended June 30, 2018 was a loss of \$19,800.