

Vital Energy Inc.

Financial Statements

March 31, 2016

(Expressed in Canadian Dollars)

FIRST QUARTER 2016 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 March 31, 2016.

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 March 31, 2016 and the condensed interim statements of comprehensive loss, changes in equity and cash flows for the three 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"

Nick Zhang
Chief Executive Officer

signed: "Robert Gillies"

Robert Gillies
Chief Financial Officer

Vital Energy Inc.

Condensed Interim Balance Sheets

Unaudited

(Expressed in Canadian Dollars)

	Notes	March 31, 2016	December 31, 2015
Assets			
Current			
Cash and cash equivalents		\$ 1,073,379	\$ 1,999,716
Cash held in trust		238,839	238,839
Trade and other receivables	4	369,398	322,337
Goods and services tax receivable		10,970	14,220
Prepaid expenses		34,774	27,844
		1,727,360	2,602,956
Deposits	9	631,613	630,625
Property and equipment	5	12,223,527	12,650,047
Exploration and evaluation assets	6	106,125	421,125
		\$ 14,688,625	\$ 16,304,753
Liabilities			
Current			
Accounts payable and accrued liabilities		\$ 724,387	\$ 1,051,445
Abandonment deposit payable		238,839	238,839
		963,226	1,290,284
Debentures payable	7	2,125,000	2,125,000
Note payable	8	25,000	25,000
Decommissioning liabilities	9	1,091,101	1,078,107
		4,204,327	4,518,391
Shareholders' Equity			
Share capital	10	29,565,885	29,565,885
Contributed surplus		1,388,076	1,383,701
Deficit		(20,469,663)	(19,163,224)
		10,484,298	11,786,362
		\$ 15,688,625	\$ 16,304,753
Commitments (note 16)			

Vital Energy Inc.

Condensed Interim Statements of Comprehensive Loss

Unaudited

(Expressed in Canadian Dollars)

Three months ended March 31,	Note	2016	2015
Revenue			
Oil and gas sales		\$ 550,426	\$ 273,765
Less: Crown royalties		(47,076)	(23,792)
		503,350	249,973
Other income			
Interest		990	29,174
		504,340	279,147
Expenses			
Operating expenses		365,369	193,327
General and administrative	14	398,732	409,051
Share-based compensation	11	4,375	-
Finance costs		181,472	-
Impairment	6	315,000	-
Accretion of decommissioning liabilities	9	12,994	39,877
Depletion and depreciation	5	532,837	177,830
		1,810,779	820,805
Net loss and comprehensive loss for the year		\$ (1,306,439)	\$ (540,938)
Net loss per share	12	\$ (0.022)	\$ (0.011)

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, 2015		\$ 29,565,885	\$ 1,383,701	\$ (19,163,224)	\$11,786,362
Share-based compensation			4,375	-	4,375
Net and comprehensive loss		-	-	(1,306,439)	(1,306,439)
Balance, March 31, 2016		\$ 29,565,885	\$ 1,388,076	\$ (20,469,663)	\$10,484,298
Balance, December 31, 2014		\$ 28,515,885	\$ 1,347,201	\$ (12,752,580)	\$17,110,506
Net loss for the period		-	-	(540,938)	(540,938)
Balance, March 31, 2015		\$ 28,515,885	1,347,201	(13,293,518)	\$16,569,568

Vital Energy Inc.

Condensed Interim Statements of Cash Flows Unaudited

(Expressed in Canadian Dollars)

Three months ended March 31,	2016	2015
Operating activities		
Net loss for the period	\$(1,306,439)	\$ (540,938)
Non-cash items:		
Depletion and depreciation	532,837	177,830
Share-based compensation	4,375	-
Impairment	315,000	-
Accretion of decommissioning liabilities	12,994	39,877
	(441,233)	(323,231)
Changes in non-cash working capital		
Accounts receivable	(47,061)	222,935
Goods and services tax receivable	3,250	(152,936)
Prepaid expenses	(6,930)	(151,931)
Accounts payable and accrued liabilities	(100,673)	37,254
	(592,647)	(367,909)
Investing activities		
Additions to exploration and evaluation assets	-	(907)
Increase in deposits	(988)	(97,815)
Payments for property and equipment	(332,702)	(2,587,537)
	(333,690)	(2,686,259)
Decrease in cash	(926,337)	(3,054,168)
Cash and cash equivalents, beginning of year	1,999,716	8,135,460
Cash and cash equivalents, end of period	\$ 1,073,379	\$ 5,081,292
Cash and cash equivalents consist of:		
Cash at bank and on hand	\$ 961,766	\$ 431,292
Cashable guaranteed investment certificate	111,613	4,650,000
	\$1,073,379	\$ 1,292,085

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

1. General information

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 500, 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.

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, 2015.

These condensed interim financial statements were authorized for issue by the Board of Directors on May 25, 2016.

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, 2015.

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, 2015. 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, 2015.

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements Unaudited (Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

4. Trade and other receivables

	March 31, 2016	December 31, 2015
Trade receivables	\$ 344,398	\$ 267,337
Due from an officer and a director	25,000	55,000
Interest receivable	-	-
Trade and other receivables	\$ 369,398	\$ 322,337

The trade receivables have been reviewed for collectability and no allowance for doubtful accounts is considered necessary.

The amounts due from an officer and a director were paid subsequent to December 31, 2015.

5. Property and equipment

	2016	2015
Cost, beginning of year	\$ 24,455,915	\$ 15,669,398
Additions	106,317	8,786,517
Cost, end of period	24,562,232	24,455,915
Accumulated depletion, beginning of year	11,805,868	6,871,699
Impairment	-	3,293,266
Depreciation and depletion	532,837	1,640,903
Accumulated depletion, end of period	12,338,705	11,805,868
Carrying value, end of period	\$ 12,223,527	\$ 12,650,047

At March 31, 2016, future development costs of \$7,270,000 associated with proved and probable reserves are included in costs subject to depletion.

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

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.

	2016	2015
Cost, beginning of year	\$ 421,125	\$ 1,389,345
Impairment	(315,000)	(967,273)
Additions (over accrual)	-	(947)
Cost, end of period	\$ 106,125	\$ 421,125

As at March 31, 2016, the Company reviewed the Exploration and Evaluation Expenditures for recoverability and impairment and determined that an impairment charge of \$315,000 was required for the Panny area based on time to the expiry of the lease and near term drilling commitments.

7. 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 Corporation 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 term and risk debenture only instrument. There was no residual to be allocated to equity.

8. 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.

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

9. 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 (December 31, 2015 - \$1,200,700) which will be settled over the operating lives of the underlying assets, estimated to occur between 2016 and 2020. 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 March 31, 2016, \$631,613 (December 31, 2015, \$630,625) have been set aside to settle these liabilities. Changes to the liabilities were as follows:

	2016	2015
Balance, beginning of year	\$ 1,078,107	\$ 893,866
Liabilities incurred	-	155,542
Accretion	12,994	28,699
Balance, end of period	\$ 1,091,101	\$ 1,078,107

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

10. 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

	# of shares	Amount
Balance, December 31, 2014	49,999,971	28,515,885
Issued for cash	10,500,000	1,050,000
Balance, December 31, 2015 and March 31, 2016	60,499,971	\$ 29,565,885

On November 3, 2015, the Company issued to a director 10,500,000 common shares at \$0.10 per common share for gross proceeds of \$1,050,000. The common shares were subject to a four month hold period which expired on March 3, 2016.

11. 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.

Vital Energy Inc.**Condensed Interim Notes to the Financial Statements****Unaudited***(Expressed in Canadian Dollars)*

For the three months ended March 31, 2016 and 2015

11. Share-based compensation (continued)

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

	March 31, 2016		December 31, 2015	
			#	Weighted average exercise price
Outstanding, beginning of year	4,650,000	\$ 0.25	4,650,000	\$ 0.25
Forfeited	(450,000)	0.25	(450,000)	0.25
Issued	550,000	0.25	550,000	0.25
Outstanding, end of period	4,750,000	\$ 0.25	4,750,000	\$ 0.25
Exercisable, end of period	4,400,000	\$ 0.25	4,400,000	\$ 0.25

The details of the options outstanding at March 31, 2016 are as follows:

Options outstanding	Weighted average exercise price	Options exercisable	Weighted average years to expiry
4,200,000	0.25	4,200,000	8.25
450,000	0.25	150,000	4.00
100,000	0.25	50,000	4.00
4,750,000	0.25	4,400,000	8.00

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

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(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

12. 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.

	2016	2015
Loss attributable to equity holders of the Company	\$ (1,306,439)	\$ (540,938)
Weighted average number of common shares outstanding - basic and diluted	60,499,971	49,999,971

13. 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 and working capital. 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 expenditure and general industry conditions.

At March 31, 2016 and December 31, 2015, the Company had the following capital structure:

	2015	2014
Shareholders' equity	\$ 10,484,298	\$ 11,786,362
Less: Working capital	(764,134)	(1,312,672)
Capital	\$ 9,720,164	\$ 10,473,690

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.

Vital Energy Inc.

Condensed Interim Notes to the Financial Statements

Unaudited

(Expressed in Canadian Dollars)

For the three months ended March 31, 2016 and 2015

14. Expenses by nature

	2016	2015
Wages and employee benefits	\$ 117,328	\$ 135,117
Professional fees	38,827	52,705
Consulting fees	147,638	157,853
User fees	20,069	22,478
Rental	22,547	24,961
Office	45,905	12,506
Travel and entertainment	6,418	3,431
Total general and administration costs	\$ 398,732	\$ 409,051

15. 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.

During the three months ended March 31, 2016, the Company incurred \$83,000 (2015 - \$67,500) in consulting fees payable to officers or companies controlled by officers and directors.

The debentures and note payable are to directors. Included in accounts payable and accrued liabilities is \$45,984 in related interest payable. Included in finance costs in the Statements of Comprehensive Loss is related interest expense of \$41,792.

16. Commitments

The Company is committed under an office lease that expires on July 1, 2017. Annual payments are as follows:

2016	\$ 54,050
2017	36,033
	\$ 90,083
