Vital Energy Inc.

Financial Statements

June 30, 2016

(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, 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 June 30, 2016 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: "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, 2016	December 31, 2015
Assets			
Current			
Cash and cash equivalents		**$ 846,801**	$ 1,999,716
Cash held in trust		**238,839**	238,839
Trade and other receivables	**4**	**516,195**	322,337
Goods and services tax receivable		**2,311**	14,220
Prepaid expenses		**23,290**	27,844
		1,627,436	2,602,956
Deposits	**9**	**632,619**	630,625
Property and equipment	**5**	**11,816,057**	12,650,047
Exploration and evaluation assets	**6**	**106,125**	421,125
		$ 14,182,237	$ 16,304,753
Liabilities			
Current			
Accounts payable and accrued liabilities		**$ 724,385**	$ 1,051,445
Abandonment deposit payable		**238,839**	238,839
		963,224	1,290,284
Debentures payable	**7**	**2,125,000**	2,125,000
Note payable	**8**	**25,000**	25,000
Decommissioning liabilities	**9**	**1,101,955**	1,078,107
		4,215,179	4,518,391
Shareholders' Equity			
Share capital	**10**	**29,565,885**	29,565,885
Contributed surplus		**1,392,451**	1,383,701
Deficit		**(20,991,278)**	(19,163,224)
		9,967,058	11,786,362
		$ 14,182,237	$ 16,304,753

Commitments (note 16)

Vital Energy Inc.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	**2016**	2015
Revenue				
Petroleum and natural gas sales	**$ 705,843**	$ 410,488	**$ 1,256,269**	$ 684,263
Less: crown royalties	**33,142**	18,033	**80,218**	41,825
	672,201	392,455	**1,176,051**	642,438
Interest income	**2,241**	40,458	**3,231**	69,632
	674,942	432,913	**1,179,282**	712,070
Expenses				
Production operating costs	**402,058**	126,365	**767,427**	319,692
General and administrative (note 14)	**290,649**	309,064	**689,381**	718,115
Finance charges	**43,217**	-	**224,689**	-
Share-based compensation (note 11)	**4,375**	27,750	**8,750**	27,750
Accretion of decommissioning liabilities	**10,854**	(20,561)	**23,848**	19,316
Impairment (note 5)	**-**	-	**315,000**	-
Depletion and depreciation	**445,404**	208,518	**978,241**	386,348
	1,196,557	651,136	**3,007,336**	1,471,221
Net and comprehensive loss for the period	**$ (521,615)**	$ (218,223)	**$ (1,828,054)**	$ (759,151)
Net loss per share – basic and diluted (note 12)	**$ (0.01)**	**$ (0.004)**	**$ (0.03)**	$ (0.015)

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)**	**$11,786,362**
Share-based compensation	11		**8,750**	**-**	**8,750**
Net and comprehensive loss		**-**	**-**	**(1,828,054)**	**(1,828,054)**
Balance, June 30, 2016		**$ 29,565,885**	**$ 1,392,451**	**$ (20,991,278)**	**$ 9,967,058**
Balance, December 31, 2014		**$ 28,515,885**	**$ 1,347,201**	**$ (12,752,580)**	**$17,110,506**
Share-based compensation	11	**-**	**27,750**	**-**	**27,750**
Net and comprehensive loss		**-**	**-**	**(759,151)**	**(759,151)**
Balance, June 30, 2015		**$ 28,515,885**	**1,374,951**	**(13,511,731)**	**$16,379,105**

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	**$(1,828,054)**	$ (759,151)
Non-cash items:		
Depletion and depreciation	**978,241**	386,348
Share-based compensation	**8,750**	27,750
Impairment	**315,000**	-
Accretion of decommissioning liabilities	**23,848**	19,316
	(502,215)	(325,737)
Changes in non-cash working capital		
Accounts receivable	**(193,858)**	13,085
Goods and services tax receivable	**11,909**	(214,080)
Prepaid expenses	**4,554**	(27,784)
Accounts payable and accrued liabilities	**29,449**	199,611
	(650,161)	(354,905)
Investing activities		
Increase in deposits	**(1,994)**	(265,000)
Payments for property and equipment	**(500,760)**	(4,832,072)
	(502,754)	(5,097,672)
Decrease in cash	**(1,152,915)**	(5,452,577)
Cash and cash equivalents, beginning of year	**1,999,716**	8,135,460
Cash and cash equivalents, end of period	**$ 846,801**	$ 2,682,883
Cash and cash equivalents consist of:		
Cash at bank and on hand	**$ 734,530**	$ 748,770
Cashable guaranteed investment certificate	**112,271**	1,934,113
	$ 846,801	$ 2,682,883

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 August 19, 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.

(Expressed in Canadian Dollars)

4. Trade and other receivables

	June 30, 2016	December 31, 2015
Trade receivables	**$ 516,195**	$ 267,337
Due from an officer and a director	**-**	55,000
Trade and other receivables	**$ 516,195**	$ 322,337

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

5. Property and equipment

	2016	2015
Cost, beginning of year	**$ 24,455,915**	$ 15,669,398
Additions	**144,251**	8,786,517
Cost, end of period	**24,600,166**	24,455,915
Accumulated depletion, beginning of year	**11,805,868**	6,871,699
Impairment	**-**	3,293,266
Depreciation and depletion	**978,241**	1,640,903
Accumulated depletion, end of period	**12,784,109**	11,805,868
Carrying value, end of period	**$ 11,816,057**	$ 12,650,047

At June 30, 2016, future development costs of $7,270,000 associated with proved and probable reserves are included in costs subject to depletion.

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)
Over accrual	**-**	(947)
Cost, end of period	**$ 106,125**	$ 421,125

(Expressed in Canadian Dollars)

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.

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 June 30, 2016, $632,619 (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	**23,848**	28,699
Balance, end of period	**$ 1,101,955**	$ 1,078,107

(Expressed in Canadian Dollars)

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 June 30, 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.

(Expressed in Canadian Dollars)

11. Share-based compensation (continued)

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

	June 30, 2016			December 31, 2015		
	#		Weighted average exercise price	#		Weighted average exercise price
Outstanding, beginning of year	**4,750,000**	**$**	**0.25**	4,650,000	$	0.25
Forfeited	**-**		**0.25**	(450,000)		0.25
Issued	**-**		**0.25**	550,000		0.25
Outstanding, end of period	**4,750,000**	**$**	**0.25**	4,750,000	$	
Exercisable, end of period	**4,575,000**	**$**	**0.25**	4,400,000	$	0.25

The details of the options outstanding at June 30, 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	8.00
450,000	0.25	300,000	3.75
100,000	0.25	75,000	3.75
4,750,000	0.25	4,575,000	7.50

(Expressed in Canadian Dollars)

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	**$**	**(1,828,054)**	$	(759,151)
Weighted average number of common shares outstanding - basic and diluted		**60,499,971**		60,499,971

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 June 30, 2016 and December 31, 2015, the Company had the following capital structure:

		2016		2015
Shareholders' equity	**$**	**9,967,058**	$	11,786,362
Less: Working capital		**(664,212)**		(1,312,672)
Capital	**$**	**9,302,846**	$	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.

(Expressed in Canadian Dollars)

14. Expenses by nature

		June 30, 2016		June 30, 2015
Wages and employee benefits	**$**	**230,776**	$	265,013
Professional fees		**54,663**		63,533
Consulting fees		**258,475**		278,401
User fees		**36,834**		43,080
Rental		**45,764**		47,113
Office		**54,519**		20,975
Travel and entertainment		**8,350**	$	-
Total general and administration costs	**$**	**689,381**	$	718,155

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 six months ended June 30, 2016, the Company incurred $137,000 (2015 - $144,000) 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 $42,268 in related interest payable. Included in finance costs in the Statements of Comprehensive Loss is related interest expense of $84,060.

16. Commitments

The Company is committed under an office lease that expires on June 30, 2017. Annual payments are as follows:

2016	**$**	**36,033**
2017		**36,033**
	$	**72,066**