

**VITAL ENERGY, INC.
(A WHOLLY-OWNED SUBSIDIARY OF
FSM PETROLEUM CORPORATION)**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

YEARS ENDED DECEMBER 31, 2014 AND 2013



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INDEPENDENT AUDITORS' REPORT

Board of Directors
Vital Energy, Inc.

We have audited the accompanying financial statements of Vital Energy, Inc. (the "Company"), a wholly-owned subsidiary of FSM Petroleum Corporation, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of loss and changes in deficit and of cash flows for the years ended December 31, 2014 and 2013 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

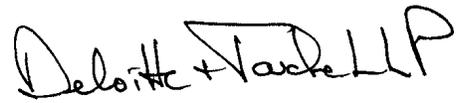
Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vital Energy, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows in accordance with accounting principles generally accepted in the United States of America.

Handwritten signature of Deloitte + Tatchell LLP in black ink.

June 22, 2015

VITAL ENERGY, INC.
(A WHOLLY-OWNED SUBSIDIARY OF FSM PETROLEUM CORPORATION)

Balance Sheets
December 31, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
Current assets:		
Cash	\$ 46,797	\$ 13,547
Receivables	219,426	188,704
Prepaid expenses	3,420	15,391
Total current assets	269,643	217,642
Property and equipment, net	63,417	66,897
	\$ 333,060	\$ 284,539
<u>LIABILITIES AND STOCKHOLDER'S EQUITY</u>		
Current liabilities:		
Accounts payable	\$ 211,670	\$ 101,524
Accrued liabilities and others	11,960	15,044
Total current liabilities	223,630	116,568
Contingencies		
Stockholder's equity:		
Common stock, 350,000 authorized shares at \$1 par value, 305,785 subscribed, paid-in and unissued	305,785	305,785
Deficit	(196,355)	(137,814)
Total stockholder's equity	109,430	167,971
	\$ 333,060	\$ 284,539

See accompanying notes to financial statements.

VITAL ENERGY, INC.
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Statements of Loss and Changes in Deficit
Years ended December 31, 2014 and 2013

	2014	2013
Revenue:		
Service income	\$ 675,273	\$ 675,273
Other	72,198	61,809
	747,471	737,082
Cost of services	71,558	57,870
Gross profit	675,913	679,212
Expenses:		
Salaries and benefits	208,671	200,321
Contracted services	126,922	123,060
Utilities	124,030	131,607
Professional fees	69,726	66,631
Insurance	48,393	50,463
Guam gross receipt tax	32,736	24,761
Rent	30,885	21,426
Depreciation	18,094	13,431
Repairs and maintenance	16,066	6,528
Communications	13,035	13,360
Bank charges	11,789	6,789
Office supplies	9,523	14,615
Staff training and development	9,054	4,579
Fuel	7,042	8,069
Travel and entertainment	1,105	2,630
Miscellaneous	7,383	9,412
Total expenses	734,454	697,682
Net loss	(58,541)	(18,470)
Deficit at beginning of the period	(137,814)	(119,344)
Deficit at end of the period	\$ (196,355)	\$ (137,814)

See accompanying notes to financial statements.

VITAL ENERGY, INC.
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Statements of Cash Flows
Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Net loss	\$ (58,541)	\$ (18,470)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	18,094	6,528
(Increase) decrease in assets:		
Receivables	(30,722)	(48,848)
Prepaid expenses	11,971	10,186
Increase (decrease) in liabilities:		
Accounts payable	110,146	82,366
Accrued liabilities and others	<u>(3,084)</u>	<u>(7,481)</u>
Net cash provided by (used in) operating activities	<u>47,864</u>	<u>24,281</u>
Cash flows from investing activity:		
Acquisition of property and equipment	<u>(14,614)</u>	<u>(18,637)</u>
Net change in cash	33,250	5,644
Cash at beginning of year	<u>13,547</u>	<u>1,000</u>
Cash at end of year	<u>\$ 46,797</u>	<u>\$ 6,644</u>

See accompanying notes to financial statements.

VITAL ENERGY, INC.
(A Wholly Owned Subsidiary FSM Petroleum Corporation)

Notes to Financial Statements
December 31, 2014 and 2013

(1) Organization

Vital Energy, Inc. (the “Company”) was incorporated on Guam on February 10, 2012 for the purpose of carrying on the operation of importation and sale of petroleum products, and operation, management and maintenance of petroleum storage terminals, international marine bunkering services, operation of road and aviation bridging tankers, and aviation refueling operations. The Company is wholly-owned by Federated States of Micronesia (FSM) Petroleum Corporation (FSMPC), a component unit of the FSM National Government.

(2) Summary of Significant Accounting Policies

Cash

For purposes of the balance sheets and statements of cash flows, cash represents cash on hand and cash in bank accounts.

Receivables

Receivables are uncollected amounts from the Guam Power Authority (GPA) (see note 4) and FSMPC. Allowance for doubtful accounts is stated at an amount which management believes will be adequate to absorb potential losses on accounts receivable that may become uncollectible based on evaluations of the collectability of these accounts and prior collection experience. Accounts deemed uncollectible are written-off. At December 31, 2014 and 2013, the Company deems it not necessary to establish an allowance for doubtful accounts.

Revenue Recognition

Service income is recognized based on existing GPA contract, typically earned monthly. Other income, mainly representing costs reimbursements for major operation and maintenance project activities, is billed and accrued upon completion of the project.

Property and Equipment

The Company capitalizes individual items with estimated useful lives of more than one year without regard to a capitalization threshold. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives of property and equipment are as follows:

Motor vehicle	5 years
Computer equipment	5 years
Furniture and fixtures	7 years
Machinery and equipment	7 years

Taxes

The Company is taxed and files its income tax return in Guam. The Guam income tax code is similar to that of the United States of America.

VITAL ENERGY, INC.
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Notes to Financial Statements
December 31, 2014 and 2013

(2) Summary of Significant Accounting Policies, Continued

Taxes, Continued

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or expense in the period that includes the enactment date.

For Guam income tax purposes, a tax year generally remains open to assessment and collection for three years after the later of the due date for filing a tax return or the date on which the tax payer files its return.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Related Parties

Related party transactions consist mainly of charges to and by FSMPC. The balances are non-interest bearing and have no specific repayment terms. As of December 31, 2014 and 2013, the Company has \$106,880 and \$61,511 of receivables from FSMPC, which are presented as a component of receivables in the accompanying balance sheets.

(3) Property and Equipment

Property and equipment consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Motor vehicles	\$ 33,158	\$ 25,258
Computer equipment	38,302	33,363
Furniture and fixtures	9,741	9,741
Machinery and equipment	<u>20,943</u>	<u>19,168</u>
	102,144	87,530
Less accumulated depreciation	<u>(38,727)</u>	<u>(20,633)</u>
	\$ <u>63,417</u>	\$ <u>66,897</u>

VITAL ENERGY, INC.
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Notes to Financial Statements
December 31, 2014 and 2013

(4) Concentration of Risk and Significant Customer

The Company's main business activity is with GPA. The Company has a contract with GPA to manage, operate and maintain GPA's fuel bulk storage facility from June 1, 2012 to May 31, 2015. GPA elected to extend the contract for an additional two-year term. The contract is for an annual fixed fee of \$675,273 payable monthly by GPA. The Company is required to seek approval from GPA for all major operation and maintenance activities exceeding \$5,000 which are to be billed separately from monthly payments. Service fee revenues of \$675,273 was earned from the GPA contract for each of the years ended December 31, 2014 and 2013 and is presented in the accompanying statements of loss and changes in deficit. As of December 31, 2014 and 2013, the Company has \$112,546 and \$127,193 receivable from GPA, respectively.

(5) Risk Management

The Company purchases commercial insurance to cover potential risks from managing, operating and maintaining GPA's fuel bulk storage facility. The Company is substantially self-insured for all other risks. Management is of the opinion that no material losses have been sustained as a result of this practice.

(6) Income Tax

The Company has net operating loss carryforwards of \$58,541 and \$18,470 for the years ended December 31, 2014 and 2013, respectively, which are available for Guam income tax purposes to offset taxable income of future periods. The carryover losses will expire on December 31, 2034 and 2033, respectively.

At December 31, 2014 and 2013, the Company has not recognized deferred tax assets resulting from net operating loss carryforwards because the Company believes that it is more likely than not that the tax benefit will not be realized.

(7) Subsequent Event

No events have occurred subsequent to December 31, 2014 but before June 22, 2015, the date the financial statements were available to be issued, that required consideration as adjustments to, or disclosures in, the financial statements.