

# THIRD QUARTER FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

DEFINED PRODUCTION GROWTH | RELIABLE & GROWING DIVIDENDS

**DISCLAIMER**

Certain statements included or incorporated by reference in this document may constitute forward looking statements or financial outlooks under applicable securities legislation. Such forward looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", or similar words suggesting future outcomes or statements regarding an outlook. Forward looking statements or information in this document may include, but are not limited to: capital expenditures; business strategies and objectives; operational and financial performance; estimated reserve quantities and the discounted present value of future net cash flows from such reserves; petroleum and natural gas sales; future production levels (including the timing thereof) and rates of average annual production growth; estimated contingent resources and prospective resources; exploration and development plans; acquisition and disposition plans and the timing thereof; operating and other expenses, including the payment and amount of future dividends; royalty and income tax rates; the timing of regulatory proceedings and approvals; and the timing of first commercial natural gas and the estimate of Vermilion's share of the expected natural gas production from the Corrib field.

Such forward looking statements or information are based on a number of assumptions all or any of which may prove to be incorrect. In addition to any other assumptions identified in this document, assumptions have been made regarding, among other things: the ability of Vermilion to obtain equipment, services and supplies in a timely manner to carry out its activities in Canada and internationally; the ability of Vermilion to market crude oil, natural gas liquids and natural gas successfully to current and new customers; the timing and costs of pipeline and storage facility construction and expansion and the ability to secure adequate product transportation; the timely receipt of required regulatory approvals; the ability of Vermilion to obtain financing on acceptable terms; foreign currency exchange rates and interest rates; future crude oil, natural gas liquids and natural gas prices; and management's expectations relating to the timing and results of exploration and development activities.

Although Vermilion believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Vermilion can give no assurance that such expectations will prove to be correct. Financial outlooks are provided for the purpose of understanding Vermilion's financial position and business objectives and the information may not be appropriate for other purposes. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Vermilion and described in the forward looking statements or information. These risks and uncertainties include but are not limited to: the ability of management to execute its business plan; the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil, natural gas liquids and natural gas; risks and uncertainties involving geology of crude oil, natural gas liquids and natural gas deposits; risks inherent in Vermilion's marketing operations, including credit risk; the uncertainty of reserves estimates and reserves life and estimates of resources and associated expenditures; the uncertainty of estimates and projections relating to production and associated expenditures; potential delays or changes in plans with respect to exploration or development projects; Vermilion's ability to enter into or renew leases on acceptable terms; fluctuations in crude oil, natural gas liquids and natural gas prices, foreign currency exchange rates and interest rates; health, safety and environmental risks; uncertainties as to the availability and cost of financing; the ability of Vermilion to add production and reserves through exploration and development activities; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; uncertainty in amounts and timing of royalty payments; risks associated with existing and potential future law suits and regulatory actions against Vermilion; and other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

The forward looking statements or information contained in this document are made as of the date hereof and Vermilion undertakes no obligation to update publicly or revise any forward looking statements or information, whether as a result of new information, future events or otherwise, unless required by applicable securities laws.

All oil and natural gas reserve information contained in this document has been prepared and presented in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The actual crude oil and natural gas reserves and future production will be greater than or less than the estimates provided in this document. The estimated future net revenue from the production of crude oil and natural gas reserves does not represent the fair market value of these reserves.

Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Financial data contained within this document are reported in Canadian dollars, unless otherwise stated.

**CONSOLIDATED BALANCE SHEETS**  
 (THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

|  | Note | September 30,<br>2015 | December 31,<br>2014 |
|--|------|-----------------------|----------------------|
| <b>ASSETS</b>                            |      |                       |                      |
| <b>Current</b>                           |      |                       |                      |
| Cash and cash equivalents                |      | 148,816               | 120,405              |
| Accounts receivable                      |      | 158,375               | 171,820              |
| Crude oil inventory                      |      | 17,451                | 9,510                |
| Derivative instruments                   |      | 39,418                | 23,391               |
| Prepaid expenses                         |      | 17,936                | 13,033               |
|  |      | 381,996               | 338,159              |
| Derivative instruments                   |      | 3,580                 | 1,403                |
| Deferred taxes                           |      | 181,767               | 154,816              |
| Exploration and evaluation assets        | 3    | 311,851               | 380,621              |
| Capital assets                           | 2    | 3,623,507             | 3,511,092            |
|  |      | 4,502,701             | 4,386,091            |
| <b>LIABILITIES</b>                       |      |                       |                      |
| <b>Current</b>                           |      |                       |                      |
| Accounts payable and accrued liabilities |      | 204,326               | 298,196              |
| Current portion of long-term debt        | 5    | 224,679               | -                    |
| Dividends payable                        | 6    | 23,825                | 23,070               |
| Derivative instruments                   |      | 2,049                 | -                    |
| Income taxes payable                     |      | 20,006                | 44,463               |
|  |      | 474,885               | 365,729              |
| Long-term debt                           | 5    | 1,270,154             | 1,238,080            |
| Finance lease obligation                 | 2    | 24,648                | -                    |
| Asset retirement obligations             | 4    | 384,269               | 350,753              |
| Deferred taxes                           |      | 362,931               | 410,183              |
|  |      | 2,516,887             | 2,364,745            |
| <b>SHAREHOLDERS' EQUITY</b>              |      |                       |                      |
| Shareholders' capital                    | 6    | 2,133,364             | 1,959,021            |
| Contributed surplus                      |      | 87,374                | 92,188               |
| Accumulated other comprehensive income   |      | 95,054                | 5,722                |
| Deficit                                  |      | (329,978)             | (35,585)             |
|  |      | 1,985,814             | 2,021,346            |
|  |      | 4,502,701             | 4,386,091            |

**APPROVED BY THE BOARD**
*("Joseph F. Killi")*

Joseph F. Killi, Director

*("Lorenzo Donadeo")*

Lorenzo Donadeo, Director

**CONSOLIDATED STATEMENTS OF NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME**  
**(THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)**

|  | Note | Three Months Ended |                 | Nine Months Ended |                  |
|--|------|--------------------|-----------------|-------------------|------------------|
|  |      | Sep 30,<br>2015    | Sep 30,<br>2014 | Sep 30,<br>2015   | Sep 30,<br>2014  |
| <b>REVENUE</b>                                     |      |                    |                 |                   |                  |
| Petroleum and natural gas sales                    |      | 245,051            | 344,688         | 705,267           | 1,113,555        |
| Royalties  |      | (17,100)           | (29,000)        | (49,635)          | (82,037)         |
| <b>Petroleum and natural gas revenue</b>           |      | <b>227,951</b>     | <b>315,688</b>  | <b>655,632</b>    | <b>1,031,518</b> |
| <b>EXPENSES</b>                                    |      |                    |                 |                   |                  |
| Operating  |      | 57,826             | 56,227          | 160,293           | 172,426          |
| Transportation                                     |      | 11,090             | 10,979          | 31,513            | 32,872           |
| Equity based compensation                          | 7    | 16,773             | 14,720          | 53,699            | 49,409           |
| Gain on derivative instruments                     |      | (42,874)           | (16,637)        | (36,347)          | (24,110)         |
| Interest expense                                   |      | 15,420             | 12,918          | 43,268            | 36,712           |
| General and administration                         |      | 13,088             | 16,262          | 41,153            | 48,491           |
| Foreign exchange (gain) loss                       |      | (15,267)           | 11,055          | (16,019)          | 14,255           |
| Other expense (income)                             |      | 82                 | 362             | (31,654)          | 217              |
| Accretion  | 4    | 6,199              | 6,064           | 17,587            | 17,726           |
| Depletion and depreciation                         | 2, 3 | 148,843            | 104,159         | 350,946           | 308,513          |
| Impairment   | 2, 3 | 143,000            | -               | 143,000           | -                |
|  |      | <b>354,180</b>     | <b>216,109</b>  | <b>757,439</b>    | <b>656,511</b>   |
| <b>EARNINGS (LOSS) BEFORE INCOME TAXES</b>         |      | <b>(126,229)</b>   | <b>99,579</b>   | <b>(101,807)</b>  | <b>375,007</b>   |
| <b>INCOME TAXES</b>                                |      |                    |                 |                   |                  |
| Deferred   |      | (55,401)           | 14,388          | (79,759)          | 28,859           |
| Current  |      | 12,482             | 31,288          | 53,174            | 135,464          |
|  |      | <b>(42,919)</b>    | <b>45,676</b>   | <b>(26,585)</b>   | <b>164,323</b>   |
| <b>NET EARNINGS (LOSS)</b>                         |      | <b>(83,310)</b>    | <b>53,903</b>   | <b>(75,222)</b>   | <b>210,684</b>   |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>           |      |                    |                 |                   |                  |
| Currency translation adjustments                   |      | 101,923            | (36,143)        | 89,332            | (33,402)         |
| <b>COMPREHENSIVE INCOME</b>                        |      | <b>18,613</b>      | <b>17,760</b>   | <b>14,110</b>     | <b>177,282</b>   |
| <b>NET EARNINGS (LOSS) PER SHARE</b>               |      |                    |                 |                   |                  |
| Basic  |      | (0.76)             | 0.50            | (0.69)            | 2.01             |
| Diluted  |      | (0.76)             | 0.50            | (0.69)            | 1.98             |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)</b> |      |                    |                 |                   |                  |
| Basic  |      | 110,293            | 106,768         | 109,052           | 104,891          |
| Diluted  |      | 110,293            | 108,290         | 109,052           | 106,582          |

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

|  | Note | Three Months Ended |                 | Nine Months Ended |                 |
|--|------|--------------------|-----------------|-------------------|-----------------|
|  |      | Sep 30,<br>2015    | Sep 30,<br>2014 | Sep 30,<br>2015   | Sep 30,<br>2014 |
| <b>OPERATING</b>   |      |                    |                 |                   |                 |
| Net earnings (loss)  |      | (83,310)           | 53,903          | (75,222)          | 210,684         |
| Adjustments:   |      |                    |                 |                   |                 |
| Accretion  | 4    | 6,199              | 6,064           | 17,587            | 17,726          |
| Depletion and depreciation   | 2, 3 | 148,843            | 104,159         | 350,946           | 308,513         |
| Impairment   | 2, 3 | 143,000            | -               | 143,000           | -               |
| Unrealized gain on derivative instruments                          |      | (32,020)           | (7,800)         | (16,155)          | (10,214)        |
| Equity based compensation  | 7    | 16,773             | 14,720          | 53,699            | 49,409          |
| Unrealized foreign exchange (gain) loss                            |      | (14,958)           | 11,867          | (15,144)          | 13,613          |
| Unrealized other expense   |      | 309                | 597             | 774               | 747             |
| Deferred taxes   |      | (55,401)           | 14,388          | (79,759)          | 28,859          |
| Asset retirement obligations settled                               | 4    | (2,123)            | (4,677)         | (6,448)           | (9,709)         |
| Changes in non-cash operating working capital                      |      | (5,082)            | 41,789          | (93,733)          | (46,788)        |
| Cash flows from operating activities                               |      | 122,230            | 235,010         | 279,545           | 562,840         |
| <b>INVESTING</b>   |      |                    |                 |                   |                 |
| Drilling and development   | 2    | (93,381)           | (180,479)       | (357,865)         | (467,294)       |
| Exploration and evaluation   | 3    | -                  | (9,554)         | -                 | (54,187)        |
| Property acquisitions  | 2, 3 | (22,155)           | (40,847)        | (22,670)          | (219,074)       |
| Corporate acquisitions, net of cash acquired                       |      | -                  | -               | -                 | (176,179)       |
| Changes in non-cash investing working capital                      |      | 646                | 24,539          | (26,516)          | 40,002          |
| Cash flows used in investing activities                            |      | (114,890)          | (206,341)       | (407,051)         | (876,732)       |
| <b>FINANCING</b>   |      |                    |                 |                   |                 |
| Increase (decrease) in long-term debt                              |      | 63,328             | (1,600)         | 251,189           | 204,127         |
| Decrease in finance lease obligation                               |      | (1,297)            | -               | (1,297)           | -               |
| Cash dividends   |      | (26,437)           | (48,415)        | (102,586)         | (142,600)       |
| Cash flows from (used in) financing activities                     |      | 35,594             | (50,015)        | 147,306           | 61,527          |
| Foreign exchange gain (loss) on cash held in foreign currencies    |      | 7,844              | (1,631)         | 8,611             | 5,326           |
| Net change in cash and cash equivalents                            |      | 50,778             | (22,977)        | 28,411            | (247,039)       |
| Cash and cash equivalents, beginning of period                     |      | 98,038             | 165,497         | 120,405           | 389,559         |
| Cash and cash equivalents, end of period                           |      | 148,816            | 142,520         | 148,816           | 142,520         |
| Supplementary information for operating activities - cash payments |      |                    |                 |                   |                 |
| Interest paid  |      | 18,464             | 15,132          | 49,219            | 40,947          |
| Income taxes paid  |      | 19,501             | 28,617          | 78,329            | 106,177         |

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)**

|  | Note | Shareholders'<br>Capital | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Deficit   | Total<br>Shareholders'<br>Equity |
|--|------|--------------------------|------------------------|---|-----------|----------------------------------|
| Balances as at January 1, 2014                           |      | 1,618,443                | 75,427                 | 47,142  | (24,637)  | 1,716,375                        |
| Net earnings   |      | -                        | -                      | -   | 210,684   | 210,684                          |
| Currency translation adjustments                         |      | -                        | -                      | (33,402)  | -         | (33,402)                         |
| Equity based compensation expense                        |      | -                        | 48,688                 | -   | -         | 48,688                           |
| Dividends declared                                       | 6    | -                        | -                      | -   | (203,613) | (203,613)                        |
| Shares issued pursuant to the dividend reinvestment plan | 6    | 58,450                   | -                      | -   | -         | 58,450                           |
| Shares issued pursuant to corporate acquisition          |      | 204,960                  | -                      | -   | -         | 204,960                          |
| Modification of equity based awards                      |      | -                        | (2,395)                | -   | -         | (2,395)                          |
| Vesting of equity based awards                           | 6, 7 | 47,657                   | (47,657)               | -   | -         | -                                |
| Share-settled dividends on vested equity based awards    | 6, 7 | 7,519                    | -                      | -   | (7,519)   | -                                |
| Shares issued pursuant to the bonus plan                 | 6    | 721                      | -                      | -   | -         | 721                              |
| Balances as at September 30, 2014                        |      | 1,937,750                | 74,063                 | 13,740  | (25,085)  | 2,000,468                        |

|   | Note | Shareholders'<br>Capital | Contributed<br>Surplus | Accumulated<br>Other<br>Comprehensive<br>Income | Deficit   | Total<br>Shareholders'<br>Equity |
|---|------|--------------------------|------------------------|---|-----------|----------------------------------|
| Balances as at January 1, 2015  |      | 1,959,021                | 92,188                 | 5,722   | (35,585)  | 2,021,346                        |
| Net loss  |      | -                        | -                      | -   | (75,222)  | (75,222)                         |
| Currency translation adjustments  |      | -                        | -                      | 89,332  | -         | 89,332                           |
| Equity based compensation expense   | 7    | -                        | 52,041                 | -   | -         | 52,041                           |
| Dividends declared  | 6    | -                        | -                      | -   | (211,610) | (211,610)                        |
| Shares issued pursuant to the dividend reinvestment and Premium Dividend™ plans | 6    | 108,269                  | -                      | -   | -         | 108,269                          |
| Vesting of equity based awards  | 6, 7 | 56,855                   | (56,855)               | -   | -         | -                                |
| Share-settled dividends on vested equity based awards                           | 6, 7 | 7,561                    | -                      | -   | (7,561)   | -                                |
| Shares issued pursuant to the employee savings and bonus plans                  | 6    | 1,658                    | -                      | -   | -         | 1,658                            |
| Balances as at September 30, 2015   |      | 2,133,364                | 87,374                 | 95,054  | (329,978) | 1,985,814                        |

**DESCRIPTION OF EQUITY RESERVES**
***Shareholders' capital***

Represents the recognized amount for common shares when issued, net of equity issuance costs and deferred taxes.

***Contributed surplus***

Represents the recognized value of employee awards which are settled in shares. Once vested, the value of the awards is transferred to shareholders' capital.

***Accumulated other comprehensive income***

Represents the cumulative income and expenses which are not recorded immediately in net earnings and are accumulated until an event triggers recognition in net earnings. The current balance consists of currency translation adjustments resulting from translating financial statements of subsidiaries with a foreign functional currency to Canadian dollars at period-end rates.

***Deficit***

Represents the cumulative net earnings less distributed earnings of Vermilion Energy Inc.

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014  
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)**

**1. BASIS OF PRESENTATION**

Vermilion Energy Inc. (the "Company" or "Vermilion") is a corporation governed by the laws of the Province of Alberta and is actively engaged in the business of crude oil and natural gas exploration, development, acquisition and production.

These condensed consolidated interim financial statements are in compliance with IAS 34, "Interim financial reporting" and have been prepared using the same accounting policies and methods of computation as Vermilion's consolidated financial statements for the year ended December 31, 2014.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2014, which are contained within Vermilion's Annual Report for the year ended December 31, 2014 and are available on SEDAR at [www.sedar.com](http://www.sedar.com) or on Vermilion's website at [www.vermilionenergy.com](http://www.vermilionenergy.com).

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on November 5, 2015.

**2. CAPITAL ASSETS**

The following table reconciles the change in Vermilion's capital assets:

| (\$M)  | Petroleum and<br>Natural Gas Assets | Furniture and<br>Office Equipment | Total<br>Capital Assets |
|--|-------------------------------------|-----------------------------------|-------------------------|
| <b>Balance at January 1, 2014</b>                    | 2,784,634                           | 15,211                            | 2,799,845               |
| Additions  | 608,709                             | 9,980                             | 618,689                 |
| Property acquisitions                                | 176,625                             | -                                 | 176,625                 |
| Corporate acquisitions                               | 390,523                             | -                                 | 390,523                 |
| Changes in estimate for asset retirement obligations | 19,107                              | -                                 | 19,107                  |
| Depletion and depreciation                           | (412,768)                           | (5,072)                           | (417,840)               |
| Effect of movements in foreign exchange rates        | (75,635)                            | (222)                             | (75,857)                |
| <b>Balance at December 31, 2014</b>                  | 3,491,195                           | 19,897                            | 3,511,092               |
| Additions  | 356,253                             | 1,612                             | 357,865                 |
| Property acquisitions                                | 21,504                              | -                                 | 21,504                  |
| Changes in estimate for asset retirement obligations | 7,638                               | -                                 | 7,638                   |
| Depletion and depreciation                           | (329,729)                           | (3,288)                           | (333,017)               |
| Recognition of finance lease obligation              | 31,028                              | -                                 | 31,028                  |
| Impairment   | (91,976)                            | -                                 | (91,976)                |
| Effect of movements in foreign exchange rates        | 118,822                             | 551                               | 119,373                 |
| <b>Balance at September 30, 2015</b>                 | 3,604,735                           | 18,772                            | 3,623,507               |

As part of the Elkhorn acquisition in April of 2014, Vermilion assumed an agreement for the construction and use of a solution gas facility which was under construction at the time of acquisition. The substance of the arrangement was determined to be a lease and has been classified as a finance lease. The carrying amount of the asset and liability at the commencement date in the first quarter of 2015 was \$31.0 million, with the liability being apportioned between current (\$3.9 million) and long-term (\$27.1 million).

**Impairments**

On a quarterly basis, Vermilion performs an assessment as to whether any cash generating units ("CGUs") have indicators of impairment. When indicators of impairment are identified, Vermilion assesses the recoverable amount of the applicable CGU based on the higher of the estimated fair value less costs to sell and value in use as at the reporting date. The estimated fair value takes into account the most recent commodity price forecasts, expected production and estimated costs and timing of development.

For the three months ended September 30, 2015, Vermilion recorded an impairment charge of \$143.0 million related to the light crude oil play in Saskatchewan, Canada. These impairment charges were a result of declines in the price forecasts for crude oil in Canada which decreased the expected cash flows from the CGU. The recoverable amount was determined using a range of fair value estimates encompassing before-tax discount rates of 8% to 10% for proved and probable reserves and 10% to 15% on resources carried within exploration and evaluation assets.

## 2. CAPITAL ASSETS (Continued)

The following table outlines the forward commodity price estimates that were used in the calculation of recoverable amounts:

|                             | WTI Oil<br>(US \$/bbl) | AECO Gas<br>(CDN \$/mmbtu) | Blended NGLs<br>(CDN \$/bbl) |
|-----------------------------|------------------------|----------------------------|------------------------------|
| 2016                        | 53.55                  | 3.35                       | 30.78                        |
| 2017                        | 57.20                  | 3.70                       | 36.62                        |
| 2018                        | 63.65                  | 3.85                       | 41.38                        |
| 2019                        | 70.35                  | 4.20                       | 45.95                        |
| 2020                        | 77.30                  | 4.45                       | 50.68                        |
| 2021                        | 84.45                  | 4.80                       | 55.84                        |
| 2022                        | 91.90                  | 5.05                       | 61.02                        |
| Average increase thereafter | 2.0%                   | 2.0%                       | 2.0%                         |

## 3. EXPLORATION AND EVALUATION ASSETS

The following table reconciles the change in Vermilion's exploration and evaluation assets:

| (\$M)  | Exploration and Evaluation Assets |
|--|-----------------------------------|
| <b>Balance at January 1, 2014</b>                    | 136,259                           |
| Additions  | 69,035                            |
| Changes in estimate for asset retirement obligations | 22                                |
| Property acquisitions                                | 46,135                            |
| Corporate acquisitions                               | 138,264                           |
| Depreciation   | (5,038)                           |
| Effect of movements in foreign exchange rates        | (4,056)                           |
| <b>Balance at December 31, 2014</b>                  | 380,621                           |
| Changes in estimate for asset retirement obligations | (8)                               |
| Property acquisitions                                | 1,166                             |
| Depreciation   | (21,893)                          |
| Impairment   | (51,024)                          |
| Effect of movements in foreign exchange rates        | 2,989                             |
| <b>Balance at September 30, 2015</b>                 | 311,851                           |

## 4. ASSET RETIREMENT OBLIGATIONS

The following table reconciles the change in Vermilion's asset retirement obligations:

| (\$M)   | Asset Retirement Obligations |
|---|------------------------------|
| <b>Balance at January 1, 2014</b>                     | 326,162                      |
| Additional obligations recognized                     | 22,565                       |
| Changes in estimates for asset retirement obligations | (3,434)                      |
| Obligations settled                                   | (15,956)                     |
| Accretion   | 23,913                       |
| Changes in discount rates                             | 9,404                        |
| Effect of movements in foreign exchange rates         | (11,901)                     |
| <b>Balance at December 31, 2014</b>                   | 350,753                      |
| Additional obligations recognized                     | 3,657                        |
| Obligations settled                                   | (6,448)                      |
| Accretion   | 17,587                       |
| Changes in discount rates                             | 3,973                        |
| Effect of movements in foreign exchange rates         | 14,747                       |
| <b>Balance at September 30, 2015</b>                  | 384,269                      |



## 5. LONG-TERM DEBT

The following table summarizes Vermilion's outstanding long-term debt:

| (\$M)                                 | As at         |              |
|---------------------------------------|---------------|--------------|
|                                       | Sept 30, 2015 | Dec 31, 2014 |
| Revolving credit facility             | 1,270,154     | 1,014,067    |
| Senior unsecured notes <sup>(1)</sup> | 224,679       | 224,013      |
| Long-term debt                        | 1,494,833     | 1,238,080    |

<sup>(1)</sup> The senior unsecured notes, which will mature on February 10, 2016, are included in the current portion of long-term debt as at September 30, 2015.

### Revolving Credit Facility

At September 30, 2015, Vermilion had in place a bank revolving credit facility totalling \$2 billion, of which approximately \$1.27 billion was drawn. The facility, which matures on May 31, 2019, is fully revolving up to the date of maturity.

The facility is extendable from time to time, but not more than once per year, for a period not longer than four years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins. For the nine months ended September 30, 2015, the interest rate on the revolving credit facility was approximately 3.5% (2014 – 3.1%).

The amount available to Vermilion under this facility is reduced by certain outstanding letters of credit associated with Vermilion's operations totalling \$29.3 million as at September 30, 2015 (December 31, 2014 - \$8.6 million).

The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the facility, Vermilion must maintain:

- A ratio of total bank borrowings (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items (defined as consolidated EBITDA) of not greater than 4.0.
- A ratio of consolidated total senior debt (defined as consolidated total debt excluding unsecured and subordinated debt) to consolidated EBITDA of not greater than 3.0.
- A ratio of consolidated total senior debt to total capitalization (defined as amounts classified as "Long-term debt", "Current portion of long-term debt", "Finance lease obligation", and "Shareholders' equity" on the balance sheet) of less than 50%.

As at September 30, 2015, Vermilion was in compliance with all financial covenants.

### Senior Unsecured Notes

On February 10, 2011, Vermilion issued \$225.0 million of senior unsecured notes at par. The notes bear interest at a rate of 6.5% per annum and will mature on February 10, 2016. As direct senior unsecured obligations of Vermilion, the notes rank pari passu with all other present and future unsecured and unsubordinated indebtedness of the Company. Vermilion may redeem all or part of the senior unsecured notes at 100% of their principal amount plus any accrued and unpaid interest. The notes were initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

## 6. SHAREHOLDERS' CAPITAL

The following table reconciles the change in Vermilion's shareholders' capital:

| Shareholders' Capital   | Number of Shares ('000s) | Amount (\$M) |
|---|--------------------------|--------------|
| <b>Balance as at January 1, 2014</b>  | 102,123                  | 1,618,443    |
| Shares issued pursuant to corporate acquisition                                 | 2,827                    | 204,960      |
| Shares issued pursuant to the dividend reinvestment plan                        | 1,279                    | 79,430       |
| Vesting of equity based awards  | 955                      | 47,925       |
| Share-settled dividends on vested equity based awards                           | 108                      | 7,542        |
| Shares issued pursuant to the bonus plan  | 11                       | 721          |
| <b>Balance as at December 31, 2014</b>  | 107,303                  | 1,959,021    |
| Shares issued pursuant to the dividend reinvestment and Premium Dividend™ plans | 2,188                    | 108,269      |
| Vesting of equity based awards  | 1,158                    | 56,855       |
| Share-settled dividends on vested equity based awards                           | 135                      | 7,561        |
| Shares issued pursuant to the employee savings and bonus plans                  | 34                       | 1,658        |
| <b>Balance as at September 30, 2015</b>   | 110,818                  | 2,133,364    |

Dividends declared to shareholders for the nine months ended September 30, 2015 were \$211.6 million (2014 - \$203.6 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue on November 5, 2015, Vermilion declared dividends totalling \$23.9 million or \$0.215 per share.

## 7. EQUITY BASED COMPENSATION

The following table summarizes the number of awards outstanding under the Vermilion Incentive Plan ("VIP"):

| Number of Awards ('000s) | Nine Months | Full Year |
|--------------------------|-------------|-----------|
|                          | 2015        | 2014      |
| Opening balance          | 1,775       | 1,665     |
| Granted                  | 595         | 707       |
| Vested                   | (587)       | (515)     |
| Modified                 | -           | (21)      |
| Forfeited                | (65)        | (61)      |
| Closing balance          | 1,718       | 1,775     |

The fair value of a VIP award is determined on the grant date at the closing price of Vermilion's common shares on the Toronto Stock Exchange, adjusted by the estimated performance factor that will ultimately be achieved.

## 8. SEGMENTED INFORMATION

Vermilion has operations in three core areas: North America, Europe, and Australia. Vermilion's operating activities in each country relate solely to the exploration, development and production of petroleum and natural gas. Vermilion has a Corporate head office located in Calgary, Alberta. Costs incurred in the Corporate segment relate to Vermilion's global hedging program and expenses incurred in financing and managing our operating business units.

Vermilion's chief operating decision maker reviews the financial performance of the Company by assessing the fund flows from operations of each country individually. Fund flows from operations provides a measure of each business unit's ability to generate cash (that is not subject to short-term movements in non-cash operating working capital) necessary to pay dividends, fund asset retirement obligations, and make capital investments.

| (\$M)                                   | Three Months Ended September 30, 2015 |          |             |         |         |           |               |           | Total    |
|---|---------------------------------------|----------|-------------|---------|---------|-----------|---------------|-----------|----------|
|   | Canada                                | France   | Netherlands | Germany | Ireland | Australia | United States | Corporate |          |
| Drilling and development                | 37,224                                | 17,369   | 5,297       | 1,605   | 20,694  | 7,966     | 3,226         | -         | 93,381   |
| Oil and gas sales to external customers | 77,493                                | 76,552   | 41,083      | 9,523   | -       | 39,325    | 1,075         | -         | 245,051  |
| Royalties                               | (6,638)                               | (8,038)  | (638)       | (1,477) | -       | -         | (309)         | -         | (17,100) |
| Revenue from external customers         | 70,855                                | 68,514   | 40,445      | 8,046   | -       | 39,325    | 766           | -         | 227,951  |
| Transportation expense                  | (4,131)                               | (4,566)  | -           | (627)   | (1,766) | -         | -             | -         | (11,090) |
| Operating expense                       | (23,877)                              | (11,998) | (5,243)     | (2,796) | -       | (13,766)  | (146)         | -         | (57,826) |
| General and administration              | (3,694)                               | (5,338)  | (2,154)     | (1,311) | (663)   | (1,391)   | (896)         | 2,359     | (13,088) |
| PRRT                                    | -                                     | -        | -           | -       | -       | (99)      | -             | -         | (99)     |
| Corporate income taxes                  | -                                     | (4,696)  | (4,487)     | -       | -       | (2,720)   | -             | (480)     | (12,383) |
| Interest expense                        | -                                     | -        | -           | -       | -       | -         | -             | (15,420)  | (15,420) |
| Realized gain on derivative instruments | -                                     | -        | -           | -       | -       | -         | -             | 10,854    | 10,854   |
| Realized foreign exchange gain          | -                                     | -        | -           | -       | -       | -         | -             | 309       | 309      |
| Realized other income                   | -                                     | -        | -           | -       | -       | -         | -             | 227       | 227      |
| Fund flows from operations              | 39,153                                | 41,916   | 28,561      | 3,312   | (2,429) | 21,349    | (276)         | (2,151)   | 129,435  |

| (\$M)                                   | Three Months Ended September 30, 2014 |          |             |         |         |           |               |           | Total    |
|---|---------------------------------------|----------|-------------|---------|---------|-----------|---------------|-----------|----------|
|   | Canada                                | France   | Netherlands | Germany | Ireland | Australia | United States | Corporate |          |
| Drilling and development                | 88,116                                | 34,883   | 10,087      | 1,358   | 30,050  | 15,985    | -             | -         | 180,479  |
| Exploration and evaluation              | 9,277                                 | 199      | -           | -       | -       | -         | -             | 78        | 9,554    |
| Oil and gas sales to external customers | 138,853                               | 106,576  | 26,960      | 8,591   | -       | 63,708    | -             | -         | 344,688  |
| Royalties                               | (19,034)                              | (6,978)  | (942)       | (2,046) | -       | -         | -             | -         | (29,000) |
| Revenue from external customers         | 119,819                               | 99,598   | 26,018      | 6,545   | -       | 63,708    | -             | -         | 315,688  |
| Transportation expense                  | (4,048)                               | (4,741)  | -           | (675)   | (1,515) | -         | -             | -         | (10,979) |
| Operating expense                       | (19,074)                              | (15,215) | (5,409)     | (2,227) | -       | (14,302)  | -             | -         | (56,227) |
| General and administration              | (4,523)                               | (6,411)  | (204)       | (1,090) | (334)   | (1,378)   | -             | (2,322)   | (16,262) |
| PRRT                                    | -                                     | -        | -           | -       | -       | (13,834)  | -             | -         | (13,834) |
| Corporate income taxes                  | -                                     | (10,744) | (1,189)     | (146)   | -       | (5,148)   | -             | (227)     | (17,454) |
| Interest expense                        | -                                     | -        | -           | -       | -       | -         | -             | (12,918)  | (12,918) |
| Realized gain on derivative instruments | -                                     | -        | -           | -       | -       | -         | -             | 8,837     | 8,837    |
| Realized foreign exchange gain          | -                                     | -        | -           | -       | -       | -         | -             | 812       | 812      |
| Realized other income                   | -                                     | -        | -           | -       | -       | -         | -             | 235       | 235      |
| Fund flows from operations              | 92,174                                | 62,487   | 19,216      | 2,407   | (1,849) | 29,046    | -             | (5,583)   | 197,898  |

## 8. SEGMENTED INFORMATION (Continued)

| (\$M)                                   | Nine Months Ended September 30, 2015 |          |             |         |         |           |               |           |           |
|---|--------------------------------------|----------|-------------|---------|---------|-----------|---------------|-----------|-----------|
|   | Canada                               | France   | Netherlands | Germany | Ireland | Australia | United States | Corporate | Total     |
| Total assets                            | 1,769,222                            | 902,777  | 219,221     | 172,664 | 947,592 | 223,261   | 36,955        | 231,009   | 4,502,701 |
| Drilling and development                | 173,954                              | 68,180   | 28,515      | 5,804   | 53,916  | 20,889    | 6,607         | -         | 357,865   |
| Oil and gas sales to external customers | 246,661                              | 218,011  | 91,814      | 31,544  | -       | 114,813   | 2,424         | -         | 705,267   |
| Royalties                               | (20,998)                             | (19,760) | (2,858)     | (5,313) | -       | -         | (706)         | -         | (49,635)  |
| Revenue from external customers         | 225,663                              | 198,251  | 88,956      | 26,231  | -       | 114,813   | 1,718         | -         | 655,632   |
| Transportation expense                  | (12,542)                             | (11,103) | -           | (2,761) | (5,107) | -         | -             | -         | (31,513)  |
| Operating expense                       | (64,510)                             | (34,926) | (16,483)    | (6,168) | -       | (37,735)  | (471)         | -         | (160,293) |
| General and administration              | (13,219)                             | (15,323) | (3,345)     | (4,354) | (1,803) | (3,986)   | (2,939)       | 3,816     | (41,153)  |
| PRRT                                    | -                                    | -        | -           | -       | -       | (5,824)   | -             | -         | (5,824)   |
| Corporate income taxes                  | -                                    | (28,293) | (9,222)     | -       | -       | (8,431)   | -             | (1,404)   | (47,350)  |
| Interest expense                        | -                                    | -        | -           | -       | -       | -         | -             | (43,268)  | (43,268)  |
| Realized gain on derivative instruments | -                                    | -        | -           | -       | -       | -         | -             | 20,192    | 20,192    |
| Realized foreign exchange gain          | -                                    | -        | -           | -       | -       | -         | -             | 875       | 875       |
| Realized other income                   | -                                    | 31,775   | -           | -       | -       | -         | -             | 653       | 32,428    |
| Fund flows from operations              | 135,392                              | 140,381  | 59,906      | 12,948  | (6,910) | 58,837    | (1,692)       | (19,136)  | 379,726   |

| (\$M)                                   | Nine Months Ended September 30, 2014 |          |             |         |         |           |               |           |           |
|---|--------------------------------------|----------|-------------|---------|---------|-----------|---------------|-----------|-----------|
|   | Canada                               | France   | Netherlands | Germany | Ireland | Australia | United States | Corporate | Total     |
| Total assets                            | 1,857,012                            | 894,060  | 237,070     | 164,025 | 809,296 | 269,959   | -             | 206,305   | 4,437,727 |
| Drilling and development                | 215,860                              | 99,564   | 43,512      | 2,184   | 73,507  | 32,667    | -             | -         | 467,294   |
| Exploration and evaluation              | 33,440                               | 11,099   | 8,206       | -       | -       | -         | -             | 1,442     | 54,187    |
| Oil and gas sales to external customers | 425,294                              | 348,753  | 98,395      | 28,603  | -       | 212,510   | -             | -         | 1,113,555 |
| Royalties                               | (49,937)                             | (22,125) | (3,843)     | (6,132) | -       | -         | -             | -         | (82,037)  |
| Revenue from external customers         | 375,357                              | 326,628  | 94,552      | 22,471  | -       | 212,510   | -             | -         | 1,031,518 |
| Transportation expense                  | (11,170)                             | (14,879) | -           | (2,149) | (4,674) | -         | -             | -         | (32,872)  |
| Operating expense                       | (56,863)                             | (48,185) | (17,841)    | (5,824) | -       | (43,713)  | -             | -         | (172,426) |
| General and administration              | (13,951)                             | (17,164) | (1,128)     | (2,488) | (868)   | (4,245)   | -             | (8,647)   | (48,491)  |
| PRRT                                    | -                                    | -        | -           | -       | -       | (46,772)  | -             | -         | (46,772)  |
| Corporate income taxes                  | -                                    | (60,769) | (6,278)     | (1,189) | -       | (19,678)  | -             | (778)     | (88,692)  |
| Interest expense                        | -                                    | -        | -           | -       | -       | -         | -             | (36,712)  | (36,712)  |
| Realized gain on derivative instruments | -                                    | -        | -           | -       | -       | -         | -             | 13,896    | 13,896    |
| Realized foreign exchange loss          | -                                    | -        | -           | -       | -       | -         | -             | (642)     | (642)     |
| Realized other income                   | -                                    | -        | -           | -       | -       | -         | -             | 530       | 530       |
| Fund flows from operations              | 293,373                              | 185,631  | 69,305      | 10,821  | (5,542) | 98,102    | -             | (32,353)  | 619,337   |

## Reconciliation of fund flows from operations to net earnings (loss)

| (\$M)                                     | Three Months Ended |              | Nine Months Ended |              |
|---|--------------------|--------------|-------------------|--------------|
|   | Sep 30, 2015       | Sep 30, 2014 | Sep 30, 2015      | Sep 30, 2014 |
| Fund flows from operations                | 129,435            | 197,898      | 379,726           | 619,337      |
| Equity based compensation                 | (16,773)           | (14,720)     | (53,699)          | (49,409)     |
| Unrealized gain on derivative instruments | 32,020             | 7,800        | 16,155            | 10,214       |
| Unrealized foreign exchange gain (loss)   | 14,958             | (11,867)     | 15,144            | (13,613)     |
| Unrealized other expense                  | (309)              | (597)        | (774)             | (747)        |
| Accretion                                 | (6,199)            | (6,064)      | (17,587)          | (17,726)     |
| Depletion and depreciation                | (148,843)          | (104,159)    | (350,946)         | (308,513)    |
| Deferred taxes                            | 55,401             | (14,388)     | 79,759            | (28,859)     |
| Impairment                                | (143,000)          | -            | (143,000)         | -            |
| Net earnings (loss)                       | (83,310)           | 53,903       | (75,222)          | 210,684      |

## 9. CAPITAL DISCLOSURES

| (\$M except as indicated)  | Three Months Ended |              | Nine Months Ended |              |
|--|--------------------|--------------|-------------------|--------------|
|  | Sep 30, 2015       | Sep 30, 2014 | Sep 30, 2015      | Sep 30, 2014 |
| Long-term debt   | 1,270,154          | 1,198,648    | 1,270,154         | 1,198,648    |
| Current liabilities <sup>(1)</sup>                                     | 474,885            | 431,175      | 474,885           | 431,175      |
| Current assets   | (381,996)          | (386,385)    | (381,996)         | (386,385)    |
| Net debt [1]   | 1,363,043          | 1,243,438    | 1,363,043         | 1,243,438    |
| Cash flows from operating activities                                   | 122,230            | 235,010      | 279,545           | 562,840      |
| Changes in non-cash operating working capital                          | 5,082              | (41,789)     | 93,733            | 46,788       |
| Asset retirement obligations settled                                   | 2,123              | 4,677        | 6,448             | 9,709        |
| Fund flows from operations   | 129,435            | 197,898      | 379,726           | 619,337      |
| Annualized fund flows from operations [2]                              | 517,740            | 791,592      | 506,301           | 825,783      |
| Ratio of net debt to annualized fund flows from operations ([1] ÷ [2]) | 2.6                | 1.6          | 2.7               | 1.5          |

<sup>(1)</sup> Includes the current portion of long-term debt, which, as at September 30, 2015, represents the senior unsecured notes that will mature on February 10, 2016.

Long-term debt, including the current portion, as at September 30, 2015 increased to \$1.49 billion from \$1.24 billion as at December 31, 2014, primarily as a result of draws on the revolving credit facility to fund capital expenditures as fund flows from operations for the nine months ended September 30, 2015 were lower due to weakening crude oil and North American natural gas prices. The increase in long-term debt resulted in an increase in net debt from \$1.27 billion as at December 31, 2014 to \$1.36 billion.

Driven primarily by the weakness in crude oil prices, the ratio of net debt to fund flows from operations increased to 2.7 for the nine months ended September 30, 2015.

## 10. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The following table summarizes information relating to Vermilion's financial instruments as at September 30, 2015 and December 31, 2014:

| Class of financial instrument | Consolidated balance sheet caption       | Accounting designation | Related caption on Statement of Net Earnings (Loss)  | As at Sep 30, 2015   |                  | As at Dec 31, 2014   |                  | Fair value measurement hierarchy |
|-------------------------------|--|------------------------|--|----------------------|------------------|----------------------|------------------|----------------------------------|
|                               |  |                        |  | Carrying value (\$M) | Fair value (\$M) | Carrying value (\$M) | Fair value (\$M) |                                  |
| Cash                          | Cash and cash equivalents                | HFT                    | Gains and losses on foreign exchange are included in foreign exchange (gain) loss  | 148,816              | 148,816          | 120,405              | 120,405          | Level 1                          |
| Receivables                   | Accounts receivable                      | LAR                    | Gains and losses on foreign exchange are included in foreign exchange (gain) loss and impairments are recognized as general and administration expense | 158,375              | 158,375          | 171,820              | 171,820          | Not applicable                   |
| Derivative assets             | Derivative instruments                   | HFT                    | Gain on derivative instruments   | 42,998               | 42,998           | 24,794               | 24,794           | Level 2                          |
| Derivative liabilities        | Derivative instruments                   | HFT                    | Gain on derivative instruments   | (2,049)              | (2,049)          | -                    | -                | Level 2                          |
| Payables                      | Accounts payable and accrued liabilities | OTH                    | Gains and losses on foreign exchange are included in foreign exchange (gain) loss  | (228,151)            | (228,151)        | (321,266)            | (321,266)        | Not applicable                   |
|                               | Dividends payable                        |                        |  |                      |                  |                      |                  |                                  |
| Long-term debt                | Long-term debt                           | OTH                    | Interest expense   | (1,494,833)          | (1,494,592)      | (1,238,080)          | (1,238,505)      | Level 2                          |

## 10. FINANCIAL INSTRUMENTS (Continued)

The accounting designations used in the above table refer to the following:

HFT – Classified as “Held for trading” in accordance with International Accounting Standard 39 “Financial Instruments: Recognition and Measurement”. These financial assets and liabilities are carried at fair value on the consolidated balance sheets with associated gains and losses reflected in net earnings (loss).

LAR – “Loans and receivables” are initially recognized at fair value and are subsequently measured at amortized cost. Impairments and foreign exchange gains and losses are recognized in net earnings (loss).

OTH – “Other financial liabilities” are initially recognized at fair value net of transaction costs directly attributable to the issuance of the instrument and subsequently are measured at amortized cost. Interest is recognized in net earnings (loss) using the effective interest method. Foreign exchange gains and losses are recognized in net earnings (loss).

Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value measurement is determined based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.

Level 3 – Fair value measurement is based on inputs for the asset or liability that are not based on observable market data.

### Determination of Fair Values

The level in the fair value hierarchy into which the fair value measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Transfers between levels on the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Fair values for derivative assets and derivative liabilities are determined using pricing models incorporating future prices that are based on assumptions which are supported by prices from observable market transactions and are adjusted for credit risk.

The carrying value of receivables approximate their fair value due to their short maturities.

The carrying value of long-term debt outstanding on the revolving credit facility approximates its fair value due to the use of short-term borrowing instruments at market rates of interest.

The fair value of the senior unsecured notes changes in response to changes in the market rates of interest payable on similar instruments and was determined with reference to prevailing market rates for such instruments.

## 10. FINANCIAL INSTRUMENTS (Continued)

Nature and Extent of Risks Arising from Financial Instruments*Market risk:*

Vermilion's financial instruments are exposed to currency risk related to changes in foreign currency denominated financial instruments and commodity price risk related to outstanding derivative positions. The following table summarizes what the impact on comprehensive income before tax would be for the nine months ended September 30, 2015 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the balance sheet date. The impact on comprehensive income before tax associated with changes in these risk variables for assets and liabilities that are not considered financial instruments are excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

| Risk (\$M)                        | Description of change in risk variable   | Before tax effect on comprehensive income - increase (decrease) September 30, 2015 |
|-----------------------------------|--|--|
| Currency risk - Euro to Canadian  | Increase in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates   | (3,254)  |
|                                   | Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates   | 3,254  |
| Currency risk - US \$ to Canadian | Increase in strength of the Canadian dollar against the US \$ by 5% over the relevant closing rates  | (7,014)  |
|                                   | Decrease in strength of the Canadian dollar against the US \$ by 5% over the relevant closing rates  | 7,014  |
| Commodity price risk              | Increase in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US \$5.00/bbl at the relevant valuation dates | (5,929)  |
|                                   | Decrease in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US \$5.00/bbl at the relevant valuation dates | 6,053  |
|                                   | Increase in relevant TTF reference price within option pricing models used to determine the fair value of financial derivatives by €0.5/GJ at the relevant valuation dates       | (7,995)  |
|                                   | Decrease in relevant TTF reference price within option pricing models used to determine the fair value of financial derivatives by €0.5/GJ at the relevant valuation dates       | 13,510   |
| Interest rate risk                | Increase in average Canadian prime interest rate by 100 basis points during the relevant periods   | (7,691)  |
|                                   | Decrease in average Canadian prime interest rate by 100 basis points during the relevant periods   | 7,691  |

## 11. SIGNIFICANT TRANSACTIONS

During Q1 2015, Vermilion was awarded a recovery of costs resulting from an oil spill at the Ambès oil terminal in France that occurred in 2007. The French court awarded Vermilion approximately €25 million (before taxes), of which 50% was due immediately to Vermilion upon posting a surety bond. The payment was received in Q2 2015, with the remainder due upon conclusion of the appeal process. Based on the recent court decision and the conclusions of the expert engaged by the French court, Vermilion is virtually certain that the award will be upheld.

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Catherine L. Williams<sup>2,3</sup>  
Calgary, Alberta

<sup>1</sup> Chairman of the Board

<sup>2</sup> Audit Committee

<sup>3</sup> Governance and Human Resources Committee

<sup>4</sup> Health, Safety and Environment Committee

<sup>5</sup> Independent Reserves Committee

**ABBREVIATIONS**

\$M thousand dollars

\$MM million dollars

AECO the daily average benchmark price for natural gas at the AECO 'C' hub in southeast Alberta

bbl(s) barrel(s)

bbls/d barrels per day

bcf billion cubic feet

boe barrel of oil equivalent, including: crude oil, natural gas liquids and natural gas (converted on the basis of one boe for six mcf of natural gas)

boe/d barrel of oil equivalent per day

GJ gigajoules

HH Henry Hub, a reference price paid for natural gas in US dollars at Erath, Louisiana

mbbls thousand barrels

mboe thousand barrel of oil equivalent

mcf thousand cubic feet

mcf/d thousand cubic feet per day

mmboe million barrel of oil equivalent

mmcf million cubic feet

mmcf/d million cubic feet per day

MWh megawatt hour

NGLs natural gas liquids

NGTL NOVA Gas Transmission Ltd., a wholly owned subsidiary of TransCanada is the owner of a gas transmission system known as the NGTL system. The NGTL system is a 23,500 km pipeline that gathers natural gas for both use in Alberta, and to deliver it to provincial border points for export to North American markets.

PRRT Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia

TTF the day-ahead price for natural gas in the Netherlands, quoted in MWh of natural gas, at the Title Transfer Facility Virtual Trading Point operated by Dutch TSO Gas Transport Services

WTI West Texas Intermediate, the reference price paid for crude oil of standard grade in US dollars at Cushing, Oklahoma

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