

Q2 2022

FINANCIAL STATEMENTS

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INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
ENERGY



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 and Vermilion's ability to fund such expenditures; Vermilion's additional debt capacity providing it with additional working capital; the flexibility of Vermilion's capital program and operations; business strategies and objectives; operational and financial performance; sustainability (Environment, Social, and Governance or ESG) data and performance; estimated volumes of reserves and resources; petroleum and natural gas sales; future production levels and the timing thereof, including Vermilion's 2022 guidance, and rates of average annual production growth; the effect of changes in crude oil and natural gas prices, changes in exchange rates and significant declines in production or sales volumes due to unforeseen circumstances; the effect of possible changes in critical accounting estimates; statements regarding the growth and size of Vermilion's future project inventory, and the wells expected to be drilled in 2022; exploration and development plans and the timing thereof; Vermilion's ability to reduce its debt; statements regarding Vermilion's hedging program, its plans to add to its hedging positions, and the anticipated impact of Vermilion's hedging program on project economics and free cash flows; the potential financial impact of climate-related risks; 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 and Vermilion's expectations regarding future taxes and taxability; and the timing of regulatory proceedings and approvals.

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 and current evolutions with relation to sustainability/ESG reporting methodologies; 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.

This document contains metrics commonly used in the oil and gas industry. These oil and gas metrics do not have any standardized meaning or standard methods of calculation and therefore may not be comparable to similar measures presented by other companies where similar terminology is used and should therefore not be used to make comparisons. 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.

This document may contain references to sustainability/ESG data and performance that reflect metrics and concepts that are commonly used in such frameworks as the Global Reporting Initiative, the Task Force on Climate-related Financial Disclosures, and the Value Reporting Foundation (Sustainability Accounting Standards Board). Vermilion has used best efforts to align with the most commonly accepted methodologies for ESG reporting, including with respect to climate data and information on potential future risks and opportunities, in order to provide a fuller context for our current and future operations. However, these methodologies are not yet standardized, are frequently based on calculation factors that change over time, and continue to evolve rapidly. Readers are particularly cautioned to evaluate the underlying definitions and measures used by other companies, as these may not be comparable to Vermilion's. While Vermilion will continue to monitor and adapt its reporting accordingly, the Company is not under any duty to update or revise the related sustainability/ESG data or statements except as required by applicable securities laws.

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

Abbreviations

\$M	thousand dollars
\$MM	million dollars
AECO	the daily average benchmark price for natural gas at the AECO 'C' hub in Alberta
bbl(s)	barrel(s)
bbls/d	barrels per day
boe	barrel of oil equivalent, including: crude oil, condensate, 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
LSB	light sour blend crude oil reference price
mbbls	thousand barrels
mcf	thousand cubic feet
mmcf/d	million cubic feet per day
NBP	the reference price paid for natural gas in the United Kingdom at the National Balancing Point Virtual Trading Point
NGLs	natural gas liquids, which includes butane, propane, and ethane
PRRT	Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia
tCO ₂ e	tonnes of carbon dioxide equivalent
TTF	the price for natural gas in the Netherlands, quoted in megawatt hours of natural gas, at the Title Transfer Facility Virtual Trading Point
WTI	West Texas Intermediate, the reference price paid for crude oil of standard grade in US dollars at Cushing, Oklahoma

Consolidated Interim Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars, unaudited

	Note	June 30, 2022	December 31, 2021
Assets			
Current			
Cash and cash equivalents		675	6,028
Accounts receivable		369,402	328,584
Crude oil inventory		25,844	20,070
Derivative instruments		36,412	19,321
Prepaid expenses		97,765	98,842
Total current assets		530,098	472,845
Investment in securities	4	38,096	—
Deferred taxes		292,093	374,993
Exploration and evaluation assets	6	267,801	233,290
Capital assets	5	5,153,470	4,824,195
Total assets		6,281,558	5,905,323
Liabilities			
Current			
Accounts payable and accrued liabilities		422,837	440,658
Dividends payable	10	9,953	—
Derivative instruments		388,992	268,973
Income taxes payable		136,892	37,182
Total current liabilities		958,674	746,813
Derivative instruments		1,360	51,213
Long-term debt	9	1,527,217	1,651,569
Lease obligations		52,092	60,190
Asset retirement obligations	7	721,225	1,000,554
Deferred taxes		339,493	328,839
Total liabilities		3,600,061	3,839,178
Shareholders' Equity			
Shareholders' capital	10	4,300,274	4,241,773
Contributed surplus		28,081	49,529
Accumulated other comprehensive (loss) income		(15,944)	28,467
Deficit		(1,630,914)	(2,253,624)
Total shareholders' equity		2,681,497	2,066,145
Total liabilities and shareholders' equity		6,281,558	5,905,323

Approved by the Board

(Signed "Robert Michaleski")

Robert Michaleski, Director

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo, Director

Consolidated Statements of Net Earnings and Comprehensive Income

thousands of Canadian dollars, except share and per share amounts, unaudited

	Note	Three Months Ended		Six Months Ended	
		Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
Revenue					
Petroleum and natural gas sales		858,844	407,179	1,669,023	775,316
Royalties		(83,553)	(41,456)	(154,860)	(77,902)
Sales of purchased commodities		63,429	29,851	111,159	73,615
Petroleum and natural gas revenue		838,720	395,574	1,625,322	771,029
Expenses					
Purchased commodities		63,429	29,851	111,159	73,615
Operating		114,617	99,737	226,800	195,978
Transportation		20,153	21,834	37,422	38,855
Equity based compensation		7,499	10,536	32,868	27,076
(Gain) loss on derivative instruments		(88,280)	118,982	276,737	139,173
Interest expense		21,074	18,862	35,897	38,097
General and administration		15,691	11,432	29,911	23,162
Foreign exchange loss (gain)		34,564	20,256	(6,323)	51,347
Other income		(2,174)	(2,576)	(7,322)	(7,849)
Accretion	7	13,746	10,863	27,384	21,370
Depletion and depreciation	5	140,763	149,651	275,003	255,664
Impairment reversal	5	—	(593,606)	(192,094)	(1,256,472)
Gain on business combinations	3	—	(17,198)	—	(17,198)
		341,082	(121,376)	847,442	(417,182)
Earnings before income taxes		497,638	516,950	777,880	1,188,211
Income tax expense					
Deferred		63,497	63,526	7,404	234,754
Current		71,520	2,150	123,901	2,219
		135,017	65,676	131,305	236,973
Net earnings		362,621	451,274	646,575	951,238
Other comprehensive income					
Currency translation adjustments		(27,800)	(12,244)	(66,619)	(45,180)
Hedge accounting reserve		1,632	1,631	3,264	3,264
Fair value adjustment on investment in securities, net of tax	4	18,944	—	18,944	—
Comprehensive income		355,397	440,661	602,164	909,322
Net earnings per share					
Basic		2.20	2.79	3.96	5.94
Diluted		2.14	2.73	3.84	5.85
Weighted average shares outstanding ('000s)					
Basic		164,518	161,546	163,452	160,226
Diluted		169,169	165,034	168,517	162,553

Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

	Note	Three Months Ended		Six Months Ended	
		Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
Operating					
Net earnings		362,621	451,274	646,575	951,238
Adjustments:					
Accretion	7	13,746	10,863	27,384	21,370
Depletion and depreciation	5	140,763	149,651	275,003	255,664
Impairment reversal	5	—	(593,606)	(192,094)	(1,256,472)
Gain on business combinations	5	—	(17,198)	—	(17,198)
Unrealized (gain) loss on derivative instruments		(168,058)	79,408	52,736	73,966
Equity based compensation		7,499	10,536	32,868	27,076
Unrealized foreign exchange loss (gain)		32,267	18,298	(7,870)	44,208
Unrealized other expense		566	190	763	387
Deferred tax expense		63,497	63,526	7,404	234,754
Asset retirement obligations settled	7	(4,300)	(3,321)	(10,620)	(10,344)
Changes in non-cash operating working capital		81,763	83,785	39,268	47,904
Cash flows from operating activities		530,364	253,406	871,417	372,553
Investing					
Drilling and development	5	(109,488)	(77,703)	(192,329)	(157,215)
Exploration and evaluation	6	(3,665)	(1,473)	(6,168)	(5,324)
Acquisitions, net of cash acquired	3, 5	(497,800)	(12,196)	(504,512)	(12,589)
Acquisition of securities	4	(18,301)	—	(18,301)	—
Changes in non-cash investing working capital		16,620	(5,866)	(1,654)	3,231
Cash flows used in investing activities		(612,634)	(97,238)	(722,964)	(171,897)
Financing					
Repayments on the revolving credit facility	9	(406,491)	(154,037)	(633,100)	(195,491)
Issuance of senior unsecured notes	9	499,037	—	499,037	—
Payments on lease obligations		(4,310)	(5,815)	(9,081)	(11,567)
Cash dividends		(9,727)	—	(9,727)	—
Cash flows from (used in) financing activities		78,509	(159,852)	(152,871)	(207,058)
Foreign exchange (loss) gain on cash held in foreign currencies		(108)	81	(935)	(502)
Net change in cash and cash equivalents		(3,869)	(3,603)	(5,353)	(6,904)
Cash and cash equivalents, beginning of period		4,544	3,603	6,028	6,904
Cash and cash equivalents, end of period		675	—	675	—
Supplementary information for cash flows from operating activities					
Interest paid		10,684	12,989	30,025	36,926
Income taxes paid (refunded)		29,450	(4,397)	24,191	(6,734)

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Note	Six Months Ended	
		Jun 30, 2022	Jun 30, 2021
Shareholders' capital	10		
Balance, beginning of period		4,241,773	4,181,160
Vesting of equity based awards		41,193	44,852
Equity based compensation		13,123	7,693
Share-settled dividends on vested equity based awards		4,185	1,920
Balance, end of period		4,300,274	4,235,625
Contributed surplus	10		
Balance, beginning of period		49,529	66,250
Equity based compensation		19,745	19,383
Vesting of equity based awards		(41,193)	(44,852)
Balance, end of period		28,081	40,781
Accumulated other comprehensive income			
Balance, beginning of period		28,467	77,986
Currency translation adjustments		(66,619)	(45,180)
Hedge accounting reserve		3,264	3,264
Fair value adjustment on investment in securities, net of tax	4	18,944	—
Balance, end of period		(15,944)	36,070
Deficit			
Balance, beginning of period		(2,253,624)	(3,399,994)
Net earnings		646,575	951,238
Dividends declared		(19,680)	—
Share-settled dividends on vested equity based awards		(4,185)	(1,920)
Balance, end of period		(1,630,914)	(2,450,676)
Total shareholders' equity		2,681,497	1,861,800

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 unvested equity based awards that will be settled in shares. Once vested, the value of the awards are transferred to shareholders' capital.

Accumulated other comprehensive income

Represents currency translation adjustments, hedge accounting reserve and fair value adjustments on investments.

Currency translation adjustments result from translating the balance sheets of subsidiaries with a foreign functional currency to Canadian dollars at period-end rates. These amounts may be reclassified to net earnings if there is a disposal or partial disposal of a subsidiary.

The hedge accounting reserve represents the effective portion of the change in fair value related to cash flow and net investment hedges recognized in other comprehensive income, net of tax and reclassified to the consolidated statement of net earnings in the same period in which the transaction associated with the hedged item occurs. For the six months ended June 30, 2022, accumulated losses of \$2.5 million and \$0.8 million were recognized in the consolidated statement of net earnings on the cash flow hedges and net investment hedges, respectively, and will be recognized in net earnings through 2025 when the senior unsecured notes mature.

Fair value adjustment on investment in securities, net of tax, are a result of changes in the fair value of investments that have been elected to be subsequently measured at fair value through other comprehensive income.

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 six months ended June 30, 2022 and 2021

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 International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as Vermilion’s consolidated financial statements for the year ended December 31, 2021.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion’s consolidated financial statements for the year ended December 31, 2021, which are contained within Vermilion’s Annual Report for the year ended December 31, 2021 and are available on SEDAR at www.sedar.com or on Vermilion’s website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on August 11, 2022.

2. Segmented information

	Three Months Ended June 30, 2022								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	30,849	24,064	11,911	865	3,170	656	37,825	148	109,488
Exploration and evaluation	—	—	2	504	404	—	—	2,755	3,665
Crude oil and condensate sales	267,414	36,637	103,798	610	15,056	—	36,966	—	460,481
NGL sales	33,579	4,709	—	—	—	—	—	—	38,288
Natural gas sales	93,611	4,146	—	124,711	81,823	53,277	—	2,507	360,075
Sales of purchased commodities	—	—	—	—	—	—	—	63,429	63,429
Royalties	(54,090)	(11,985)	(11,933)	—	(5,073)	—	—	(472)	(83,553)
Revenue from external customers	340,514	33,507	91,865	125,321	91,806	53,277	36,966	65,464	838,720
Purchased commodities	—	—	—	—	—	—	—	(63,429)	(63,429)
Transportation	(11,177)	(163)	(5,868)	—	(2,007)	(938)	—	—	(20,153)
Operating	(55,583)	(5,559)	(15,459)	(11,004)	(10,750)	(3,325)	(12,498)	(439)	(114,617)
General and administration	(8,441)	(845)	(3,709)	(871)	(1,437)	595	(1,058)	75	(15,691)
PRRT	—	—	—	—	—	—	(2,019)	—	(2,019)
Corporate income taxes	—	—	(9,488)	(51,948)	(7,924)	—	(115)	(26)	(69,501)
Interest expense	—	—	—	—	—	—	—	(21,074)	(21,074)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(79,778)	(79,778)
Realized foreign exchange loss	—	—	—	—	—	—	—	(2,297)	(2,297)
Realized other income	—	—	—	—	—	—	—	2,740	2,740
Fund flows from operations	265,313	26,940	57,341	61,498	69,688	49,609	21,276	(98,764)	452,901

	Three Months Ended June 30, 2021								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	20,210	18,637	8,896	7,739	3,121	172	13,118	5,810	77,703
Exploration and evaluation	—	—	17	(56)	486	—	—	1,026	1,473
Crude oil and condensate sales	153,331	13,582	68,108	592	7,741	23	31,256	—	274,633
NGL sales	17,380	2,740	—	—	—	—	—	—	20,120
Natural gas sales	36,137	1,439	—	31,963	12,533	30,165	—	189	112,426
Sales of purchased commodities	—	—	—	—	—	—	—	29,851	29,851
Royalties	(27,001)	(4,754)	(9,167)	(128)	(367)	—	—	(39)	(41,456)
Revenue from external customers	179,847	13,007	58,941	32,427	19,907	30,188	31,256	30,001	395,574
Purchased commodities	—	—	—	—	—	—	—	(29,851)	(29,851)
Transportation	(9,868)	(216)	(9,118)	—	(1,554)	(1,078)	—	—	(21,834)
Operating	(54,441)	(3,389)	(12,591)	(7,895)	(6,807)	(4,157)	(10,408)	(49)	(99,737)
General and administration	(5,953)	(725)	(3,216)	(110)	(1,459)	(25)	(754)	810	(11,432)
PRRT	—	—	—	—	—	—	(1,459)	—	(1,459)
Corporate income taxes	—	—	(1)	(2,362)	—	—	1,871	(199)	(691)
Interest expense	—	—	—	—	—	—	—	(18,862)	(18,862)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(39,574)	(39,574)
Realized foreign exchange loss	—	—	—	—	—	—	—	(1,958)	(1,958)
Realized other income	—	—	—	—	—	—	—	2,766	2,766
Fund flows from operations	109,585	8,677	34,015	22,060	10,087	24,928	20,506	(56,916)	172,942

Six Months Ended June 30, 2022									
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	3,619,143	576,373	690,237	134,882	349,036	441,003	218,232	252,652	6,281,558
Drilling and development	80,377	32,049	18,922	2,217	12,138	972	45,352	302	192,329
Exploration and evaluation	—	—	2	(344)	596	—	—	5,914	6,168
Crude oil and condensate sales	476,498	63,914	196,696	1,203	27,176	—	86,547	—	852,034
NGL sales	64,412	9,114	—	—	—	—	—	—	73,526
Natural gas sales	154,559	7,192	—	256,690	164,261	157,306	—	3,455	743,463
Sales of purchased commodities	—	—	—	—	—	—	—	111,159	111,159
Royalties	(102,339)	(20,999)	(20,657)	—	(10,116)	—	—	(749)	(154,860)
Revenue from external customers	593,130	59,221	176,039	257,893	181,321	157,306	86,547	113,865	1,625,322
Purchased commodities	—	—	—	—	—	—	—	(111,159)	(111,159)
Transportation	(20,631)	(450)	(10,634)	—	(3,788)	(1,919)	—	—	(37,422)
Operating	(111,349)	(10,645)	(30,489)	(21,474)	(19,043)	(7,178)	(25,838)	(784)	(226,800)
General and administration	(15,263)	(2,430)	(7,574)	(1,675)	(2,591)	367	(1,901)	1,156	(29,911)
PRRT	—	—	—	—	—	—	(8,728)	—	(8,728)
Corporate income taxes	—	—	(16,691)	(87,214)	(10,908)	—	(215)	(145)	(115,173)
Interest expense	—	—	—	—	—	—	—	(35,897)	(35,897)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(224,001)	(224,001)
Realized foreign exchange loss	—	—	—	—	—	—	—	(1,547)	(1,547)
Realized other income	—	—	—	—	—	—	—	8,085	8,085
Fund flows from operations	445,887	45,696	110,651	147,530	144,991	148,576	49,865	(250,427)	842,769

Six Months Ended June 30, 2021									
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	2,960,746	437,789	721,502	210,058	327,047	395,083	232,349	122,899	5,407,473
Drilling and development	74,531	23,429	15,770	11,872	5,421	238	19,957	5,997	157,215
Exploration and evaluation	—	—	22	(56)	685	—	—	4,673	5,324
Crude oil and condensate sales	285,833	28,156	119,637	920	12,176	23	58,638	—	505,383
NGL sales	35,456	6,018	—	—	—	—	—	—	41,474
Natural gas sales	81,367	7,913	—	60,186	21,193	57,233	—	567	228,459
Sales of purchased commodities	—	—	—	—	—	—	—	73,615	73,615
Royalties	(48,775)	(11,060)	(16,403)	(225)	(1,322)	—	—	(117)	(77,902)
Revenue from external customers	353,881	31,027	103,234	60,881	32,047	57,256	58,638	74,065	771,029
Purchased commodities	—	—	—	—	—	—	—	(73,615)	(73,615)
Transportation	(20,104)	(464)	(13,523)	—	(2,575)	(2,189)	—	—	(38,855)
Operating	(107,607)	(7,504)	(24,382)	(15,306)	(13,109)	(7,814)	(20,146)	(110)	(195,978)
General and administration	(10,412)	(1,623)	(5,630)	(377)	(2,581)	687	(1,479)	(1,747)	(23,162)
PRRT	—	—	—	—	—	—	(2,873)	—	(2,873)
Corporate income taxes	—	—	(1)	(2,362)	—	—	3,430	(413)	654
Interest expense	—	—	—	—	—	—	—	(38,097)	(38,097)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(65,207)	(65,207)
Realized foreign exchange loss	—	—	—	—	—	—	—	(7,139)	(7,139)
Realized other income	—	—	—	—	—	—	—	8,236	8,236
Fund flows from operations	215,758	21,436	59,698	42,836	13,782	47,940	37,570	(104,027)	334,993

Reconciliation of fund flows from operations to net earnings:

	Three Months Ended		Six Months Ended	
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
Fund flows from operations	452,901	172,942	842,769	334,993
Equity based compensation	(7,499)	(10,536)	(32,868)	(27,076)
Unrealized gain (loss) on derivative instruments	168,058	(79,408)	(52,736)	(73,966)
Unrealized foreign exchange (loss) gain	(32,267)	(18,298)	7,870	(44,208)
Accretion	(13,746)	(10,863)	(27,384)	(21,370)
Depletion and depreciation	(140,763)	(149,651)	(275,003)	(255,664)
Deferred tax expense	(63,497)	(63,526)	(7,404)	(234,754)
Gain on business combinations	—	17,198	—	17,198
Impairment reversal	—	593,606	192,094	1,256,472
Unrealized other expense	(566)	(190)	(763)	(387)
Net earnings	362,621	451,274	646,575	951,238

3. Business combinations

Leucrotta Exploration Inc.

On May 31, 2022, Vermilion closed the acquisition of all outstanding common shares of Leucrotta Exploration Inc. (“Leucrotta”), a Canadian publicly listed, Montney-focused oil and natural gas exploration and development company. The primary asset acquired is the Mica property, comprised of 81,000 gross (77,000 net) contiguous acres of Montney mineral rights in the Peace River Arch straddling the Alberta and British Columbia borders.

Prior to May 31, 2022, Vermilion controlled 7,536,800 common shares of Leucrotta. On May 31, 2022, Vermilion transferred consideration and assumed ownership of all remaining outstanding common shares of Leucrotta. The acquisition was funded through Vermilion’s revolving credit facility.

The total consideration and the fair value of the assets acquired and liabilities assumed at the date of acquisition are detailed in the table below:

	Consideration
Cash consideration paid	486,488
Fair value of previously held equity interest	13,039
Total consideration	499,527

	Allocation of consideration
Cash acquired	2,659
Capital assets	559,094
Exploration and evaluation assets	43,227
Deferred tax liabilities	(97,891)
Asset retirement obligations	(1,440)
Derivative liability	(339)
Acquired working capital deficiency	(5,783)
Net assets acquired	499,527

The results of operations from the assets acquired and liabilities assumed have been included in Vermilion’s consolidated financial statements beginning May 31, 2022 and have contributed revenues of \$7.1 million and net earnings of \$2.4 million. Had the acquisition occurred on January 1, 2022, consolidated revenues would have been \$1,654.8 million and consolidated net earnings would have been \$655.5 million for the six months ended June 30, 2022.

4. Investment in securities

Concurrent with the closing of the purchase of Leucrotta, Vermilion acquired shares of Coelacanth Energy Inc. ("Coelacanth") via private placement. Vermilion has made an optional election to subsequently measure the investment at fair value through other comprehensive income. The investment is classified as a level 1 instrument on the fair value hierarchy and therefore uses observable inputs when making fair value adjustments.

The total consideration paid and the fair value of the investment acquired are detailed in the table below:

	Amount
Balance at January 1	—
Acquisition of securities	18,301
Fair value adjustment	19,795
Balance at June 30	38,096

5. Capital assets

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

	2022
Balance at January 1	4,824,195
Acquisitions	566,738
Additions	192,329
Increase in right-of-use assets	(2,321)
Impairment reversal	192,094
Depletion and depreciation	(269,073)
Changes in asset retirement obligations	(254,716)
Foreign exchange	(95,776)
Balance at June 30	5,153,470

In the first quarter of 2022, indicators of impairment reversal were present in our Canada - Saskatchewan and France - Neocomian cash generating units ("CGUs") due to an increase and stabilization in forecast oil prices. As a result of the indicators of impairment reversal, the Company performed impairment reversal calculations on the identified CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 12.0%. Based on the results of the impairment reversal calculations completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and \$144.4 million (net of \$47.7 million deferred income tax expense) of impairment reversal was recorded. Inputs used in the measurement of capital assets are not based on observable market data and fall within level 3 of the fair value hierarchy.

The following benchmark price forecasts were used to calculate the recoverable amounts:

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	100.50	89.50	79.64	81.23	82.86	84.51	86.21	87.94	89.69	91.48
WTI Crude (\$ US/bbl) ⁽¹⁾	95.00	85.00	75.64	77.15	78.70	80.27	81.88	83.52	85.19	86.89
Exchange rate (CAD/USD)	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

(1) The forecast benchmark prices listed are adjusted for quality differentials, heat content, transportation and marketing costs and other factors specific to the Company's operations when determining recoverable amounts.

(2) In 2032 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2032 and beyond there is no escalation of exchange rates.

The following are the results of tests completed, recoverable amounts, and sensitivity impacts which would decrease impairment reversals taken:

Operating Segment	CGU	Impairment Reversal ⁽¹⁾	Recoverable Amount	1% increase in discount rate	5% decrease in pricing
Canada	Saskatchewan	159,985	2,150,936	—	—
France	Neocomian	32,109	166,818	—	—
Total		192,094	2,317,754	—	—

(1) Impairment reversals are subject to the lower of the recoverable amount and the carrying value, which includes depletion and depreciation of the CGU had no impairment charges been previously taken.

6. Exploration and evaluation assets

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

	2022	2021
Balance at January 1	233,290	254,094
Acquisitions	43,227	—
Additions	6,168	35,406
Changes in asset retirement obligations	(7)	110
Transfers to capital assets	—	(11,495)
Depreciation	(7,349)	(35,549)
Foreign exchange	(7,528)	(9,276)
Balance at June 30	267,801	233,290

7. Asset retirement obligations

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

	2022
Balance at January 1	1,000,554
Additional obligations recognized	3,033
Obligations settled	(10,620)
Accretion	27,384
Changes in discount rates	(256,316)
Foreign exchange	(42,810)
Balance at June 30	721,225

Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 5.7% as at June 30, 2022 (December 31, 2021 - 4.9%) added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined using the Company's expected cost of borrowing at the end of the reporting period.

The country-specific risk-free rates used as inputs to discount the obligations were as follows:

	Jun 30, 2022	Dec 31, 2021
Canada	3.2 %	1.8 %
United States	3.3 %	1.9 %
France	2.4 %	0.8 %
Netherlands	1.3 %	(0.3)%
Germany	1.6 %	0.1 %
Ireland	2.2 %	0.5 %
Australia	3.8 %	1.9 %

8. Capital disclosures

Vermilion defines capital as net debt (long-term debt (excluding unrealized foreign exchange on swapped USD borrowings) plus adjusted working capital (defined as current assets less current liabilities, excluding current derivatives and current lease liabilities)) and shareholders' capital. In managing capital, Vermilion reviews whether fund flows from operations is sufficient to fund capital expenditures, dividends, and asset retirement obligations.

The following table calculates Vermilion's ratio of net debt to four quarter trailing fund flows from operations:

	Jun 30, 2022	Dec 31, 2021
Long-term debt	1,527,217	1,651,569
Adjusted working capital deficit ⁽¹⁾	65,394	9,284
Unrealized FX on swapped USD borrowings	(3,943)	(16,067)
Net debt	1,588,668	1,644,786
Ratio of net debt to four quarter trailing fund flows from operations	1.1	1.8

(1) Adjusted working capital is defined as current assets (excluding current derivatives), less current liabilities (excluding current derivatives and current lease liabilities)

9. Long-term debt

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

	As at	
	Jun 30, 2022	Dec 31, 2021
Revolving credit facility	639,927	1,273,755
2025 senior unsecured notes	384,413	377,814
2030 senior unsecured notes	502,877	—
Long-term debt	1,527,217	1,651,569

The fair value of the revolving credit facility is equal to its carrying value due to the use of short-term borrowing instruments at market rates of interest. The fair value of the 2025 senior unsecured notes as at June 30, 2022 was \$366.8 million (December 31, 2021 - \$387.0 million). The fair value of the 2030 senior unsecured notes as at June 30, 2022 was \$463.3 million (December 31, 2021 - nil).

The following table reconciles the change in Vermilion's long-term debt:

	2022
Balance at January 1	1,651,569
Repayments on the revolving credit facility	(633,100)
Issuance of 2030 senior unsecured notes	499,037
Amortization of transaction costs	763
Foreign exchange	8,948
Balance at June 30	1,527,217

Revolving credit facility

As at June 30, 2022, Vermilion had in place a bank revolving credit facility maturing May 29, 2026 with the following terms:

	As at	
	Jun 30, 2022	Dec 31, 2021
Total facility amount	1,600,000	2,100,000
Amount drawn	(639,927)	(1,273,755)
Letters of credit outstanding	(8,184)	(11,035)
Unutilized capacity	951,889	815,210

The facility can be extended from time to time 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. The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. On April 26, 2022, contemporaneous with the issuance of the 2030 senior unsecured notes and at Vermilion's election, the maturity date of the facility was extended to May 29, 2026 (previously May 31, 2024) and the total facility amount was reduced to \$1.6 billion (previously \$2.1 billion).

The facility bears interest at a rate applicable to demand loans plus applicable margins.

As at June 30, 2022, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Jun 30, 2022	Dec 31, 2021
Consolidated total debt to consolidated EBITDA	Less than 4.0	0.93	1.61
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	0.39	1.24
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	24.50	14.78

The financial covenants include financial measures defined within the revolving credit facility agreement that are not defined under IFRS. These financial measures are defined by the revolving credit facility agreement as follows:

- Consolidated total debt: Includes all amounts classified as "Long-term debt" and "Lease obligations" (including the current portion included within "Accounts payable and accrued liabilities" but excluding operating leases as defined under IAS 17) on the consolidated balance sheet.
- Consolidated total senior debt: Consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: Consolidated net earnings before interest, income taxes, depreciation, accretion and certain other non-cash items, adjusted for the impact of the acquisition of a material subsidiary.
- Consolidated total interest expense: Includes all amounts classified as "Interest expense", but excludes interest on operating leases as defined under IAS 17.

In addition, our revolving credit facility has provisions relating to our liability management ratings in Alberta and Saskatchewan whereby if our security adjusted liability management ratings fall below specified limits in a province, a portion of the asset retirement obligations are included in the definitions of consolidated total debt and consolidated total senior debt. An event of default occurs if our security adjusted liability management ratings breach additional lower limits for a period greater than 90 days. As of June 30, 2022, Vermilion's liability management ratings were higher than the specified levels, and as such, no amounts relating to asset retirement obligations were included in the calculation of consolidated total debt and consolidated total senior debt.

As at June 30, 2022 and December 31, 2021, Vermilion was in compliance with the above covenants.

2025 senior unsecured notes

On March 13, 2017, Vermilion issued US \$300.0 million of senior unsecured notes at par. The notes bear interest at a rate of 5.625% per annum, to be paid semi-annually on March 15 and September 15. The notes mature on March 15, 2025. As direct senior unsecured obligations of Vermilion, the notes rank equally with existing and future senior unsecured indebtedness of the Company.

The senior unsecured notes were recognized at amortized cost and include the transaction costs directly related to the issuance.

Vermilion may redeem some or all of the senior unsecured notes at the redemption prices set forth in the following table plus any accrued and unpaid interest, if redeemed during the twelve-month period beginning on March 15 of each of the years indicated below:

Year	Redemption price
2022	101.406 %
2023 and thereafter	100.000 %

2030 senior unsecured notes

On April 26, 2022, Vermilion closed a private offering of US \$400.0 million 8-year senior unsecured notes. The notes were priced at 99.241% of par, mature on May 1, 2030, and bear interest at a rate of 6.875% per annum. Interest is to be paid semi-annually on May 1 and November 1, commencing on November 1, 2022. The notes are senior unsecured obligations of Vermilion and rank equally with existing and future senior unsecured indebtedness.

The senior unsecured notes were recognized at amortized cost and include the transaction costs directly related to the issuance.

Vermilion may, at its option, redeem the notes prior to maturity as follows:

- On or after May 1, 2025, Vermilion may redeem some or all of the senior unsecured notes at the redemption prices set forth below, together with accrued and unpaid interest.
- Prior to May 1, 2025, Vermilion may redeem up to 35% of the original principal amount of the notes with an amount of cash not greater than the net cash proceeds of certain equity offerings at a redemption price of 106.875% of the principal amount of the notes, together with accrued and unpaid interest.
- Prior to May 1, 2025, Vermilion may also redeem some or all of the notes at a price equal to 100% of the principal amount of the notes, plus a "make-whole premium," together with applicable premium, accrued and unpaid interest.

Year	Redemption price
2025	103.438 %
2026	102.292 %
2027	101.146 %
2028 and thereafter	100.000 %

10. Shareholders' capital

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

Shareholders' Capital	2022	
	Shares ('000s)	Amount
Balance at January 1	162,261	4,241,773
Vesting of equity based awards	2,270	41,193
Shares issued for equity based compensation	526	13,123
Share-settled dividends on vested equity based awards	165	4,185
Balance at June 30	165,222	4,300,274

Dividends are approved by the Board of Directors and are paid quarterly. Dividends declared to shareholders for the six months ended June 30, 2022 were \$19.7 million or \$0.06 per common share (2021 - nil).

On July 4, 2022, the Toronto Stock Exchange approved our notice of intention to commence a normal course issuer bid ("the NCIB"). The NCIB allows Vermilion to purchase up to 16,076,666 common shares (representing approximately 10% of outstanding common shares) beginning July 6, 2022 and ending July 5, 2023. Common shares purchased under the NCIB will be cancelled.

Subsequent to the end of the second quarter of 2022, Vermilion purchased 1.25 million common shares under the NCIB for total consideration of \$35.0 million. The common shares purchased under the NCIB were cancelled.

11. Financial instruments

The following table summarizes the increase (positive values) or decrease (negative values) to net earnings before tax due to a change in the value of Vermilion's financial instruments as a result of a change in the relevant market risk variable. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

	Jun 30, 2022
Currency risk - Euro to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the Euro	4,819
\$0.01 decrease in strength of the Canadian dollar against the Euro	(4,819)
Currency risk - US dollar to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the US \$	5,777
\$0.01 decrease in strength of the Canadian dollar against the US \$	(5,777)
Commodity price risk - Crude oil	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(9,633)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	9,633
Commodity price risk - European natural gas	
€0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(7,985)
€0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	7,965
Share price risk - Equity swaps	
\$1.00 increase from initial share price of the equity swap	3,750
\$1.00 decrease from initial share price of the equity swap	(3,750)

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² Lead Director (Independent)

³ Audit Committee Chair (Independent)

⁴ Audit Committee Member

⁵ Governance and Human Resources Committee Chair (Independent)

⁶ Governance and Human Resources Committee Member

⁷ Health, Safety and Environment Committee Chair (Independent)

⁸ Health, Safety and Environment Committee Member

⁹ Independent Reserves Committee Chair (Independent)

¹⁰ Independent Reserves Committee Member

¹¹ Sustainability Committee Chair (Independent)

¹² Sustainability Committee Member

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Dion Hatcher*
President

Lars Glemser*
Vice President & Chief Financial Officer

Terry Hergott
Vice President Marketing

Yvonne Jeffery
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Vice President International & HSE

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Vice President North America

Geoff MacDonald
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Kyle Preston
Vice President Investor Relations

Averyl Schraven
Vice President People and Culture

Jenson Tan*
Vice President Business Development

Gerard Schut*
Vice President European Operations

Robert (Bob) J. Engbloom
Corporate Secretary

* Executive Committee

AUDITORS

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Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Alberta Treasury Branches

Bank of America N.A., Canada Branch

Canadian Imperial Bank of Commerce

Export Development Canada

National Bank of Canada

Royal Bank of Canada

The Bank of Nova Scotia

Wells Fargo Bank N.A., Canadian Branch

La Caisse Centrale Desjardins du Québec

Citibank N.A., Canadian Branch - Citibank Canada

Canadian Western Bank

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