Q3 2020

FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
ENERGY

Front Cover Theme

As illustrated by the front cover photo, we give together through our Days of Caring. Throughout the company, our staff volunteer to support social and environmental agencies we've partnered with in the communities where we operate.

Here, Vermilion has partnered with the Nature Conservancy of Canada (NCC), one of Canada's leading national conservation organizations. In 2016 and 2019, a group of Vermilion volunteers from our Canada Business Unit tackled projects like trail clearing and sign installation at the Coyote Lake Nature Sanctuary, which is a popular hiking destination near our operations in Drayton Valley, Alberta. This work helped to ensure a safe and enjoyable experience for visitors, and contributed to the safety of local wildlife.

NCC focuses on protecting the natural areas that sustain Canada's plants and wildlife by securing properties, and managing them for the long term. To date, NCC and its partners have helped to conserve more than 35 million acres of ecologically significant land from coast to coast.

Through programs like this, Vermilion is proud to have invested over $7.4 million and 10,800 hours of volunteer time in strategic community partnerships over the past five years.

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", "project", 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 net present value of future net revenue from such reserves; petroleum and natural gas sales; future production levels (including the timing thereof) and rates of average annual production growth; 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; 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 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.

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

Consolidated Interim Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars, unaudited

	Note	September 30, 2020	December 31, 2019
Assets			
Current			
Cash and cash equivalents		**5,339**	29,028
Accounts receivable		**179,351**	211,409
Crude oil inventory		**17,096**	29,389
Derivative instruments		**35,640**	55,645
Prepaid expenses		**30,209**	22,210
Total current assets		**267,635**	347,681
Derivative instruments		**16,479**	20,127
Deferred taxes	3, 6	**490,319**	196,543
Exploration and evaluation assets	4	**253,720**	286,149
Capital assets	3	**3,098,246**	5,015,620
Total assets		**4,126,399**	5,866,120
Liabilities			
Current			
Accounts payable and accrued liabilities		**246,702**	312,442
Dividends payable	8	**—**	35,947
Derivative instruments		**65,342**	62,405
Income taxes payable		**18,828**	5,416
Total current liabilities		**330,872**	416,210
Derivative instruments		**39,686**	24,358
Long-term debt	7	**2,072,982**	1,924,665
Lease obligations		**80,199**	93,072
Asset retirement obligations	5	**363,916**	618,201
Deferred taxes	6	**259,627**	336,309
Total liabilities		**3,147,282**	3,412,815
Shareholders' Equity			
Shareholders' capital	8	**4,174,314**	4,119,031
Contributed surplus		**61,984**	75,735
Accumulated other comprehensive income		**85,006**	49,578
Deficit		**(3,342,187)**	(1,791,039)
Total shareholders' equity		**979,117**	2,453,305
Total liabilities and shareholders' equity		**4,126,399**	5,866,120

Approved by the Board

(Signed "Catherine L. Williams")

Catherine L. Williams, Director

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo, Director

Consolidated Statements of Net (Loss) Earnings and Comprehensive Loss

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

		Three Months Ended		Nine Months Ended	
	Note	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Revenue					
Petroleum and natural gas sales		**282,020**	391,935	**803,347**	1,301,061
Royalties		**(30,969)**	(41,490)	**(78,446)**	(122,987)
Sales of purchased commodities		**23,725**	41,449	**95,951**	146,323
Petroleum and natural gas revenue		**274,776**	391,894	**820,852**	1,324,397
Expenses					
Purchased commodities		**23,725**	41,449	**95,951**	146,323
Operating		**90,362**	105,192	**310,675**	329,495
Transportation		**16,959**	19,426	**50,654**	56,876
Equity based compensation		**9,733**	15,564	**31,894**	53,000
Loss (gain) on derivative instruments		**35,457**	(54,785)	**(74,211)**	(34,442)
Interest expense		**17,400**	19,661	**55,269**	62,208
General and administration		**11,969**	13,652	**42,198**	42,407
Foreign exchange (gain) loss		**(13,171)**	54,027	**(8,274)**	(7,410)
Other (income) expense		**(2,370)**	(25)	**1,132**	(6,826)
Accretion	5	**9,158**	8,701	**26,184**	24,834
Depletion and depreciation	3, 4	**167,728**	174,077	**432,242**	535,237
Impairment	3	**47,777**	—	**1,682,344**	—
		414,727	396,939	**2,646,058**	1,201,702
(Loss) earnings before income taxes		**(139,951)**	(5,045)	**(1,825,206)**	122,695
Income tax (recovery) expense	3, 6				
Deferred		**(73,653)**	(5,169)	**(382,321)**	34,761
Current		**3,628**	10,353	**16,835**	56,612
		(70,025)	5,184	**(365,486)**	91,373
Net (loss) earnings		**(69,926)**	(10,229)	**(1,459,720)**	31,322
Other comprehensive loss					
Currency translation adjustments		**7,342**	(24,388)	**73,764**	(83,993)
Unrealized gain (loss) on hedges		**1,285**	10,188	**(38,336)**	11,356
Other comprehensive loss		**(61,299)**	(24,429)	**(1,424,292)**	(41,315)
Net (loss) earnings per share					
Basic		**(0.44)**	(0.07)	**(9.26)**	0.20
Diluted		**(0.44)**	(0.07)	**(9.26)**	0.20
Weighted average shares outstanding ('000s)					
Basic		**158,307**	155,254	**157,688**	154,326
Diluted		**158,307**	155,254	**157,688**	155,673

Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

	Note	Three Months Ended Sep 30, 2020	Three Months Ended Sep 30, 2019	Nine Months Ended Sep 30, 2020	Nine Months Ended Sep 30, 2019
Operating					
Net (loss) earnings		**(69,926)**	(10,229)	**(1,459,720)**	31,322
Adjustments:					
Accretion	5	**9,158**	8,701	**26,184**	24,834
Depletion and depreciation	3, 4	**167,728**	174,077	**432,242**	535,237
Impairment	3	**47,777**	—	**1,682,344**	—
Unrealized loss (gain) on derivative instruments		**39,637**	(17,817)	**34,092**	27,065
Equity based compensation		**9,733**	15,564	**31,894**	53,000
Unrealized foreign exchange (gain) loss		**(15,885)**	50,679	**1,507**	(14,377)
Unrealized other expense		**207**	347	**631**	621
Deferred taxes	6	**(73,653)**	(5,169)	**(382,321)**	34,761
Asset retirement obligations settled	5	**(2,305)**	(3,586)	**(7,007)**	(12,090)
Changes in non-cash operating working capital		**(18,692)**	16,034	**5,204**	(77,454)
Cash flows from operating activities		**93,779**	228,601	**365,050**	602,919
Investing					
Drilling and development	3	**(29,762)**	(117,123)	**(299,578)**	(389,563)
Exploration and evaluation	4	**(1,568)**	(10,756)	**(7,730)**	(32,976)
Acquisitions	3, 4	**(6,720)**	(4,657)	**(20,989)**	(29,307)
Changes in non-cash investing working capital		**(3,775)**	(31,476)	**(22,519)**	(49,846)
Cash flows used in investing activities		**(41,825)**	(164,012)	**(350,816)**	(501,692)
Financing					
(Repayments) borrowings on the revolving credit facility	7	**(45,428)**	17,533	**99,527**	196,944
Payments on lease obligations		**(5,769)**	(9,337)	**(19,219)**	(20,525)
Cash dividends	8	**—**	(98,207)	**(117,737)**	(294,228)
Cash flows used in financing activities		**(51,197)**	(90,011)	**(37,429)**	(117,809)
Foreign exchange (loss) gain on cash held in foreign currencies		**(204)**	585	**(494)**	—
Net change in cash and cash equivalents		**553**	(24,837)	**(23,689)**	(16,582)
Cash and cash equivalents, beginning of period		**4,786**	35,064	**29,028**	26,809
Cash and cash equivalents, end of period		**5,339**	10,227	**5,339**	10,227
Supplementary information for cash flows from operating activities					
Interest paid		**27,970**	25,455	**66,125**	68,410
Income taxes paid		**8,551**	14,753	**3,423**	61,325

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Note	Nine Months Ended Sep 30, 2020	Sep 30, 2019
Shareholders' capital	8		
Balance, beginning of period		**4,119,031**	4,008,828
Shares issued for the Dividend Reinvestment Plan		**8,277**	24,737
Vesting of equity based awards		**43,527**	45,636
Equity based compensation		**2,118**	13,553
Share-settled dividends on vested equity based awards		**1,361**	7,987
Balance, end of period		**4,174,314**	4,100,741
Contributed surplus			
Balance, beginning of period		**75,735**	78,478
Equity based compensation		**29,776**	39,447
Vesting of equity based awards		**(43,527)**	(45,636)
Balance, end of period		**61,984**	72,289
Accumulated other comprehensive income			
Balance, beginning of period		**49,578**	118,182
Currency translation adjustments		**73,764**	(83,993)
Hedge accounting reserve		**(38,336)**	11,356
Balance, end of period		**85,006**	45,545
Deficit			
Balance, beginning of period		**(1,791,039)**	(1,388,237)
Net (loss) earnings		**(1,459,720)**	31,322
Dividends declared	8	**(90,067)**	(319,609)
Share-settled dividends on vested equity based awards		**(1,361)**	(7,987)
Balance, end of period		**(3,342,187)**	(1,684,511)
Total shareholders' equity		**979,117**	2,534,064

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 and hedge accounting reserve.

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 nine months ended September 30, 2020, accumulated losses of 30.7 million and $7.7 million were recognized on the cash flow hedges and net investment hedges, respectively, and will be recognized in net earnings over the period of the hedged cash flows.

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, 2020 and 2019

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, 2019.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion’s consolidated financial statements for the year ended December 31, 2019, which are contained within Vermilion’s Annual Report for the year ended December 31, 2019 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 November 6, 2020.

2. Segmented information

	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
				Three Months Ended September 30, 2020					
Drilling and development	3,837	5,738	12,601	1,538	1,092	928	3,926	102	29,762
Exploration and evaluation	—	—	37	15	466	—	—	1,050	1,568
Crude oil and condensate sales	113,065	16,553	48,976	423	4,009	—	30,537	49	213,612
NGL sales	11,379	1,778	—	—	—	—	—	—	13,157
Natural gas sales	28,930	1,324	—	11,928	2,498	10,472	—	99	55,251
Sales of purchased commodities	—	—	—	—	—	—	—	23,725	23,725
Royalties	(16,259)	(5,164)	(8,902)	(96)	(443)	—	—	(105)	(30,969)
Revenue from external customers	137,115	14,491	40,074	12,255	6,064	10,472	30,537	23,768	274,776
Purchased commodities	—	—	—	—	—	—	—	(23,725)	(23,725)
Transportation	(9,904)	(509)	(3,868)	—	(1,475)	(1,203)	—	—	(16,959)
Operating	(42,405)	(4,357)	(14,983)	(8,197)	(4,262)	(3,936)	(12,111)	(111)	(90,362)
General and administration	(5,985)	(1,285)	(2,792)	(454)	(1,485)	(272)	(1,063)	1,367	(11,969)
PRRT	—	—	—	—	—	—	(3,638)	—	(3,638)
Corporate income taxes	—	—	—	353	—	—	(235)	(108)	10
Interest expense	—	—	—	—	—	—	—	(17,400)	(17,400)
Realized gain on derivative instruments	—	—	—	—	—	—	—	4,180	4,180
Realized foreign exchange loss	—	—	—	—	—	—	—	(2,714)	(2,714)
Realized other income	—	—	—	—	—	—	—	2,577	2,577
Fund flows from operations	**78,821**	**8,340**	**18,431**	**3,957**	**(1,158)**	**5,061**	**13,490**	**(12,166)**	**114,776**

	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
				Three Months Ended September 30, 2019					
Drilling and development	69,963	21,064	18,017	2,730	2,023	354	2,995	(23)	117,123
Exploration and evaluation	—	—	122	298	2,206	—	—	8,130	10,756
Crude oil and condensate sales	169,237	17,254	81,676	523	6,080	12	56,188	—	330,970
NGL sales	3,401	990	—	—	—	—	—	—	4,391
Natural gas sales	15,435	983	—	18,206	5,240	16,710	—	—	56,574
Sales of purchased commodities	—	—	—	—	—	—	—	41,449	41,449
Royalties	(23,909)	(4,874)	(11,476)	(279)	(952)	—	—	—	(41,490)
Revenue from external customers	164,164	14,353	70,200	18,450	10,368	16,722	56,188	41,449	391,894
Purchased commodities	—	—	—	—	—	—	—	(41,449)	(41,449)
Transportation	(10,404)	—	(6,183)	—	(1,709)	(1,130)	—	—	(19,426)
Operating	(57,851)	(4,400)	(15,098)	(6,396)	(6,433)	(3,136)	(11,876)	(2)	(105,192)
General and administration	(5,793)	(2,005)	(3,379)	(300)	(2,436)	(1,436)	(1,260)	2,957	(13,652)
PRRT	—	—	—	—	—	—	(5,826)	—	(5,826)
Corporate income taxes	—	—	(3,419)	(462)	—	—	(396)	(250)	(4,527)
Interest expense	—	—	—	—	—	—	—	(19,661)	(19,661)
Realized gain on derivative instruments	—	—	—	—	—	—	—	36,968	36,968
Realized foreign exchange loss	—	—	—	—	—	—	—	(3,348)	(3,348)
Realized other income	—	—	—	—	—	—	—	372	372
Fund flows from operations	**90,116**	**7,948**	**42,121**	**11,292**	**(210)**	**11,020**	**36,830**	**17,036**	**216,153**

	Nine Months Ended September 30, 2020								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	1,730,506	346,215	702,744	136,780	197,798	269,187	105,855	637,314	4,126,399
Drilling and development	166,199	65,281	29,396	6,919	9,784	1,612	20,128	259	299,578
Exploration and evaluation	—	—	102	(231)	2,908	—	—	4,951	7,730
Crude oil and condensate sales	306,121	43,303	129,094	1,047	12,423	12	111,304	8	603,312
NGL sales	23,009	4,467	—	—	—	—	—	—	27,476
Natural gas sales	79,342	3,587	—	41,561	11,106	35,316	—	1,647	172,559
Sales of purchased commodities	—	—	—	—	—	—	—	95,951	95,951
Royalties	(39,721)	(13,016)	(22,653)	(294)	(2,180)	—	—	(582)	(78,446)
Revenue from external customers	368,751	38,341	106,441	42,314	21,349	35,328	111,304	97,024	820,852
Purchased commodities	—	—	—	—	—	—	—	(95,951)	(95,951)
Transportation	(31,507)	(978)	(10,340)	—	(4,302)	(3,527)	—	—	(50,654)
Operating	(163,871)	(13,671)	(40,898)	(24,638)	(15,089)	(12,000)	(40,143)	(365)	(310,675)
General and administration	(17,533)	(5,051)	(9,739)	(1,221)	(4,540)	(556)	(2,826)	(732)	(42,198)
PRRT	—	—	—	—	—	—	(16,113)	—	(16,113)
Corporate income taxes	—	—	—	610	—	—	(889)	(443)	(722)
Interest expense	—	—	—	—	—	—	—	(55,269)	(55,269)
Realized gain on derivative instruments	—	—	—	—	—	—	—	108,303	108,303
Realized foreign exchange gain	—	—	—	—	—	—	—	9,781	9,781
Realized other expense	—	—	—	—	—	—	—	(501)	(501)
Fund flows from operations	**155,840**	**18,641**	**45,464**	**17,065**	**(2,582)**	**19,245**	**51,333**	**61,847**	**366,853**

	Nine Months Ended September 30, 2019								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	3,096,572	428,774	847,956	226,687	268,862	554,724	220,312	315,249	5,959,136
Drilling and development	227,101	54,064	65,772	13,295	4,451	449	24,098	333	389,563
Exploration and evaluation	—	—	124	659	12,056	—	—	20,137	32,976
Crude oil and condensate sales	532,245	44,068	248,797	1,803	21,292	16	162,618	—	1,010,839
NGL sales	24,375	4,299	—	—	—	—	—	—	28,674
Natural gas sales	64,553	4,112	121	85,839	24,489	82,434	—	—	261,548
Sales of purchased commodities	—	—	—	—	—	—	—	146,323	146,323
Royalties	(69,951)	(13,390)	(33,630)	(1,339)	(4,677)	—	—	—	(122,987)
Revenue from external customers	551,222	39,089	215,288	86,303	41,104	82,450	162,618	146,323	1,324,397
Purchased commodities	—	—	—	—	—	—	—	(146,323)	(146,323)
Transportation	(30,877)	—	(18,394)	—	(4,154)	(3,451)	—	—	(56,876)
Operating	(181,859)	(11,374)	(45,139)	(22,367)	(17,565)	(9,577)	(41,372)	(242)	(329,495)
General and administration	(15,917)	(5,467)	(10,585)	(1,896)	(6,495)	(2,007)	(3,463)	3,423	(42,407)
PRRT	—	—	—	—	—	—	(24,494)	—	(24,494)
Corporate income taxes	—	—	(16,465)	(7,237)	—	—	(7,912)	(504)	(32,118)
Interest expense	—	—	—	—	—	—	—	(62,208)	(62,208)
Realized gain on derivative instruments	—	—	—	—	—	—	—	61,507	61,507
Realized foreign exchange loss	—	—	—	—	—	—	—	(6,967)	(6,967)
Realized other income	—	—	—	—	—	—	—	7,447	7,447
Fund flows from operations	**322,569**	**22,248**	**124,705**	**54,803**	**12,890**	**67,415**	**85,377**	**2,456**	**692,463**

Reconciliation of fund flows from operations to net earnings:

	Three Months Ended		Nine Months Ended	
	Sep 30, 2020	Sep 30, 2019	Sep 30, 2020	Sep 30, 2019
Fund flows from operations	**114,776**	216,153	**366,853**	692,463
Accretion	**(9,158)**	(8,701)	**(26,184)**	(24,834)
Depletion and depreciation	**(167,728)**	(174,077)	**(432,242)**	(535,237)
Impairment	**(47,777)**	—	**(1,682,344)**	—
Unrealized (loss) gain on derivative instruments	**(39,637)**	17,817	**(34,092)**	(27,065)
Equity based compensation	**(9,733)**	(15,564)	**(31,894)**	(53,000)
Unrealized foreign exchange (loss) gain	**15,885**	(50,679)	**(1,507)**	14,377
Unrealized other expense	**(207)**	(347)	**(631)**	(621)
Deferred tax	**73,653**	5,169	**382,321**	(34,761)
Net (loss) earnings	**(69,926)**	(10,229)	**(1,459,720)**	31,322

3. Capital assets

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

	2020
Balance at January 1	**5,015,620**
Acquisitions	**19,609**
Additions	**299,578**
Increase in right-of-use assets	**3,550**
Impairment	**(1,682,344)**
Depletion and depreciation	**(378,199)**
Changes in asset retirement obligations	**(299,847)**
Foreign exchange	**120,279**
Balance at September 30	**3,098,246**

Q3 2020 impairment

In the third quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all cash-generating units ("CGU"). 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 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of $35.4 million (net of $12.4 million income tax recovery) in the Neocomian CGU due to increased estimated transportation expenses as a result of an announcement during the quarter that the third-party Grandpuits refinery plans on converting into a zero-crude platform in 2021. As a result of this change, the Company estimates that incremental transportation expenses will be incurred to transport the crude oil production in the Neocomian, Chaunoy, and Champotran CGUs to alternative refineries in France.

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 (2)
Brent Crude ($ US/bbl) (1)	44.00	46.75	51.00	56.50	60.00	62.95	64.13	65.33	66.56	67.81
WTI Crude ($ US/bbl) (1)	42.00	44.00	47.50	52.50	56.00	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) (1)	3.87	4.03	4.41	4.58	4.79	5.00	5.21	5.42	5.63	5.83
AECO Spot Gas ($/mmbtu) (1)	3.00	2.90	2.70	2.60	2.60	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

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

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase discount rate	5% decrease pricing
Australia	Australia	—	—	10,050
France	Neocomian	47,777	5,184	13,235
France	Chaunoy	—	5,277	14,635
Ireland	Ireland	—	—	4,175
United States	United States	—	5,895	30,522
Total		**47,777**	**16,356**	**72,617**

Q2 2020 impairment

In the second quarter of 2020, indicators of impairment were present due to a decline in the Company's market capitalization. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. 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 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of $53.1 million (net of $16.6 million income tax recovery).

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 (2)
Brent Crude ($ US/bbl) (1)	43.50	48.00	51.50	56.50	60.00	62.95	64.13	65.33	66.56	67.81
WTI Crude ($ US/bbl) (1)	41.00	44.00	47.50	52.50	56.00	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) (1)	2.75	4.25	4.75	5.25	5.75	6.00	6.25	6.50	6.75	7.00
AECO Spot Gas ($/mmbtu) (1)	2.10	2.35	2.40	2.45	2.55	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.74	0.74	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75

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

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase discount rate	5% decrease pricing
Australia	Australia	33,475	3,435	15,470
Germany	Germany Gas	10,177	1,370	2,818
Ireland	Ireland	26,061	9,198	19,208
Total		**69,713**	**14,003**	**37,496**

Q1 2020 impairment

In the first quarter of 2020, indicators of impairment were present due to global commodity price forecasts deteriorating from decreases in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed impairment tests across all CGUs. 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 11.5%. Based on the results of the impairment tests completed, the Company recognized non-cash impairment charges of $1.2 billion (net of $0.4 billion income tax recovery).

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

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 (2)
Brent Crude ($ US/bbl) (1)	34.00	45.50	52.50	57.50	62.50	62.95	64.13	65.33	66.56	67.81
WTI Crude ($ US/bbl) (1)	30.00	41.00	47.50	52.50	57.50	58.95	60.13	61.33	62.56	63.81
NBP (€/mmbtu) (1)	3.33	4.25	5.00	5.50	6.00	6.25	6.50	6.75	7.00	7.25
AECO Spot Gas ($/mmbtu) (1)	1.95	2.25	2.35	2.45	2.55	2.65	2.70	2.76	2.81	2.87
Exchange rate (CAD/USD)	0.72	0.73	0.74	0.74	0.75	0.75	0.75	0.75	0.75	0.75

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

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2030 and beyond there is no escalation of exchange rates.

The following are the results of impairment tests completed and sensitivity impacts which would increase impairment charges taken:

Operating Segment	CGU	Impairment	1% increase discount rate	5% decrease pricing
Australia	Australia	55,583	3,227	13,582
Canada	Saskatchewan	815,909	70,737	141,015
Canada	Drayton Valley Oil	364,879	13,204	23,582
Canada	Drayton Valley Gas	—	9,864	38,158
France	Neocomian	22,758	8,576	13,609
Germany	Germany Gas	39,738	3,545	7,084
Ireland	Ireland	119,634	10,333	20,793
United States	United States	146,353	28,051	52,613
Total		**1,564,854**	**147,537**	**310,436**

Q4 2019 impairment

In the fourth quarter of 2019, an indicator of impairment was present in the Ireland CGU due to declining natural gas price forecasts. As a result of the indicator of impairment, the Company performed an impairment test on its Ireland CGU whereby the recoverable amount was compared against its carrying amount. The recoverable amount was 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 9.0%. Based on the results of the impairment test completed, the Company recognized a non-cash impairment charge of $34.6 million (net of $11.5 million income tax recovery).

The following benchmark price forecast was used to calculate the recoverable amount:

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029 (2)
NBP (€/mmbtu) (1)	5.58	5.51	5.54	5.65	5.77	5.88	6.00	6.12	6.24	6.37

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

(2) In 2030 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum.

The following is the result of the impairment test completed and sensitivity impacts of a 1% increase in after-tax discount rate and a 5% decrease in pricing on the impairment test completed:

CGU	Operating Segment	Impairment	1% increase discount rate	5% decrease pricing
Ireland	Ireland	46,055	14,749	28,598

Changes in any of the key judgments, such as a revision in reserves, changes in forecast commodity prices, foreign exchange rates, capital or operating costs would impact the estimated recoverable amount.

4. Exploration and evaluation assets

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

	2020
Balance at January 1	**286,149**
Acquisitions	**1,380**
Additions	**7,730**
Changes in asset retirement obligations	**(119)**
Depreciation	**(48,361)**
Foreign exchange	**6,941**
Balance at September 30	**253,720**

5. Asset retirement obligations

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

	2020
Balance at January 1	**618,201**
Additional obligations recognized	**1,266**
Changes in estimated abandonment timing and costs	**(8,358)**
Obligations settled	**(7,007)**
Accretion	**26,184**
Changes in discount rates	**(292,874)**
Foreign exchange	**26,504**
Balance at September 30	**363,916**

Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 10.0% (as at December 31, 2019 - 5.3%) added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined as the yield to maturity on its senior unsecured notes as at the reporting period.

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

	Sep 30, 2020	Dec 31, 2019
Canada	**1.1 %**	1.7 %
United States	**1.4 %**	2.4 %
France	**0.3 %**	0.9 %
Netherlands	**(0.5)%**	(0.1)%
Germany	**(0.1)%**	0.3 %
Ireland	**0.1 %**	0.6 %
Australia	**1.1 %**	1.6 %

6. Taxes

As at September 30, 2020, Vermilion derecognized $136.9 million (December 31, 2019 - $65.5 million) of deferred income tax assets relating to non-expiring tax losses in Canada, Ireland and Australia as there is uncertainty as to the Company's ability to fully utilize such losses based on forecasted commodity prices in effect as at September 30, 2020.

7. Long-term debt

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

	As at	
	Sep 30, 2020	**Dec 31, 2019**
Revolving credit facility	**1,674,810**	1,539,225
Senior unsecured notes	**398,172**	385,440
Long-term debt	**2,072,982**	1,924,665

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 senior unsecured notes as at September 30, 2020 was $332.8 million.

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

	2020
Balance at January 1	**1,924,665**
Borrowings on the revolving credit facility	**99,527**
Amortization of transaction costs	**631**
Foreign exchange	**48,159**
Balance at September 30	**2,072,982**

Revolving credit facility

As at September 30, 2020, Vermilion had in place a bank revolving credit facility maturing May 31, 2024 with the following terms:

	As at	
	Sep 30, 2020	**Dec 31, 2019**
Total facility amount	**2,100,000**	2,100,000
Amount drawn	**(1,674,810)**	(1,539,225)
Letters of credit outstanding	**(22,930)**	(10,230)
Unutilized capacity	**402,260**	550,545

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.

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

As at September 30, 2020, the revolving credit facility was subject to the following financial covenants:

		As at	
Financial covenant	**Limit**	**Sep 30, 2020**	**Dec 31, 2019**
Consolidated total debt to consolidated EBITDA	Less than 4.0	**3.22**	1.94
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	**2.60**	1.56
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	**9.32**	13.40

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 balance sheet.
- Consolidated total senior debt: Defined as consolidated total debt excluding unsecured and subordinated debt.
- Consolidated EBITDA: Defined as 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 excluding interest on operating leases as defined under IAS 17.

As at September 30, 2020 and 2019, Vermilion was in compliance with the above covenants. As a result of current depressed commodity prices, the Company is at risk of breaching one or more of the financial covenants in the future. If covenant relief or other measures are not provided by the lenders, the balance of the revolving credit facility would be reclassified to a current liability.

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
2020	104.219%
2021	102.813%
2022	101.406%
2023 and thereafter	100.000%

Cross currency interest rate swaps

On June 12, 2019, Vermilion entered into a series of cross currency interest rate swaps with a syndicate of banks. Vermilion applied hedge accounting to these derivative instruments. The cross currency interest rate swaps had an original maturity of March 15, 2025.

The USD-to-CAD cross currency interest swaps were designated as the hedging instrument in a cash flow hedge while the CAD-to-EUR cross currency interest rate swaps were designated as the hedging instrument in a net investment hedge.

During the quarter ended June 30, 2020, Vermilion executed a number of transactions that resulted in a termination of the cross currency interest rate swaps in exchange for $42.3 million ($16.8 million received in the three months ended March 30, 2020 and $25.5 million received in the three months ended June 30, 2020). As a result of the termination, Vermilion has discontinued hedge accounting and amounts previously recognized for the hedge reserve within accumulated other comprehensive income will be reclassified in to net income over the remaining life of the senior unsecured notes.

8. Shareholders' capital

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

	2020	
Shareholders’ Capital	**Shares ('000s)**	**Amount**
Balance at January 1	**156,290**	**4,119,031**
Shares issued for the Dividend Reinvestment Plan	**617**	**8,277**
Vesting of equity based awards	**907**	**43,527**
Shares issued for equity based compensation	**226**	**2,118**
Share-settled dividends on vested equity based awards	**268**	**1,361**
Balance at September 30	**158,308**	**4,174,314**

Dividends declared to shareholders for the nine months ended September 30, 2020 were $90.1 million (2019 - $319.6 million).

At Vermilion's Annual General and Special Meeting held on April 28, 2020 shareholders of the Company approved a $3.7 billion reduction in the stated capital of Vermilion's common shares, with the $3.7 billion reduction deducted from the stated capital account maintained for the common shares of

Vermilion and an offsetting increase to the contributed surplus account of Vermilion. The transaction did not result in an adjustment to the financial statements under IFRS.

9. Capital disclosures

Vermilion defines capital as net debt (long-term debt plus net working capital) 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:

	Sep 30, 2020	Dec 31, 2019
Long-term debt	**2,072,982**	1,924,665
Current liabilities	**330,872**	416,210
Current assets	**(267,635)**	(347,681)
Net debt	**2,136,219**	1,993,194
Ratio of net debt to four quarter trailing fund flows from operations	**3.67**	2.20

10. Financial instruments

Commodity risk

Vermilion is exposed to commodity price risk on its derivative assets and liabilities which are used as part of the Company's risk management program to mitigate the effects of changes in commodity prices on future cash flows. While transactions of this nature relate to future petroleum and natural gas production, Vermilion does not designate these derivative assets and liabilities as accounting hedges. As such, changes in commodity prices impact the fair value of derivative instruments and the corresponding gains or losses recognized on derivative instruments. During the three and nine months ended September 30, 2020, Vermilion continued to use derivative instruments to mitigate the effects of changes in commodity prices.

Currency risk

Vermilion is exposed to currency risk on its financial instruments denominated in foreign currencies. These financial instruments include cash and cash equivalents, accounts receivables, accounts payables, lease obligations, long-term debt, derivative assets and derivative liabilities. These financial instruments are primarily denominated in the US dollar and the Euro. Vermilion monitors its exposure to currency risk and reviews whether the use of derivative financial instruments is appropriate to manage potential fluctuations in foreign exchange rates. During the three and nine months ended September 30, 2020, Vermilion has not entered into new derivative instruments for the purposes of managing fluctuations in foreign exchange rates.

Interest rate risk

Vermilion is exposed to interest rate risk on its revolving credit facility, which consists of short-term borrowing instruments that bear interest at market rates. Thus, changes in interest rates could result in an increase or decrease in the amount paid by Vermilion to service this debt. As a result of the outbreak of COVID-19 and ensuing monetary response, short-term interest rates have generally decreased. However, the impact of these decreases could be offset by increased credit spread as a result of decreased financial performance resulting from lower commodity prices.

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.

	Sep 30, 2020
Currency risk - Euro to Canadian dollar	
$0.01 increase in strength of the Canadian dollar against the Euro	**(1,252)**
$0.01 decrease in strength of the Canadian dollar against the Euro	**1,252**
Currency risk - US dollar to Canadian dollar	
$0.01 increase in strength of the Canadian dollar against the US $	**2,972**
$0.01 decrease in strength of the Canadian dollar against the US $	**(2,972)**
Commodity price risk - Crude oil	
US $5.00/bbl increase in crude oil price used to determine the fair value of derivatives	**(11,327)**
US $5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	**9,272**
Commodity price risk - European natural gas	
€0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	**(24,602)**
€0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	**18,756**
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)**

Credit risk

Vermilion is exposed to credit risk on accounts receivable and derivative assets in the event that customers, joint operation partners, or counterparties fail to discharge their contractual obligations. As at September 30, 2020, Vermilion's maximum exposure to receivable credit risk was $231.5 million (December 31, 2019 - $287.2 million) which is the value of accounts receivable and derivative assets on the balance sheet. Vermilion's accounts receivable primarily relates to customers and joint operations partners in the petroleum and natural gas industry. These amounts are subject to normal industry payment terms and credit risks. Vermilion manages these risks by monitoring the creditworthiness of customers and joint operations partners and, where appropriate, obtaining assurances such as parental guarantees and letters of credit. Vermilion's derivative assets primarily relates to the fair value of financial instruments used as part of the Company's risk management program to mitigate the effects of changes in commodity prices on future cash flows. Vermilion manages this risk by monitoring the creditworthiness of counterparties, transacting primarily with counterparties that have investment grade third party credit ratings, and by limiting the concentration of financial exposure to individual counterparties. As a result, Vermilion has not obtained collateral or other security to support its financial derivatives. Vermilion's cash deposited in financial institutions and guaranteed investment certificates are also subject to counterparty credit risk. Vermilion mitigates this risk by transacting with financial institutions with high third party credit ratings.

The decrease in commodity prices as a result of the COVID-19 pandemic can potentially increase the credit risk associated with the Company's customers and joint venture partners. Vermilion continues to monitor the creditworthiness of customers and joint operations to limit exposure to this risk. As at September 30, 2020, approximately 3.0% (December 31, 2019 - 3.6%) of the accounts receivable balance was outstanding for more than 90 days. Vermilion considers the balance of accounts receivable to be collectible.

Liquidity risk

Liquidity risk is the risk that Vermilion will encounter difficulty in meeting obligations associated with its financial liabilities. While the decrease in commodity prices as a result of the COVID-19 pandemic will negatively impact Vermilion's financial performance and position, Vermilion continues to retain available committed borrowing capacity that provides the Company with financial flexibility and the ability to meet obligations as they become due.

Vermilion's undiscounted non-derivative financial liabilities due within 1 month to 1 year have decreased since December 31, 2019 primarily as a result of lower dividends payable as at September 30, 2020. The Company had $402.3 million of unutilized capacity on its revolving credit facility as at September 30, 2020 ($550.5 million as at December 31, 2019), which matures on May 31, 2024.

The following table summarizes Vermilion's undiscounted non-derivative financial liabilities and their contractual maturities:

	1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years
September 30, 2020	57,916	162,145	26,641	2,147,552
December 31, 2019	134,502	208,752	5,136	1,608,435

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1 Executive Chairman
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

OFFICERS AND KEY PERSONNEL

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Lorenzo Donadeo *
Executive Chairman

Curtis Hicks *
President

Mona Jasinski *
Executive Vice President, People and Culture

Michael Kaluza *
Executive Vice President & Chief Operating Officer

Lars Glemser *
Vice President & Chief Financial Officer

Dion Hatcher *
Vice President Canada Business Unit

Terry Hergott
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Sven Tummers
Managing Director - Netherlands Business Unit

Bill Liutkus
Managing Director - Germany Business Unit

Ryan Carty
Managing Director - Ireland Business Unit

Bryan Sralla
Managing Director - Central & Eastern Europe Business Unit

AUSTRALIA
Bruce D. Lake
Managing Director - Australia Business Unit

* Executive Committee

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Bank of Montreal

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

HSBC Bank Canada

Bank of America N.A., Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

La Caisse Centrale Desjardins du Québec

Alberta Treasury Branches

Canadian Western Bank

Goldman Sachs Lending Partners LLC

Barclays Bank PLC

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EXCELLENCE

We aim for exceptional
results in everything we do.

TRUST

At Vermilion, we operate with honesty
and fairness, and can be counted on to
do what we say we will.

RESPECT

We embrace diversity, value our people
and believe every employee and business
associate worldwide deserves to be treated
with the utmost dignity and respect.

RESPONSIBILITY

Vermilion continually shows its commitment
to the care of our people and environment,
and enrichment of the communities in which
we live and work.

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