

Q3 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.



INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
E N E R G Y



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.

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

Management's Discussion and Analysis

The following is Management's Discussion and Analysis ("MD&A"), dated November 6, 2020, of Vermilion Energy Inc.'s ("Vermilion", "we", "our", "us" or the "Company") operating and financial results as at and for the three and nine months ended September 30, 2020 compared with the corresponding periods in the prior year.

This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and the audited consolidated financial statements for the years ended December 31, 2019 and 2018, together with the accompanying notes. Additional information relating to Vermilion, including its Annual Information Form, is available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

The unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2020 and comparative information have been prepared in Canadian dollars, except where another currency has been indicated, and in accordance with IAS 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB").

This MD&A includes references to certain financial and performance measures which do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). These measures include:

- **Fund flows from operations:** Fund flows from operations is a measure of profit or loss in accordance with IFRS 8 "Operating Segments". Please see "Segmented Information" in the "Notes to the Condensed Consolidated Interim Financial Statements" for a reconciliation of fund flows from operations to net earnings. We analyze fund flows from operations both on a consolidated basis and on a business unit basis in order to assess the contribution of each business unit to our ability to generate income necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments.
- **Net debt:** Net debt is a capital management measure in accordance with IAS 1 "Presentation of Financial Statements". Net debt is comprised of long-term debt plus current liabilities less current assets and represents Vermilion's net financing obligations after adjusting for the timing of working capital fluctuations. Net debt excludes non-current lease obligations which are secured by a corresponding right-of-use asset. Please see "Capital disclosures" in the "Notes to the Condensed Consolidated Interim Financial Statements" for additional information.
- **Netbacks:** Netbacks are per boe and per mcf performance measures used in the analysis of operational activities. We assess netbacks both on a consolidated basis and on a business unit basis in order to compare and assess the operational and financial performance of each business unit versus other business units and also versus third party crude oil and natural gas producers.

In addition, this MD&A includes references to certain financial measures which are not specified, defined, or determined under IFRS and are therefore considered non-GAAP financial measures. These non-GAAP financial measures are unlikely to be comparable to similar financial measures presented by other issuers. For a full description of these non-GAAP financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to "Non-GAAP Financial Measures".

Condensate Presentation

We report our condensate production in Canada and the Netherlands business units within the crude oil and condensate production line. We believe that this presentation better reflects the historical and forecasted pricing for condensate, which is more closely correlated with crude oil pricing than with pricing for propane, butane, and ethane (collectively "NGLs" for the purposes of this report).

Guidance

On October 31, 2019, we released our 2020 capital budget and associated production guidance. On March 16, 2020, we announced a reduction of our 2020 capital budget and associated production guidance in response to a decrease in oil prices as a result of the novel coronavirus ("COVID-19") pandemic and the ensuing oil price war between OPEC+ members. On November 9, 2020, we reduced the upper end of our annual production guidance range to reflect current production estimates which take into account the deferred startup of new gas production in the Netherlands to take advantage of higher European gas prices during the winter months.

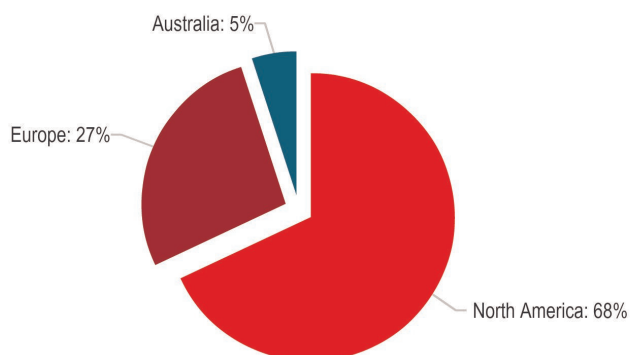
The following table summarizes our guidance:

	Date	Capital Expenditures (\$MM)	Production (boe/d)
2020 Guidance			
2020 Guidance	October 31, 2019	450	100,000 to 103,000
2020 Guidance	March 16, 2020	350 to 370	94,000 to 98,000
2020 Guidance	November 9, 2020	350 to 370	94,000 to 96,000

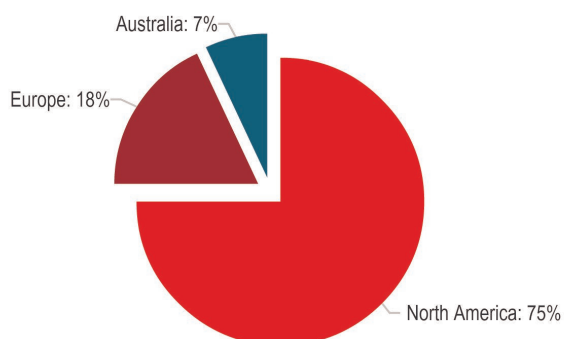
Vermilion's Business

Vermilion is a Calgary, Alberta based international oil and gas producer focused on the acquisition, exploration, development, and optimization of producing properties in North America, Europe, and Australia. We manage our business through our Calgary head office and our international business unit offices.

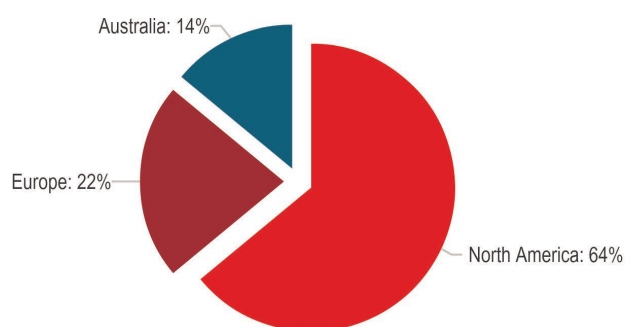
2020 YTD production of 97,656 boe/d



2020 YTD capital expenditures of \$307MM



2020 YTD fund flows from operations of \$367MM



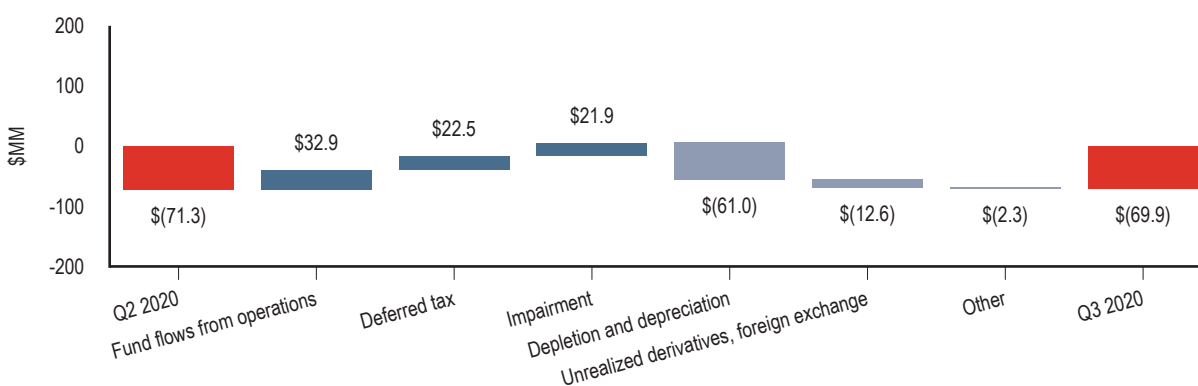
Consolidated Results Overview

	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production								
Crude oil and condensate (bbls/d)	43,240	45,041	47,242	(4)%	(9)%	44,383	48,455	(8)%
NGLs (bbls/d)	9,509	9,588	7,772	(1)%	22%	9,041	7,925	14%
Natural gas (mmcf/d)	256.34	274.42	253.36	(7)%	1%	265.39	268.88	(1)%
Total (boe/d)	95,471	100,366	97,239	(5)%	(2)%	97,656	101,193	(4)%
Sales								
Crude oil and condensate (bbls/d)	43,985	43,771	48,979	1%	(10)%	44,908	49,120	(9)%
NGLs (bbls/d)	9,509	9,588	7,772	(1)%	22%	9,041	7,925	14%
Natural gas (mmcf/d)	256.34	274.42	253.36	(7)%	1%	265.39	268.88	(1)%
Total (boe/d)	96,217	99,096	98,976	(3)%	(3)%	98,180	101,858	(4)%
(Draw) build in inventory (mbbls)	(68)	116	(159)			(144)	(182)	
Financial metrics								
Fund flows from operations (\$M)	114,776	81,852	216,153	40%	(47)%	366,853	692,463	(47)%
Per share (\$/basic share)	0.73	0.52	1.39	40%	(48)%	2.33	4.49	(48)%
Net (loss) earnings (\$M)	(69,926)	(71,290)	(10,229)	(2)%	584%	(1,459,720)	31,322	N/A
Per share (\$/basic share)	(0.44)	(0.45)	(0.07)	(2)%	529%	(9.26)	0.20	N/A
Net debt (\$M)	2,136,219	2,161,442	2,001,870	(1)%	7%	2,136,219	2,001,870	7%
Cash dividends (\$/share)	—	—	0.690	—%	(100)%	0.575	2.070	(72)%
Activity								
Capital expenditures (\$M)	31,330	42,274	127,879	(26)%	(76)%	307,308	422,539	(27)%
Acquisitions (\$M)	6,720	2,932	4,657			20,989	29,307	
Gross wells drilled	—	2.00	47.00			89.00	148.00	
Net wells drilled	—	0.12	45.31			77.42	136.13	

Financial performance review

Q3 2020 vs. Q2 2020

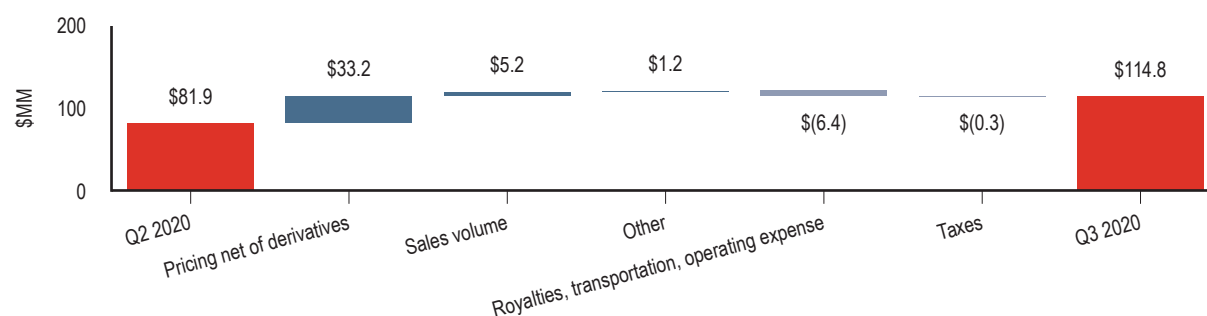
Net loss of \$69.9MM in Q3 2020 compared to a net loss of \$71.3MM in Q2 2020



"Other" contains equity based compensation and unrealized other

- We recorded a net loss of \$69.9 million (\$0.44/basic share) in Q3 2020 compared to a net loss of \$71.3 million (\$0.45/basic share) in Q2 2020. This quarter-over-quarter decrease in net loss was primarily driven by an increase in fund flows from operations and lower impairment charges. This was partially offset by higher depletion and depreciation of \$61.0 million due to an increase in Q3 2020 in write-offs of exploration and evaluation assets and lower Q2 2020 depletion and depreciation driven by impairment charges in the first quarter of 2020.

Fund flows from operations of \$114.8MM in Q3 2020 compared \$81.9MM in Q2 2020

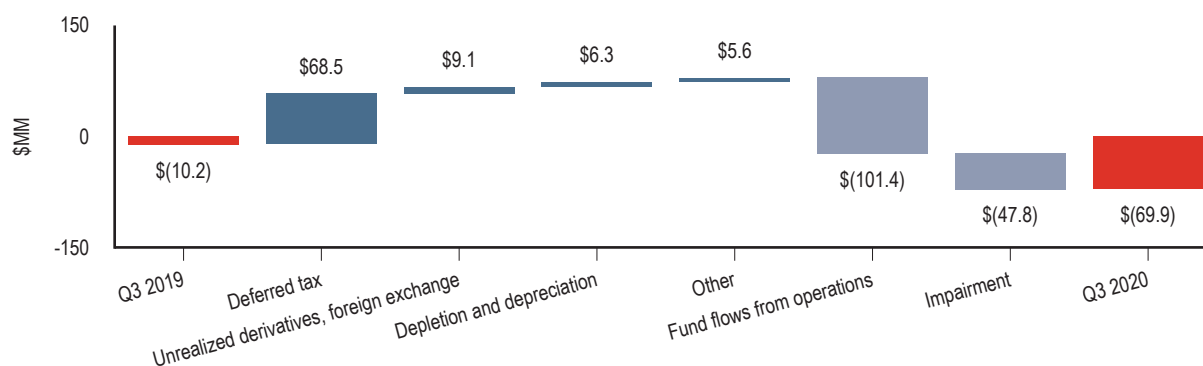


"Other" contains general and administration, interest, realized foreign exchange, and realized other

- Fund flows from operations during Q3 2020 increased versus Q2 2020 from \$81.9 million to \$114.8 million primarily driven by an increase in commodity pricing in Q3 2020 versus Q2 2020 which experienced a greater negative impact due to the COVID-19 pandemic and the OPEC+ price war.

Q3 2020 vs. Q3 2019

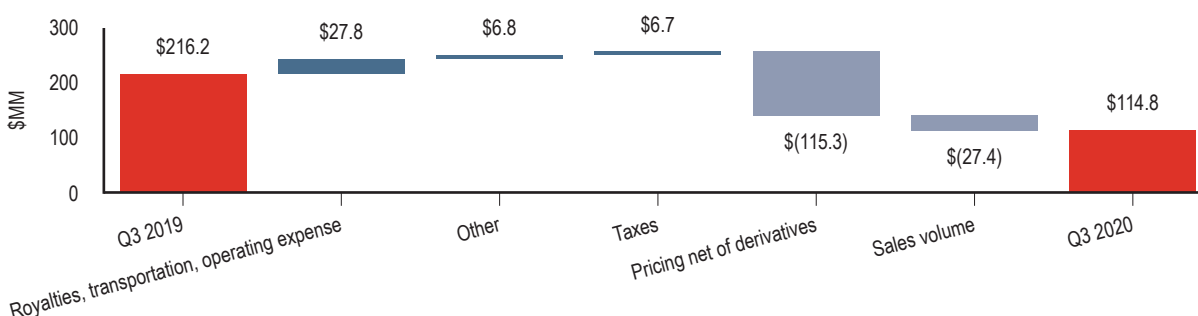
Net loss of \$69.9MM in Q3 2020 compared to a net loss of \$10.2MM in Q3 2019



"Other" contains equity based compensation and unrealized other

- We recorded a net loss of \$69.9 million (\$0.44/basic share) for Q3 2020 compared to a net loss of \$10.2 million (\$0.07/basic share) in Q3 2019. The decrease in net earnings was primarily driven by \$101.4 million of lower fund flows from operations due to lower realized prices, as a result of the impact of COVID-19 and the OPEC+ price war, and impairment charges of \$35.4 million (net of \$12.4 million income tax recovery) in Q3 2020.

Fund flows from operations of \$114.8MM in Q3 2020 compared to \$216.2MM in Q3 2019

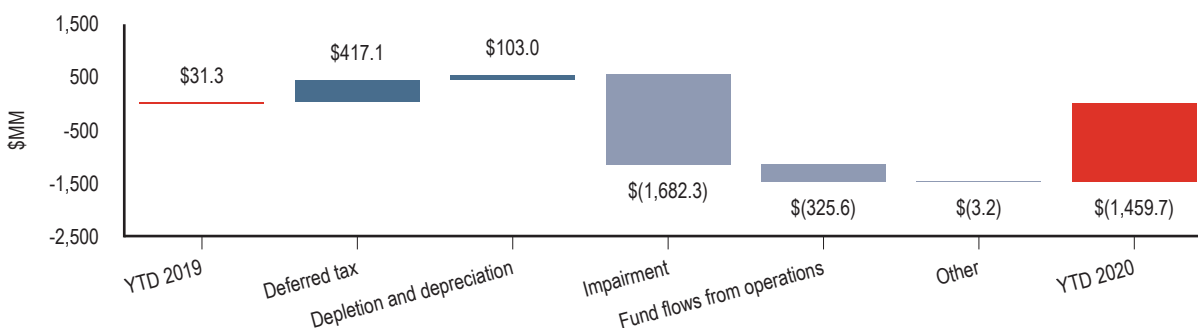


"Other" contains general and administration, interest, realized foreign exchange, and realized other

- We generated fund flows from operations of \$114.8 million in Q3 2020, a decrease from \$216.2 million in Q3 2019 primarily as a result of lower realized prices due to the impact of COVID-19 and the OPEC+ price war, and lower sales volumes. Our consolidated realized price per boe decreased from \$43.04/boe in Q3 2019 to \$31.86/boe in Q3 2020.

YTD 2020 vs. YTD 2019

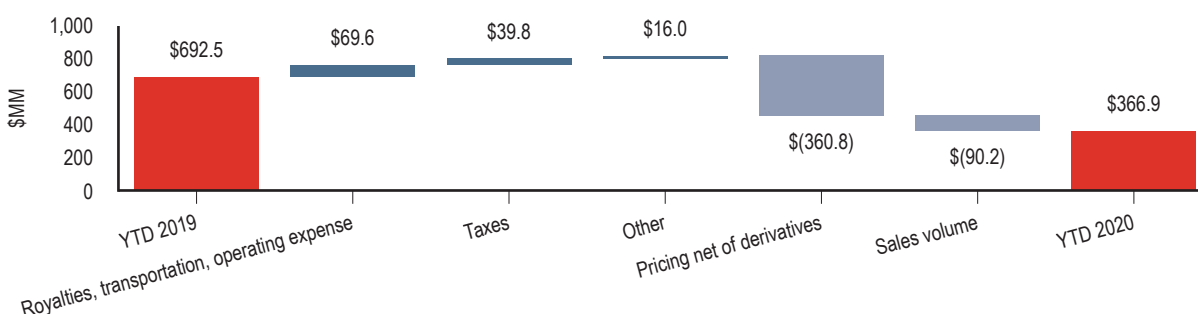
Net loss of \$1,459.7MM in 2020 compared to net earnings of \$31.3MM in 2019



"Other" contains equity based compensation, accretion, unrealized derivative instruments and unrealized foreign exchange

- For the nine months ended September 30, 2020, a net loss of \$1,459.7 million was recorded compared to net earnings of \$31.3 million for the comparable period in 2019. The decrease in net earnings was primarily due to impairment charges as we recorded \$1.3 billion of impairment in 2020 (net of \$0.4 billion income tax recovery). The decrease in net earnings was also a result of lower fund flows from operations driven by decreases in realized prices due to the impact of COVID-19 and the OPEC+ price war.

Fund flows from operations of \$366.9MM in 2020 compared to \$692.5MM in 2019



"Other" contains general and administration, interest, realized foreign exchange and realized other

- Fund flows from operations decreased by 47% for the nine months ended September 30, 2020 versus the same period in 2019 primarily driven by a 36% decrease in our consolidated realized price of from \$46.79/boe to \$29.86/boe due to the impact of COVID-19 and the OPEC+ price war. Sales volumes decreased year-over-year primarily due to decreases in France as a result of the refinery shut down and confinement measures in 2020, in Ireland as a result of natural decline, and in Australia due to timing of liftings.

Production review

Q3 2020 vs. Q2 2020

- Consolidated average production of 95,471 boe/d during Q3 2020 represented a decrease of 5% from Q2 2020 production of 100,366 boe/d. Production decreases were primarily in Canada and the United States due to natural decline, partially offset by production increases in France as a result of confinement measures being lifted and the restart of the Grandpuits refinery in mid-June.

Q3 2020 vs. Q3 2019

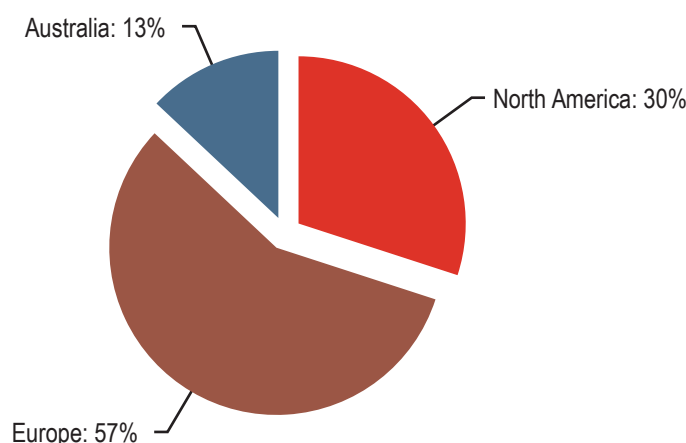
- Consolidated average production of 95,471 boe/d in Q3 2020 represented a decrease of 2% from Q3 2019 production of 97,239 boe/d. The decrease was primarily driven by lower production in Ireland due to a planned turnaround and natural declines, and in Australia due to an unplanned shutdown for maintenance. These decreases were partially offset by year-over-year growth in Canada and the United States from new well completions following our Q1 2020 drilling program.

YTD 2020 vs. YTD 2019

- Consolidated average production of 97,656 boe/d for the nine months ended September 30, 2020 represented a decrease of 4% from the comparable period in 2019 of 101,193 boe/d. Production decreases were primarily in France due to the Grandpuits refinery temporary shutdown in Q2 2020, in Ireland due to a planned turnaround and natural declines, and in Australia due to downtime throughout 2020 and cyclone activity in Q1 2020. These decreases were partially offset by production increases in the United States due to new wells brought online in 2019 and 2020.

Activity review

Q3 2020 capital expenditures of \$31.3MM



- For the three months ended September 30, 2020, capital expenditures of \$31.3 million were incurred.
- In Europe, our capital expenditures were primarily in France, where capital expenditures of \$12.6 million mainly related to spending on well workovers and repairs as activity resumed in Q3 2020 following the easing of COVID-19 confinement measures put in place by the French government.
- In North America, capital expenditures included \$5.7 million primarily related to well maintenance and optimization in the United States and \$3.8 million primarily related to maintenance activities in Canada.
- In Australia, capital expenditures of \$3.9 million primarily related to asset optimization projects.

Sustainability review

Dividends

- On March 6, 2020, in response to weakness in commodity prices and reduced global economic prospects following the outbreak of COVID-19, Vermilion's board of directors approved a 50% reduction to the March dividend, payable April 15, 2020, to \$0.115 per share. On April 15, due to further deterioration of economic prospects and commodity prices from the impact of COVID-19, the board of directors suspended the monthly dividend as a further measure to strengthen the financial position of the Company.
- Total dividends of \$0.575 per common share were declared for the nine months ended September 30, 2020.

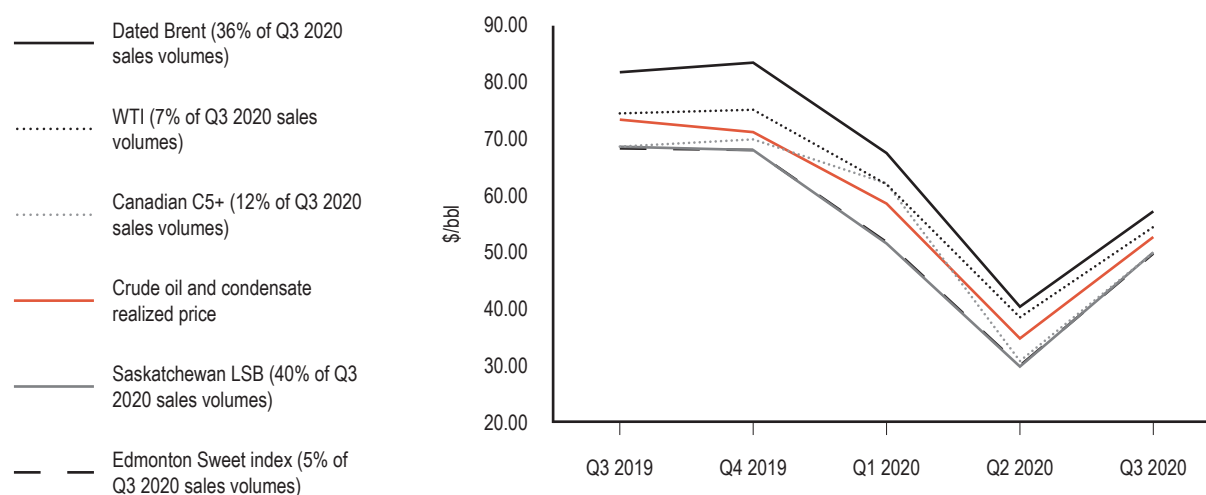
Long-term debt and net debt

- Long-term debt increased to \$2.1 billion as at September 30, 2020 from \$1.9 billion as at December 31, 2019 primarily a result of higher borrowings on the revolving credit facility.
- Net debt increased to \$2.1 billion as at September 30, 2020 from \$2.0 billion as at December 31, 2019, primarily due to an increase in long-term debt.
- The ratio of net debt to four quarter trailing fund flows from operations increased to 3.67 as at September 30, 2020 (December 31, 2019 - 2.20) due to the increase in net debt combined with lower four quarter trailing fund flows from operations due to negative price impacts as a result of the COVID-19 pandemic and OPEC+ price war.

Benchmark Commodity Prices

	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Crude oil								
WTI (\$/bbl)	54.54	38.62	74.55	41%	(27)%	51.90	75.84	(32)%
WTI (US \$/bbl)	40.93	27.85	56.45	47%	(28)%	38.32	57.06	(33)%
Edmonton Sweet index (\$/bbl)	49.86	30.11	68.39	66%	(27)%	44.11	69.57	(37)%
Edmonton Sweet index (US \$/bbl)	37.42	21.71	51.79	72%	(28)%	32.57	52.34	(38)%
Saskatchewan LSB index (\$/bbl)	50.06	29.95	68.68	67%	(27)%	44.06	70.19	(37)%
Saskatchewan LSB index (US \$/bbl)	37.57	21.60	52.01	74%	(28)%	32.53	52.81	(38)%
Canadian C5+ Condensate index (\$/bbl)	50.02	30.92	68.70	62%	(27)%	47.91	70.19	(32)%
Canadian C5+ Condensate index (US \$/bbl)	37.54	22.30	52.02	68%	(28)%	35.37	52.81	(33)%
Dated Brent (\$/bbl)	57.29	40.49	81.80	42%	(30)%	55.29	85.93	(36)%
Dated Brent (US \$/bbl)	43.00	29.20	61.94	47%	(31)%	40.82	64.65	(37)%
Natural gas								
AECO (\$/mcf)	2.24	1.99	1.06	13%	111%	2.09	1.64	27%
NBP (\$/mcf)	3.67	2.26	4.50	62%	(18)%	3.43	6.08	(44)%
NBP (€/mcf)	2.36	1.48	3.07	60%	(23)%	2.25	4.07	(45)%
TTF (\$/mcf)	3.51	2.39	4.40	47%	(20)%	3.38	6.08	(44)%
TTF (€/mcf)	2.25	1.56	3.00	44%	(25)%	2.22	4.07	(46)%
Henry Hub (\$/mcf)	2.63	2.38	2.94	11%	(11)%	2.54	3.55	(29)%
Henry Hub (US \$/mcf)	1.97	1.72	2.23	15%	(12)%	1.88	2.67	(30)%
Average exchange rates								
CDN \$/US \$	1.33	1.39	1.32	(4)%	1%	1.35	1.33	2%
CDN \$/Euro	1.56	1.53	1.47	2%	6%	1.52	1.49	2%
Realized prices								
Crude oil and condensate (\$/bbl)	52.77	34.90	73.45	51%	(28)%	49.03	75.38	(35)%
NGLs (\$/bbl)	15.04	8.94	6.14	68%	145%	11.09	13.25	(16)%
Natural gas (\$/mcf)	2.34	1.85	2.43	27%	(4)%	2.37	3.56	(33)%
Total (\$/boe)	31.86	21.40	43.04	49%	(26)%	29.86	46.79	(36)%

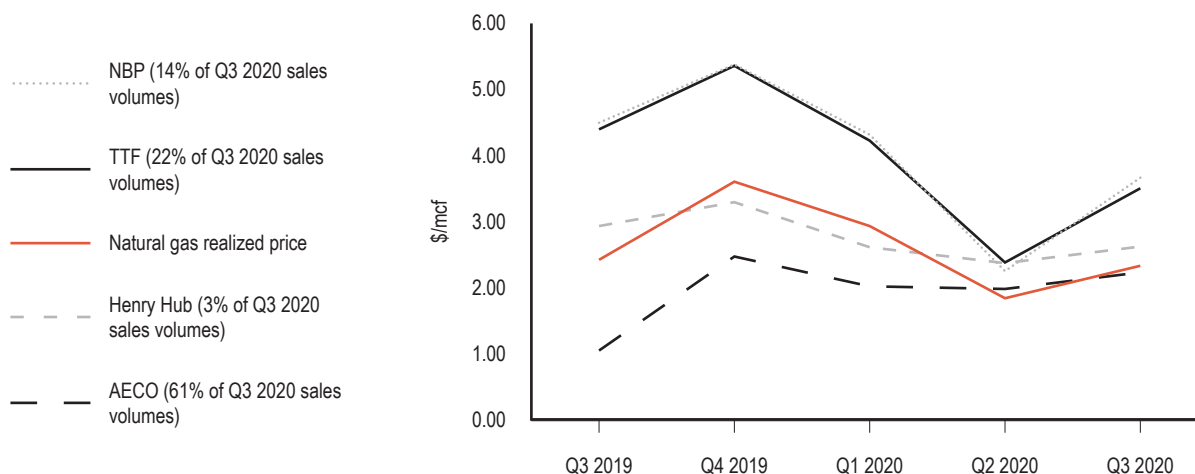
Q3 2020 realized crude oil and condensate price was a 6% premium to Edmonton Sweet Index



- Crude oil prices increased in Q3 2020 relative to Q2 2020 due to a global demand recovery, a coordinated supply cut from the OPEC+ group, and lower US shale production, with WTI and Brent prices rising quarter-over-quarter by 41% and 42% respectively. For the three months ended September 30, 2020, WTI and Brent prices decreased by 27% and 30%, respectively, versus the comparable period in the prior year.

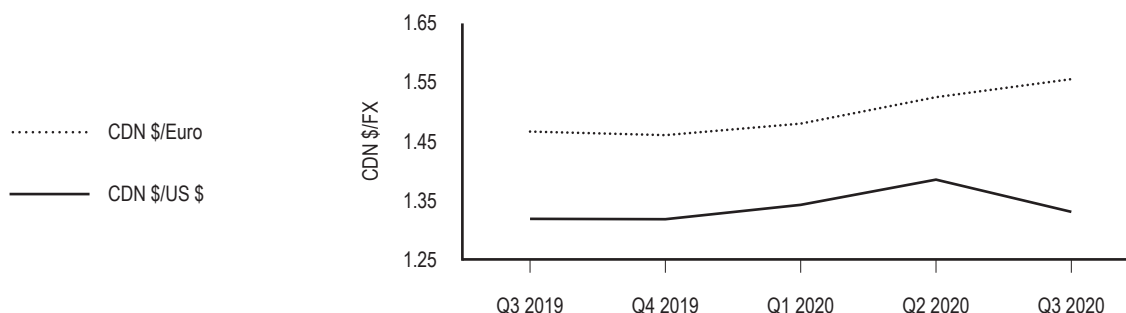
- In Canadian dollar terms, quarter-over-quarter, the Edmonton Sweet differential improved by \$3.83/bbl to a discount of \$4.68/bbl against WTI, and the Saskatchewan LSB differential improved by \$4.19/bbl to a discount of \$4.48/bbl against WTI. This was driven by Canadian and U.S. production curtailments and increased production maintenance activity in response to low prices, and a demand recovery.
- Approximately 36% of Vermilion's Q3 2020 crude oil and condensate production was priced at the Dated Brent index (which averaged a premium to WTI of US\$2.07/bbl), while the remainder of our crude oil and condensate production was priced at the Saskatchewan LSB, Canadian C5+, Edmonton Sweet, and WTI indices.

Q3 2020 realized natural gas price



- In Canadian dollar terms, prices for European natural gas (TTF and NBP) rose by 47% and 62%, respectively, in Q3 2020 compared to Q2 2020. A gas demand recovery and lower imports into the European gas market led to higher prices.
- Natural gas prices at AECO in Q3 2020 increased by 13% compared to Q2 2020, due to lower quarter-over-quarter production.
- For Q3 2020, average European natural gas prices represented a \$1.35/mcf premium to AECO. Approximately 36% of our natural gas production in Q3 2020 benefited from this premium European pricing.

Quarter-over-quarter, the Canadian dollar strengthened versus the USD and weakened versus the Euro



- For the three months ended September 30, 2020, the Canadian dollar strengthened 4% against the US dollar quarter-over-quarter.
- For the three months ended September 30, 2020, the Canadian dollar weakened 2% against the Euro quarter-over-quarter.

Canada Business Unit

Overview

Production and assets focused in West Pembina near Drayton Valley, Alberta and southeast Saskatchewan and Manitoba.

- Significant resource plays sharing the same surface infrastructure in the West Pembina region in Alberta:
 - Mannville condensate-rich gas (2,400 - 2,700m depth) - in development phase
 - Cardium light oil (1,800m depth) - modest investment at present
- Southeast Saskatchewan light oil development:
 - Targeting the Mississippian Midale (1,400 - 1,700m depth), Frobisher/Alida (1,200 - 1,400m depth) and Ratcliffe (1,800 - 1,900m) formations

Operational and financial review

Canada business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production and sales								
Crude oil and condensate (bbls/d)	25,048	27,592	27,682	(9)%	(10)%	26,674	28,558	(7)%
NGLs (bbls/d)	8,350	8,248	6,632	1%	26%	7,849	6,983	12%
Natural gas (mmcf/d)	155.15	164.08	145.14	(5)%	7%	156.79	149.44	5%
Total (boe/d)	59,256	63,187	58,504	(6)%	1%	60,655	60,447	—%
Production mix (% of total)								
Crude oil and condensate	42%	44%	47%			44%	47%	
NGLs	14%	13%	12%			13%	12%	
Natural gas	44%	43%	41%			43%	41%	
Activity								
Capital expenditures	3,837	9,785	69,963	(61)%	(95)%	166,199	227,101	(27)%
Acquisitions	6,621	260	1,746			12,320	19,061	
Gross wells drilled	—	2.00	40.00			79.00	126.00	
Net wells drilled	—	0.12	38.31			67.52	116.12	
Financial results								
Sales	153,374	100,135	188,073	53%	(18)%	408,472	621,173	(34)%
Royalties	(16,259)	(6,777)	(23,909)	140%	(32)%	(39,721)	(69,951)	(43)%
Transportation	(9,904)	(10,465)	(10,404)	(5)%	(5)%	(31,507)	(30,877)	2%
Operating	(42,405)	(57,281)	(57,851)	(26)%	(27)%	(163,871)	(181,859)	(10)%
General and administration	(5,985)	(8,705)	(5,793)	(31)%	3%	(17,533)	(15,917)	10%
Fund flows from operations	78,821	16,907	90,116	366%	(13)%	155,840	322,569	(52)%
Netbacks (\$/boe)								
Sales	28.13	17.41	34.94	62%	(20)%	24.58	37.64	(35)%
Royalties	(2.98)	(1.18)	(4.44)	153%	(33)%	(2.39)	(4.24)	(44)%
Transportation	(1.82)	(1.82)	(1.93)	—%	(6)%	(1.90)	(1.87)	2%
Operating	(7.78)	(9.96)	(10.75)	(22)%	(28)%	(9.86)	(11.02)	(11)%
General and administration	(1.10)	(1.51)	(1.08)	(27)%	2%	(1.05)	(0.96)	9%
Fund flows from operations netback	14.45	2.94	16.74	392%	(14)%	9.38	19.55	(52)%
Realized prices								
Crude oil and condensate (\$/bbl)	49.06	27.32	66.45	80%	(26)%	41.93	68.16	(39)%
NGLs (\$/bbl)	14.81	9.62	5.57	54%	166%	10.70	12.79	(16)%
Natural gas (\$/mcf)	2.03	1.63	1.16	25%	75%	1.85	1.58	17%
Total (\$/boe)	28.13	17.41	34.94	62%	(20)%	24.58	37.64	(35)%
Reference prices								
WTI (US \$/bbl)	40.93	27.85	56.45	47%	(28)%	38.32	57.06	(33)%
Edmonton Sweet index (\$/bbl)	49.86	30.11	68.39	66%	(27)%	44.11	69.57	(37)%
Saskatchewan LSB index (\$/bbl)	50.06	29.95	68.68	67%	(27)%	44.06	70.19	(37)%
Canadian C5+ Condensate index (\$/bbl)	50.02	30.92	68.70	62%	(27)%	47.91	70.19	(32)%
AECO (\$/mcf)	2.24	1.99	1.06	13%	111%	2.09	1.64	27%

Production

- Q3 2020 production decreased 6% from the prior quarter primarily due to natural decline as no new wells were drilled or tied-in during the quarter. Quarterly production was relatively consistent with the prior year as natural decline partially offset new production contributions from our 2020 capital program.

Activity

- Vermilion did not drill or participate in the drilling of any wells in Canada during Q3 2020. Capital activity was focused primarily on maintenance activities during the quarter.

Sales

- The realized price for our crude oil and condensate production in Canada is linked to WTI and is subject to market conditions in western Canada as reflected by the Saskatchewan LSB, Canadian Condensate C5+, and Edmonton Sweet index prices. The realized price of our natural gas in Canada is based on the AECO index.
- Sales increased in Q3 2020 versus Q2 2020 due to higher realized prices. Sales decreased for the three and nine months ended September 30, 2020 versus all prior year comparable periods primarily due to lower realized oil and condensate prices as production remained relatively consistent.
- Quarter-over-quarter, our crude oil and condensate production mix remained stable at approximately 42% of production.

Royalties

- Q3 2020 royalties as a percentage of sales of 10.6% increased from 6.8% in Q2 2020 primarily due to the effect of lower commodity prices on sliding scale royalties and gas cost allowance credits received in Q2 2020.
- For the three and nine months ended September 30, 2020, royalties as a percentage of sales of 10.6% and 9.7% respectively, decreased from 12.7% and 11.3% in the comparable prior year periods. This decrease was due to the effect of lower commodity prices on sliding scale royalties.

Transportation

- For the three and nine months ended September 30, 2020, transportation expense on a dollar and per unit basis remained relatively consistent versus all comparable periods.

Operating

- For the three and nine months ended September 30, 2020, operating expense on a dollar and per unit basis decreased versus all comparable periods primarily due to lower activity and cost reduction initiatives in 2020.

General and administration

- General and administrative expenses were lower on a dollar and per unit basis in Q3 2020 versus Q2 2020 primarily due to lower allocations from our Corporate segment combined with higher recoveries in Q3 2020.
- Q3 2020 versus Q3 2019 remained relatively consistent on a dollar and per unit basis.
- For the nine months ended September 30, 2020 versus the comparable prior year period general and administrative expenses increased mainly due to higher allocations from our Corporate segment combined with lower recoveries as a result of lower activity in 2020.

United States Business Unit

Overview

- Entered the United States in 2014 and acquired additional producing assets in the Hilight field in 2018.
- Interests include approximately 140,334 net acres of land (63% undeveloped) in the Powder River Basin of northeastern Wyoming.
- Tight oil development targeting the Turner Sands at depths of approximately 1,500m (East Finn) and 2,600m (Hilight).

Operational and financial review

United States business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production and sales								
Crude oil (bbls/d)	3,249	3,977	2,722	(18)%	19%	3,238	2,319	40%
NGLs (bbls/d)	1,158	1,340	1,140	(14)%	2%	1,192	942	27%
Natural gas (mmcf/d)	7.94	8.35	6.38	(5)%	25%	7.67	6.45	19%
Total (boe/d)	5,730	6,708	4,925	(15)%	16%	5,708	4,335	32%
Production mix (% of total)								
Crude oil	57%	59%	55%			57%	53%	
NGLs	20%	20%	23%			21%	22%	
Natural gas	23%	21%	22%			22%	25%	
Activity								
Capital expenditures	5,738	14,194	21,064	(60)%	(73)%	65,281	54,064	21%
Acquisitions	90	749	1,964			6,697	3,224	
Gross wells drilled	—	—	4.00			9.00	8.00	
Net wells drilled	—	—	4.00			8.90	8.00	
Financial results								
Sales	19,655	15,874	19,227	24%	2%	51,357	52,479	(2)%
Royalties	(5,164)	(3,836)	(4,874)	35%	6%	(13,016)	(13,390)	(3)%
Transportation	(509)	(469)	—	9%	—%	(978)	—	—%
Operating	(4,357)	(3,765)	(4,400)	16%	(1)%	(13,671)	(11,374)	20%
General and administration	(1,285)	(1,796)	(2,005)	(29)%	(36)%	(5,051)	(5,467)	(8)%
Fund flows from operations	8,340	6,008	7,948	39%	5%	18,641	22,248	(16)%
Netbacks (\$/boe)								
Sales	37.28	26.00	42.43	43%	(12)%	32.84	44.34	(26)%
Royalties	(9.80)	(6.28)	(10.76)	56%	(9)%	(8.32)	(11.31)	(26)%
Transportation	(0.97)	(0.77)	—	26%	—%	(0.63)	—	—%
Operating	(8.26)	(6.17)	(9.71)	34%	(15)%	(8.74)	(9.61)	(9)%
General and administration	(2.44)	(2.94)	(4.43)	(17)%	(45)%	(3.23)	(4.62)	(30)%
Fund flows from operations netback	15.81	9.84	17.53	61%	(10)%	11.92	18.80	(37)%
Realized prices								
Crude oil (\$/bbl)	55.37	40.20	68.91	38%	(20)%	48.81	69.60	(30)%
NGLs (\$/bbl)	16.69	4.78	9.44	249%	77%	13.68	16.72	(18)%
Natural gas (\$/mcf)	1.81	0.98	1.67	85%	8%	1.71	2.34	(27)%
Total (\$/boe)	37.28	26.00	42.43	43%	(12)%	32.84	44.34	(26)%
Reference prices								
WTI (US \$/bbl)	40.93	27.85	56.45	47%	(28)%	38.32	57.06	(33)%
WTI (\$/bbl)	54.54	38.62	74.55	41%	(27)%	51.90	75.84	(32)%
Henry Hub (US \$/mcf)	1.97	1.72	2.23	15%	(12)%	1.88	2.67	(30)%
Henry Hub (\$/mcf)	2.63	2.38	2.94	11%	(11)%	2.54	3.55	(29)%

Production

- Q3 2020 production decreased 15% from the prior quarter primarily due to natural decline from the new wells added during the first half of the year. Quarterly production increased 16% year-over-year primarily due to the contribution from our 2020 drilling program executed in the first half of the year.

Activity

During Q3 2020, no new wells were drilled or tied-in during the quarter. Capital activity was focused on well maintenance and optimization while advancing permitting for future planned wells.

Sales

- The price of our crude oil in the United States is directly linked to WTI and subject to local market differentials within the United States. The price of our natural gas in the United States is based on the Henry Hub index.
- Q3 2020 sales increased compared to Q2 2020 as a result of higher realized prices partially offset by lower sales volumes.
- For the three and nine months ended September 30, 2020 versus the prior year comparable periods, sales remained relatively consistent on a dollar basis primarily due to lower realized prices which were partially offset by higher sales volumes.

Royalties

- Our production in the United States is subject to federal and private royalties, severance tax, and ad valorem tax. In Hilight, approximately 65% of the current production is subject to Fee royalties, 30% to Federal royalties and the remainder to State royalties. In East Finn, approximately 70% of the current production is subject to Federal royalties with the remainder split between State and Fee royalties.
- For the three and nine months ended September 30, 2020, royalties as a percentage of sales remained relatively consistent versus all comparable periods.

Operating

- Operating expense increased in Q3 2020 compared to Q2 2020 on a dollar and per unit basis primarily due to higher maintenance activity in Q3 2020 coupled with lower production volumes.
- Operating expense remained relatively consistent in Q3 2020 versus Q3 2019 on a dollar basis and decreased on a per unit basis due to higher production volumes.
- Operating expense increased on a dollar basis for the nine months ended September 30, 2020 versus the comparable period in 2019 due to higher maintenance activity in 2020. On a per unit basis, this increase was offset by higher sales volumes year over year.

General and administration

- Fluctuations in general and administration expense for all comparable periods are primarily due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- As a result of our tax pools in the United States, we do not expect to incur current income taxes in the United States Business Unit for the foreseeable future.

France Business Unit

Overview

- Largest oil producer in France, constituting approximately two-thirds of domestic oil production.
- Low base decline producing assets comprised of large conventional oil fields with high working interests located in the Aquitaine and Paris Basins.
- Identified inventory of workover, waterflood, and infill drilling opportunities.

Operational and financial review

France business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production								
Crude oil (bbls/d)	9,347	7,046	10,347	33%	(10)%	8,785	10,493	(16)%
Natural gas (mmcf/d)	—	—	—	—%	—%	—	0.25	—%
Total (boe/d)	9,347	7,046	10,347	33%	(10)%	8,785	10,535	(17)%
Sales								
Crude oil (bbls/d)	9,941	5,835	11,112	70%	(11)%	8,669	10,852	(20)%
Natural gas (mmcf/d)	—	—	—	—%	—%	—	0.25	—%
Total (boe/d)	9,941	5,835	11,112	70%	(11)%	8,669	10,894	(20)%
Inventory (mmbbls)								
Opening crude oil inventory	296	185	297			209	325	
Crude oil production	860	641	952			2,407	2,865	
Crude oil sales	(915)	(530)	(1,022)			(2,375)	(2,963)	
Closing crude oil inventory	241	296	227			241	227	
Activity								
Capital expenditures	12,638	5,603	18,139	126%	(30)%	29,498	65,896	(55)%
Gross wells drilled	—	—	—			—	4.00	
Net wells drilled	—	—	—			—	4.00	
Financial results								
Sales	48,976	23,329	81,676	110%	(40)%	129,094	248,918	(48)%
Royalties	(8,902)	(4,711)	(11,476)	89%	(22)%	(22,653)	(33,630)	(33)%
Transportation	(3,868)	(2,747)	(6,183)	41%	(37)%	(10,340)	(18,394)	(44)%
Operating	(14,983)	(10,016)	(15,098)	50%	(1)%	(40,898)	(45,139)	(9)%
General and administration	(2,792)	(3,499)	(3,379)	(20)%	(17)%	(9,739)	(10,585)	(8)%
Current income taxes	—	—	(3,419)	N/A	(100)%	—	(16,465)	(100)%
Fund flows from operations	18,431	2,356	42,121	682%	(56)%	45,464	124,705	(64)%
Netbacks (\$/boe)								
Sales	53.55	43.94	79.89	22%	(33)%	54.35	83.69	(35)%
Royalties	(9.73)	(8.87)	(11.23)	10%	(13)%	(9.54)	(11.31)	(16)%
Transportation	(4.23)	(5.17)	(6.05)	(18)%	(30)%	(4.35)	(6.18)	(30)%
Operating	(16.38)	(18.86)	(14.77)	(13)%	11%	(17.22)	(15.18)	13%
General and administration	(3.05)	(6.59)	(3.31)	(54)%	(8)%	(4.10)	(3.56)	15%
Current income taxes	—	—	(3.34)	N/A	(100)%	—	(5.54)	(100)%
Fund flows from operations netback	20.16	4.45	41.19	353%	(51)%	19.14	41.92	(54)%
Reference prices								
Dated Brent (US \$/bbl)	43.00	29.20	61.94	47%	(31)%	40.82	64.65	(37)%
Dated Brent (\$/bbl)	57.29	40.49	81.80	42%	(30)%	55.29	85.93	(36)%

Production

- Q3 2020 production increased 33% from the prior quarter due to resuming production in the Paris Basin following the restart of the Grandpuits refinery which was temporarily shutdown in Q2 2020 due to low product demand. Q3 2020 production declined 10% year-over-year primarily due to natural decline and restricted field activity as a result of COVID-19 confinement measures put in place by the French government.

Activity

- During Q3 2020, we restarted field activity following the easing of COVID-19 confinement measures which allowed us to resume well workovers and repairs.

Sales

- Crude oil in France is priced with reference to Dated Brent.
- Q3 2020 sales on a dollar and per unit basis increased versus Q2 2020 due to higher Dated Brent reference prices combined with higher sales volumes.
- For the three and nine months ended September 30, 2020, sales on a dollar and per unit basis decreased versus the prior year comparable periods due to a decrease in the Dated Brent reference price combined with lower sales volumes.

Royalties

- Royalties in France relate to two components: RCDM (levied on units of production and not subject to changes in commodity prices) and R31 (based on a percentage of sales).
- Q3 2020 royalties increased versus Q2 2020 due to higher R31 royalties from higher sales and higher RCDM royalties from increased production. Royalties as a percentage of sales remained relatively consistent during the same periods.
- For the three and nine months ended September 30, 2020, royalties decreased versus the prior year comparable periods due to lower R31 royalties from lower sales combined with lower RCDM royalties from lower production. Royalties as a percentage of sales for the three and nine months ended September 30, 2020 of 18.2% and 17.5% increased versus the prior year comparable periods of 14.1% and 13.5% primarily due to the impact of RCDM royalties.

Transportation

- Transportation expense increased in Q3 2020 versus Q2 2020 due to an increase in activity following the restart of the Grandpuits refinery and the removal of government confinement measures.
- Transportation expense decreased for the three and nine months ended September 30, 2020 versus the prior year comparable periods due to decreased production and sales volumes, as well as increased costs during the three and six months ended June 30, 2019 due to the Grandpuits refinery outage where we arranged alternate delivery points and transportation methods during the shutdown.

Operating

- Q3 2020 operating expenses increased versus Q2 2020 on a dollar basis as activity resumed in Q3 2020 due to the restart of the Grandpuits refinery and the removal of government confinement measures. On a per unit basis, operating expenses decreased due to the increase in sales volumes in Q3 2020.
- Operating expenses on dollar basis decreased for the three and nine months ended September 30, 2020 versus the prior year comparable periods due to cost reduction measures and lower activity during the COVID-19 confinement period. On a per unit basis, operating expenses per boe increased for the three and nine months ended September 30, 2020 versus the prior year comparable periods due to the decrease in sales volumes in 2020.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- In France, current income taxes are applied to taxable income, after eligible deductions, at a statutory rate of 28.9%.
- Full year effective tax rates are estimated each quarter based on forecasted commodity prices and operational results. The estimated full year effective tax rate is applied on a pro-rata basis to quarterly results. As such, fluctuations between the reporting periods occur due to changes in estimated tax rates.
- For 2020, there are no expected current income taxes to be reported. This is subject to change in response to production variations, commodity price fluctuations, the timing of capital expenditures, and other eligible in-country adjustments.
- On December 28, 2019, the French Parliament approved the Finance Bill for 2020. The Finance Bill for 2020 provides for a progressive decrease of the French corporate income tax rate for companies with sales below €250 million from 28.9% in 2020 to 25.8% by 2022.

Netherlands Business Unit

Overview

- Second largest onshore operator.
- Interests include 26 onshore licenses (all operated) and 17 offshore licenses (all non-operated).
- Licenses include more than 930,000 net acres of land, 90% of which is undeveloped.

Operational and financial review

Netherlands business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production and sales								
Condensate (bbls/d)	83	87	82	(5)%	1%	86	92	(7)%
Natural gas (mmcf/d)	46.09	47.31	44.08	(3)%	5%	47.24	49.47	(5)%
Total (boe/d)	7,764	7,972	7,429	(3)%	5%	7,959	8,336	(5)%
Activity								
Capital expenditures	1,553	2,638	3,028	(41)%	(49)%	6,688	13,954	(52)%
Acquisitions	—	—	—			—	908	
Financial results								
Sales	12,351	10,654	18,729	16%	(34)%	42,608	87,642	(51)%
Royalties	(96)	(55)	(279)	75%	(66)%	(294)	(1,339)	(78)%
Operating	(8,197)	(7,526)	(6,396)	9%	28%	(24,638)	(22,367)	10%
General and administration	(454)	(212)	(300)	114%	51%	(1,221)	(1,896)	(36)%
Current income taxes	353	257	(462)	N/A	N/A	610	(7,237)	N/A
Fund flows from operations	3,957	3,118	11,292	27%	(65)%	17,065	54,803	(69)%
Netbacks (\$/boe)								
Sales	17.29	14.69	27.40	18%	(37)%	19.54	38.51	(49)%
Royalties	(0.13)	(0.08)	(0.41)	63%	(68)%	(0.13)	(0.59)	(78)%
Operating	(11.48)	(10.37)	(9.36)	11%	23%	(11.30)	(9.83)	15%
General and administration	(0.64)	(0.29)	(0.44)	121%	46%	(0.56)	(0.83)	(33)%
Current income taxes	0.49	0.35	(0.68)	N/A	N/A	0.28	(3.18)	N/A
Fund flows from operations netback	5.53	4.30	16.51	29%	(67)%	7.83	24.08	(68)%
Realized prices								
Condensate (\$/bbl)	55.26	14.32	69.12	286%	(20)%	44.57	72.08	(38)%
Natural gas (\$/mcf)	2.81	2.45	4.49	15%	(37)%	3.21	6.36	(50)%
Total (\$/boe)	17.29	14.69	27.40	18%	(37)%	19.54	38.51	(49)%
Reference prices								
TTF (€/mcf)	2.25	1.56	3.00	44%	(25)%	2.22	4.07	(46)%
TTF (\$/mcf)	3.51	2.39	4.40	47%	(20)%	3.38	6.08	(44)%

Production

- Q3 2020 production decreased 3% from the prior quarter primarily due to natural decline. Quarterly production increased 5% year-over-year primarily due to planned and unplanned downtime that occurred in Q3 2019.

Activity

- We continued to advance the permitting for future planned wells.

Sales

- The price of our natural gas in the Netherlands is based on the TTF index.
- Q3 2020 sales increased compared to Q2 2020 sales due to an increase in the TTF reference price.
- For the three and nine months ended September 30, 2020, sales on a per unit and dollar basis decreased versus comparable periods in the prior year, consistent with decreases in the TTF reference price.

Royalties

- In the Netherlands, certain wells are subject to overriding royalties while some wells are subject to royalties that take effect only when specified production levels are exceeded. As such, royalty expense may fluctuate from period to period depending on the amount of production from those wells. Royalties in Q3 2020 represented 0.8% of sales.
- Q3 2020 royalties increased compared to Q2 2020 royalties consistent with an increase in sales.
- For the three and nine months ended September 30, 2020 royalty expense decreased versus comparable periods in the prior year consistent with decreases in sales.

Transportation

- Our production in the Netherlands is not subject to transportation expense as gas is sold at the plant gate.

Operating

- Operating expense for the three and nine months ended September 30, 2020 increased versus all comparable periods on a dollar and per unit basis primarily as a result of higher electricity costs in the current period and the timing of expenditures.

General and administration

- Fluctuations in general and administration expense for all comparable periods were due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- In the Netherlands, current income taxes are applied to taxable income, after eligible deductions and a 10% uplift deduction applied to operating expenses, eligible general and administration expenses, and tax deductions for depletion and asset retirement obligations, at a tax rate of 50%.
- Full year effective tax rates are estimated each quarter based on forecasted commodity prices and operational results. The estimated full year effective tax rate is applied on a pro-rata basis to quarterly results. As such, fluctuations between the reporting periods occur due to changes in estimated tax rates.
- For 2020, current income tax losses will be carried back and applied to recover prior year current income taxes with the effective tax recovery rate, inclusive of corporate allocations, expected to be between 4% and 8% of pre-tax fund flows from operations. This is subject to change in response to production variations, commodity price fluctuations, the timing of capital expenditures, and other eligible in-country adjustments.
- On September 15, 2020, the Dutch government published the Dutch budget proposals for fiscal year 2021 and confirmed the previously planned reduction of the corporate tax rate from 25.0% in 2020 to 21.7% by 2021 will not be introduced in 2021. Due to the tax regime applicable to natural gas producers in the Netherlands, the reduction reversal to the corporate tax rate is not expected to have a material impact on Vermilion taxes in the Netherlands.

Germany Business Unit

Overview

- Entered Germany in 2014 through the acquisition of a non-operated natural gas producing property.
- Executed a significant exploration license farm-in agreement in 2015 and acquired operated producing properties in 2016.
- Producing assets consist of seven gas and eight oil-producing fields with extensive infrastructure in place.
- Significant land position of approximately 1.1 million net acres (97% undeveloped).

Operational and financial review

Germany business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production								
Crude oil (bbls/d)	964	1,039	845	(7)%	14%	971	956	2%
Natural gas (mmcf/d)	11.25	13.23	14.54	(15)%	(23)%	13.03	15.26	(15)%
Total (boe/d)	2,839	3,244	3,269	(13)%	(13)%	3,143	3,500	(10)%
Sales								
Crude oil (bbls/d)	828	1,172	864	(29)%	(4)%	958	965	(1)%
Natural gas (mmcf/d)	11.25	13.23	14.54	(15)%	(23)%	13.03	15.26	(15)%
Total (boe/d)	2,703	3,376	3,287	(20)%	(18)%	3,130	3,509	(11)%
Production mix (% of total)								
Crude oil	34%	32%	26%			31%	27%	
Natural gas	66%	68%	74%			69%	73%	
Activity								
Capital expenditures	1,558	3,345	4,229	(53)%	(63)%	12,692	16,507	(23)%
Acquisitions	9	564	947			592	6,114	
Gross wells drilled	—	—	—			1.00	2.00	
Net wells drilled	—	—	—			1.00	0.71	
Financial results								
Sales	6,507	6,553	11,320	(1)%	(43)%	23,529	45,781	(49)%
Royalties	(443)	(795)	(952)	(44)%	(54)%	(2,180)	(4,677)	(53)%
Transportation	(1,475)	(1,505)	(1,709)	(2)%	(14)%	(4,302)	(4,154)	4%
Operating	(4,262)	(5,912)	(6,433)	(28)%	(34)%	(15,089)	(17,565)	(14)%
General and administration	(1,485)	(1,314)	(2,436)	13%	(39)%	(4,540)	(6,495)	(30)%
Fund flows from operations	(1,158)	(2,973)	(210)	(61)%	451%	(2,582)	12,890	N/A
Netbacks (\$/boe)								
Sales	26.17	21.33	37.43	23%	(30)%	27.44	47.79	(43)%
Royalties	(1.78)	(2.59)	(3.15)	(31)%	(44)%	(2.54)	(4.88)	(48)%
Transportation	(5.93)	(4.90)	(5.65)	21%	5%	(5.02)	(4.34)	16%
Operating	(17.14)	(19.24)	(21.27)	(11)%	(19)%	(17.60)	(18.33)	(4)%
General and administration	(5.97)	(4.28)	(8.05)	40%	(26)%	(5.29)	(6.78)	(22)%
Fund flows from operations netback	(4.65)	(9.68)	(0.69)	(52)%	574%	(3.01)	13.46	N/A
Realized prices								
Crude oil (\$/bbl)	52.65	34.32	76.51	53%	(31)%	47.35	80.80	(41)%
Natural gas (\$/mcf)	2.41	2.40	3.92	—%	(39)%	3.11	5.88	(47)%
Total (\$/boe)	26.17	21.33	37.43	23%	(30)%	27.44	47.79	(43)%
Reference prices								
Dated Brent (US \$/bbl)	43.00	29.20	61.94	47%	(31)%	40.82	64.65	(37)%
Dated Brent (\$/bbl)	57.29	40.49	81.80	42%	(30)%	55.29	85.93	(36)%
TTF (€/mcf)	2.25	1.56	3.00	44%	(25)%	2.22	4.07	(46)%
TTF (\$/mcf)	3.51	2.39	4.40	47%	(20)%	3.38	6.08	(44)%

Production

- Q3 2020 production decreased 13% from the prior quarter and year-over-year primarily due to the planned turnaround of a non-operated processing facility.

Activity

- Our Q3 2020 capital program was focused on maintenance activities and asset optimization opportunities. We expect production from the Burgmoor Z5 (46% working interest) well, which was tested early in the third quarter of 2019, to begin in 2021.

Sales

- The price of our natural gas in Germany is based on the NCG and GPL indexes, which are both highly correlated to the TTF benchmark. Crude oil in Germany is priced with reference to Dated Brent.
- Quarter-over-quarter sales remained relatively consistent on a dollar basis. On a per unit basis, quarter-over-quarter sales increased due to an increase in Dated Brent pricing.
- For the three and nine months ended September 30, 2020 versus comparable periods in the prior year, sales decreased on a per unit basis due to a decrease in Dated Brent and TTF pricing. On a dollar basis, sales for three and nine months ended September 30, 2020 decreased versus comparable periods in the prior year due to a decrease in Dated Brent and TTF pricing and lower sales volumes.

Royalties

- Our production in Germany is subject to state and private royalties on sales after certain eligible deductions.
- Royalty expense for the three and nine months ended September 30, 2020 decreased versus comparable periods in the prior year consistent with decreases in sales. Royalties as a percentage of sales for the three and nine months ended September 30, 2020 decreased versus comparable periods in the prior year due to favourable prior period adjustments received in the current period.
- Quarter-over-quarter royalty expense on a dollar basis and as a percentage of sales decreased due to a favourable prior period adjustment received in the current quarter.

Transportation

- Transportation expense in Germany relates to costs incurred to deliver natural gas from the processing facility to the customer and deliver crude oil to the refinery.
- Transportation expense for the three months ended September 30, 2020 decreased on a dollar basis versus comparable periods due to lower production volumes and a prior period adjustment received in Q2 2020. On a per unit basis, transportation expense for the three months ended September 30, 2020 increased versus comparable periods due to the impact of fixed costs on lower production volumes.
- For the nine months ended September 30, 2020, transportation expense increased versus the comparable period in the prior year on a dollar and per unit basis due to prior period adjustments in 2019.

Operating

- Operating expense for the three and nine months ended September 30, 2020 decreased versus all comparable periods primarily due to cost saving initiatives and the timing of activity on non-operated assets.

General and administration

- Quarter-over-quarter general and administration expense increased due to the timing of expenditures and allocations from our corporate segment.
- For the three and nine months ended September 30, 2020 general and administration expense decreased versus comparable periods in the prior year due to cost savings initiatives.

Current income taxes

- As a result of our tax pools in Germany, we do not expect to incur current income taxes for 2020 in the Germany Business Unit.

Ireland Business Unit

Overview

- Entered Ireland in 2009 with an investment in the offshore Corrib gas field.
- The Corrib gas field is located offshore northwest Ireland and comprises of six offshore wells, offshore and onshore sales and transportation pipeline segments, as well as a natural gas processing facility.
- In Q4 2018, Vermilion assumed operatorship of the Corrib Natural Gas Project (the "Corrib Project") and increased its ownership stake by 1.5% to 20% following the completion of a strategic partnership with Canada Pension Plan Investment Board ("CPPIB").

Operational and financial review

Ireland business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production and sales								
Natural gas (mmcf/d)	35.12	38.57	43.21	(9)%	(19)%	38.34	48.01	(20)%
Total (boe/d)	5,853	6,428	7,202	(9)%	(19)%	6,390	8,002	(20)%
Activity								
Capital expenditures	928	704	354	32%	162%	1,612	449	259%
Acquisitions	—	—	—			—	—	
Financial results								
Sales	10,472	7,268	16,722	44%	(37)%	35,328	82,450	(57)%
Transportation	(1,203)	(1,179)	(1,130)	2%	7%	(3,527)	(3,451)	2%
Operating	(3,936)	(3,852)	(3,136)	2%	26%	(12,000)	(9,577)	25%
General and administration	(272)	106	(1,436)	N/A	(81)%	(556)	(2,007)	(72)%
Fund flows from operations	5,061	2,343	11,020	116%	(54)%	19,245	67,415	(72)%
Netbacks (\$/boe)								
Sales	19.45	12.43	25.24	57%	(23)%	20.18	37.74	(47)%
Transportation	(2.23)	(2.02)	(1.71)	10%	30%	(2.01)	(1.58)	27%
Operating	(7.31)	(6.59)	(4.73)	11%	55%	(6.85)	(4.38)	56%
General and administration	(0.51)	0.18	(2.17)	N/A	(77)%	(0.32)	(0.92)	(65)%
Fund flows from operations netback	9.40	4.00	16.63	135%	(44)%	11.00	30.86	(64)%
Reference prices								
NBP (€/mcf)	2.36	1.48	3.07	60%	(23)%	2.25	4.07	(45)%
NBP (\$/mcf)	3.67	2.26	4.50	62%	(18)%	3.43	6.08	(44)%

Production

- Q3 2020 production decreased 9% from the prior quarter primarily due to a planned turnaround at the Corrib facility. Quarterly production decreased 19% year-over-year primarily due to natural decline and the planned turnaround that occurred in Q3 2020.

Activity

- Our 2020 capital program is focused on turnarounds and optimization opportunities at the Corrib natural gas processing facility.

Sales

- The price of our natural gas in Ireland is based on the NBP index.
- Quarter-over-quarter sales increased due to an increase in realized prices, partially offset by a natural decline of production volumes and increased downtime.
- Sales for the three and nine months ended September 30, 2020 decreased versus the comparable periods in the prior year due to decreases in realized prices and natural decline of production volumes.

Royalties

- Our production in Ireland is not subject to royalties.

Transportation

- Transportation expense in Ireland relates to payments under a ship-or-pay agreement.
- Transportation expense for the three and nine months ended September 30, 2020 remained relatively consistent on a dollar basis versus all comparable periods.
- Transportation expense for the three and nine months ended September 30, 2020 increased on a per unit basis versus all comparable periods due to a flat expense on lower sales volumes.

Operating

- Operating expense remained relatively consistent quarter-over-quarter on a dollar basis. On a per unit basis, operating expense increased quarter-over-quarter due to a flat expense on lower sales volumes.
- For the three and nine months ended September 30, 2020, operating expense increased on a dollar basis versus comparable periods in the prior year primarily due to maintenance activities conducted in the current year. On a per unit basis, operating expense for the three and nine months ended September 30, 2020 increased due to higher spend in the current period combined with lower sales volumes.

General and administration

- Fluctuations in general and administration expense versus all comparable periods is primarily due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- Given the significant level of investment in Corrib and the resulting tax pools, we do not expect to incur current income taxes in the Ireland Business Unit for the foreseeable future.

Australia Business Unit

Overview

- Hold a 100% operated working interest in the Wandoo field, located approximately 80 km offshore on the northwest shelf of Australia.
- Production is operated from two off-shore platforms and originates from 20 producing wells including five dual lateral wells for a total of 25 producing laterals.
- Wells that utilize horizontal legs (ranging in length from 500 to 3,000 plus metres) are located 600m below the seabed in approximately 55m of water depth.

Operational and financial review

Australia business unit (\$M except as indicated)	Q3 2020	Q2 2020	Q3 2019	Q3/20 vs. Q2/20	Q3/20 vs. Q3/19	YTD 2020	YTD 2019	2020 vs. 2019
Production								
Crude oil (bbls/d)	4,549	5,299	5,564	(14)%	(18)%	4,629	6,037	(23)%
Sales								
Crude oil (bbls/d)	4,836	5,107	6,517	(5)%	(26)%	5,283	6,334	(17)%
Inventory (mbbls)								
Opening crude oil inventory	126	109	196			279	189	
Crude oil production	419	482	512			1,268	1,648	
Crude oil sales	(445)	(465)	(600)			(1,448)	(1,729)	
Closing crude oil inventory	100	126	108			100	108	
Activity								
Capital expenditures	3,926	4,200	2,995	(7)%	31%	20,128	24,098	(17)%
Gross wells drilled	—	—	—			—	2.00	
Net wells drilled	—	—	—			—	2.00	
Financial results								
Sales	30,537	28,772	56,188	6%	(46)%	111,304	162,618	(32)%
Operating	(12,111)	(10,659)	(11,876)	14%	2%	(40,143)	(41,372)	(3)%
General and administration	(1,063)	(888)	(1,260)	20%	(16)%	(2,826)	(3,463)	(18)%
Current income taxes	(3,873)	(3,532)	(6,222)	10%	(38)%	(17,002)	(32,406)	(48)%
Fund flows from operations	13,490	13,693	36,830	(2)%	(63)%	51,333	85,377	(40)%
Netbacks (\$/boe)								
Sales	68.63	61.91	93.71	11%	(27)%	76.89	94.04	(18)%
Operating	(27.22)	(22.93)	(19.81)	19%	37%	(27.73)	(23.92)	16%
General and administration	(2.39)	(1.91)	(2.10)	25%	14%	(1.95)	(2.00)	(3)%
PRRT	(8.18)	(6.93)	(9.72)	18%	(16)%	(11.13)	(14.16)	(21)%
Corporate income taxes	(0.53)	(0.67)	(0.66)	(21)%	(20)%	(0.61)	(4.58)	(87)%
Fund flows from operations netback	30.31	29.47	61.42	3%	(51)%	35.47	49.38	(28)%
Reference prices								
Dated Brent (US \$/bbl)	43.00	29.20	61.94	47%	(31)%	40.82	64.65	(37)%
Dated Brent (\$/bbl)	57.29	40.49	81.80	42%	(30)%	55.29	85.93	(36)%

Production

- Q3 2020 production decreased 14% from the prior quarter primarily due to natural decline and an unplanned 4-day shutdown to clean out one of the separator vessels. Quarterly production decreased 18% year-over-year primarily due to natural decline and the unplanned downtime that occurred in Q3 2020.

Activity

- During Q3 2020, we performed various asset optimization projects and proactive maintenance, and plan to continue this activity through the remainder of the year.

Sales

- Crude oil in Australia is priced with reference to Dated Brent. During the quarter, we realized an \$11.34 premium to average Dated Brent prices.
- Quarter-over-quarter sales increased on a dollar and per unit basis due to an increase in Dated Brent pricing. On a dollar basis, this increase was partially offset by lower sales volumes in the current quarter.
- For the three and nine months ended September 30, 2020 compared to the same periods in the prior year, sales decreased on a per unit and dollar basis due to lower sales volumes combined with a decrease in Dated Brent pricing.

Royalties and transportation

- Our production in Australia is not subject to royalties or transportation expense as crude oil is sold directly at the Wandoo B platform.

Operating

- Operating expenses are deferred on the balance sheet until oil is sold at which point the related expenses are recognized into income.
- Q3 2020 operating expense increased compared to Q2 2020 on a dollar and per unit basis primarily due to the timing of maintenance activity.
- Operating expense for the three and nine months ended September 30, 2020 remained relatively consistent with the comparable periods in the prior year. On a per unit basis, operating expense for the three and nine months ended September 30, 2020 increased due to a flat expense on lower sales volumes.

General and administration

- Fluctuations in general and administration expense for all comparable periods are primarily due to the timing of expenditures and allocations from our corporate segment.

Current income taxes

- In Australia, current income taxes include both Petroleum Resource Rent Tax ("PRRT") and corporate income taxes. PRRT is a profit based tax applied at a rate of 40% on sales less eligible expenditures, including operating expenses and capital expenditures. Corporate income taxes are applied at a rate of 30% on taxable income after eligible deductions, which includes PRRT.
- Full year effective tax rates are estimated each quarter based on forecasted commodity prices and operational results. The estimated full year effective tax rate is applied on a pro-rata basis to quarterly results. As such, fluctuations between the reporting periods occur due to changes in estimated tax rates.
- For 2020, the effective rate on current taxes, inclusive of corporate allocations, is expected to be between 24% and 28% of pre-tax fund flows from operations. This is subject to change in response to production variations, commodity price fluctuations, the timing of capital expenditures, and other eligible in-country adjustments.

Corporate

Overview

- Our Corporate segment includes costs related to our global hedging program, financing expenses, and general and administration expenses that are primarily incurred in Canada and are not directly related to the operations of our business units. Gains or losses relating to Vermilion's global hedging program are allocated to Vermilion's business units for statutory reporting and income tax purposes.
- Results of our activities in Central and Eastern Europe are also included in the Corporate segment.

Operational and financial review

Corporate (\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Production and sales					
Condensate (bbls/d)	1	1	—	1	—
Natural gas (mmcf/d)	0.80	2.89	—	2.31	—
Total (boe/d)	132	483	—	386	—
Activity					
Capital expenditures	1,152	1,805	8,107	5,210	20,470
Acquisitions	—	1,359	—	1,380	—
Gross wells drilled	—	—	3.00	—	6.00
Net wells drilled	—	—	3.00	—	5.30
Financial results					
Sales	148	428	—	1,655	—
Royalties	(105)	(178)	—	(582)	—
Sales of purchased commodities	23,725	16,118	41,449	95,951	146,323
Purchased commodities	(23,725)	(16,118)	(41,449)	(95,951)	(146,323)
Operating	(111)	(164)	(2)	(365)	(242)
General and administration recovery (expense)	1,367	(604)	2,957	(732)	3,423
Current income taxes	(108)	(102)	(250)	(443)	(504)
Interest expense	(17,400)	(17,887)	(19,661)	(55,269)	(62,208)
Realized gain on derivatives	4,180	54,704	36,968	108,303	61,507
Realized foreign exchange (loss) gain	(2,714)	3,972	(3,348)	9,781	(6,967)
Realized other income (expense)	2,577	231	372	(501)	7,447
Fund flows from operations	(12,166)	40,400	17,036	61,847	2,456

Production

- Q3 2020 production decreased by 73% from the prior quarter due to well maintenance on the Battonya E-9 well in Hungary.

Activity

- During Q3 2020, we completed lease construction for two new wells planned in Hungary and continued to progress our permitting and regulatory efforts for future drilling locations across Central and Eastern Europe.

Sales, royalties, and operating expense

- Sales, royalties, and operating expense in the corporate segment relate to natural gas production in Hungary.
- Sales of natural gas in Hungary are priced with reference to the TTF index less adjustments for processing. During the quarter we realized a price of \$2.02/mcf versus the \$3.51/mcf benchmark price.
- The calculation for royalties on natural gas in Hungary incorporates the Dated Brent benchmark prices and as a result the quarterly realized royalty percentage will fluctuate depending on the relative pricing for TTF as compared to Dated Brent.
- Operating expense relates to contract operating costs, which equated to \$9.09/boe during Q3 2020 compared to \$3.73/boe during Q2 2020.

Purchased commodities

- Purchased commodities and the associated sales relate to amounts purchased from third parties, primarily to manage positions on pipelines in North America. There is no net impact on fund flows from operations.

General and administration

- Fluctuations in general and administration expense for the three and nine months ended September 30, 2020 versus all comparable periods were primarily due to allocations to the various business unit segments.

Current income taxes

- Taxes in our corporate segment relate to holding companies that pay current taxes in foreign jurisdictions.

Interest expense

- Interest expense in for the three and nine months ended September 30, 2020, decreased versus all comparable periods due to declining market interest rates in response to COVID-19.

Realized gain on derivatives

- The realized gain on derivatives for the three and nine months ended September 30, 2020 is related to receipts for European natural gas and crude oil hedges, the receipt of \$16.8 million (US \$12.7 million) due to the reset the Euro principal amount of the CAD-to-EUR cross currency interest rate swap in Q1 2020, and the receipt of \$25.5 million (US \$18.2 million) as a result of a number of transactions that resulted in the termination of the USD-to-CAD and CAD-to-EUR cross currency interest swaps in Q2 2020.
- A listing of derivative positions as at September 30, 2020 is included in "Supplemental Table 2" of this MD&A.

Realized other income (expense)

- Realized other income (expense) for the nine months ended September 30, 2020, primarily relates to amounts uncertain to be received pursuant to a negotiated settlement of a legal matter in Q1 2020, partially offset by amounts recognized in Q3 2020 related to previous acquisitions.

Financial Performance Review

(\$M except per share)	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Petroleum and natural gas sales	282,020	193,013	328,314	388,802	391,935	428,043	481,083	456,939
Net earnings (loss)	(69,926)	(71,290)	(1,318,504)	1,477	(10,229)	2,004	39,547	323,373
Net earnings (loss) per share								
Basic	(0.44)	(0.45)	(8.42)	0.01	(0.07)	0.01	0.26	2.12
Diluted	(0.44)	(0.45)	(8.42)	0.01	(0.07)	0.01	0.26	2.10

The following table shows the calculation of fund flows from operations:

	Q3 2020		Q2 2020		Q3 2019		YTD 2020		YTD 2019	
	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe	\$M	\$/boe
Petroleum and natural gas sales	282,020	31.86	193,013	21.40	391,935	43.04	803,347	29.86	1,301,061	46.79
Royalties	(30,969)	(3.50)	(16,352)	(1.81)	(41,490)	(4.56)	(78,446)	(2.92)	(122,987)	(4.42)
Petroleum and natural gas revenues	251,051	28.36	176,661	19.59	350,445	38.48	724,901	26.94	1,178,074	42.37
Transportation	(16,959)	(1.92)	(16,365)	(1.81)	(19,426)	(2.13)	(50,654)	(1.88)	(56,876)	(2.05)
Operating	(90,362)	(10.21)	(99,175)	(11.00)	(105,192)	(11.55)	(310,675)	(11.55)	(329,495)	(11.85)
General and administration	(11,969)	(1.35)	(16,912)	(1.88)	(13,652)	(1.50)	(42,198)	(1.57)	(42,407)	(1.53)
PRRT	(3,638)	(0.41)	(3,219)	(0.36)	(5,826)	(0.64)	(16,113)	(0.60)	(24,494)	(0.88)
Corporate income taxes	10	—	(158)	(0.02)	(4,527)	(0.50)	(722)	(0.03)	(32,118)	(1.16)
Interest expense	(17,400)	(1.97)	(17,887)	(1.98)	(19,661)	(2.16)	(55,269)	(2.05)	(62,208)	(2.24)
Realized gain on derivative instruments	4,180	0.47	54,704	6.07	36,968	4.06	108,303	4.03	61,507	2.21
Realized foreign exchange (loss) gain	(2,714)	(0.31)	3,972	0.44	(3,348)	(0.37)	9,781	0.36	(6,967)	(0.25)
Realized other income (expense)	2,577	0.29	231	0.03	372	0.04	(501)	(0.02)	7,447	0.27
Fund flows from operations	114,776	12.95	81,852	9.08	216,153	23.73	366,853	13.63	692,463	24.89

Fluctuations in fund flows from operations may occur as a result of changes in production levels, commodity prices, and costs to produce petroleum and natural gas. In addition, fund flows from operations may be affected by the timing of crude oil shipments in Australia and France. When crude oil inventory is built up, the related operating expense, royalties, and depletion expense are deferred and carried as inventory on the consolidated balance sheet. When the crude oil inventory is subsequently drawn down, the related expenses are recognized.

The following table shows a reconciliation from fund flows from operations to net (loss) earnings:

(\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Fund flows from operations	114,776	81,852	216,153	366,853	692,463
Equity based compensation	(9,733)	(9,164)	(15,564)	(31,894)	(53,000)
Unrealized (loss) gain on derivative instruments	(39,637)	(3,771)	17,817	(34,092)	(27,065)
Unrealized foreign exchange gain (loss)	15,885	(7,410)	(50,679)	(1,507)	14,377
Unrealized other expense	(207)	(215)	(347)	(631)	(621)
Accretion	(9,158)	(7,288)	(8,701)	(26,184)	(24,834)
Depletion and depreciation	(167,728)	(106,707)	(174,077)	(432,242)	(535,237)
Deferred tax	73,653	51,126	5,169	382,321	(34,761)
Impairment	(47,777)	(69,713)	—	(1,682,344)	—
Net (loss) earnings	(69,926)	(71,290)	(10,229)	(1,459,720)	31,322

Fluctuations in net earnings from period-to-period are caused by changes in both cash and non-cash based income and charges. Cash based items are reflected in fund flows from operations. Non-cash items include: equity based compensation expense, unrealized gains and losses on derivative instruments, unrealized foreign exchange gains and losses, accretion, depletion and depreciation expense, and deferred taxes. In addition, non-cash items may also include gains resulting from business combinations or charges resulting from impairment or impairment reversals.

Equity based compensation

Equity based compensation expense relates primarily to non-cash compensation expense attributable to long-term incentives granted to directors, officers, and employees under security-based arrangements. Equity based compensation expense for the three and nine months ended September 30, 2020 decreased versus the prior year comparable periods due to the lower value of VIP awards outstanding in the current periods. Equity based compensation expense for the three months ended September 30, 2020 remained relatively consistent compared to the three months ended June 30, 2020.

Unrealized gain or loss on derivative instruments

Unrealized gain or loss on derivative instruments arise as a result of changes in forecasts for future prices and rates. As Vermilion uses derivative instruments to manage the commodity price exposure of our future crude oil and natural gas production, we will normally recognize unrealized gains on derivative instruments when future commodity price forecasts decline and vice-versa. As derivative instruments are settled, the unrealized gain or loss previously recognized is reversed, and the settlement results in a realized gain or loss on derivative instruments.

USD-to-CAD cross currency interest rate swaps may be entered into to hedge the foreign exchange movements on USD borrowings on our revolving credit facility. As such, unrealized gains and losses on our cross currency interest swaps are offset by unrealized losses and gains on foreign exchange relating to the underlying USD borrowings from our revolving credit facility.

In Q3 2019, we entered into two equity swaps to hedge the exposure of our long-term incentive plans. The swaps are expected to settle in September 2021 and October 2021. Included in current liabilities and net debt is a mark-to-market liability of \$40.2 million relating to the position settling in September 2021. Included in long-term liabilities is a mark-to-market liability of \$29.0 million relating to the position settling in October 2021.

For the three months ended September 30, 2020, we recognized a net unrealized loss on derivative instruments of \$39.6 million. This consists of a \$30.8 million unrealized loss on our natural gas commodity derivative instruments partially offset by an unrealized gain of \$6.5 million from crude oil commodity derivative instruments. We also recognized unrealized losses of \$4.3 million and \$11.0 million on our USD-to-CAD cross currency interest rate swaps and equity swaps, respectively.

For the nine months ended September 30, 2020, we recognized a net unrealized loss on derivative instruments of \$34.1 million. This consists of unrealized losses of \$68.8 million on our equity swaps and \$11.3 million from natural gas commodity derivative instruments. These are partially offset by unrealized gains of \$38.7 million on our USD-to-CAD cross currency interest rate swaps and \$7.3 million from crude oil commodity derivative instruments.

Unrealized foreign exchange gains or losses

As a result of Vermilion's international operations, Vermilion has monetary assets and liabilities denominated in currencies other than the Canadian dollar. These monetary assets and liabilities include cash, receivables, payables, long-term debt, derivative instruments and intercompany loans. Unrealized foreign exchange gains and losses result from translating these monetary assets and liabilities from their underlying currency to the Canadian dollar.

In 2020, unrealized foreign exchange gains and losses primarily resulted from:

- The translation of Euro denominated intercompany loans from Vermilion Energy Inc. to our international subsidiaries. An appreciation in the Euro against the Canadian dollar will result in an unrealized foreign exchange gain (and vice-versa). Under IFRS, the offsetting foreign exchange loss or gain is recorded as a currency translation adjustment within other comprehensive income. As a result, consolidated comprehensive income reflects the offsetting of these translation adjustments while net earnings reflects only the parent company's side of the translation.
- The translation of USD borrowings on our revolving credit facility. The unrealized foreign exchange gains or losses on these borrowings are offset by unrealized derivative gains or losses on associated USD-to-CAD cross currency interest rate swaps (discussed further below).
- The translation of our USD denominated senior unsecured notes prior to June 12, 2019 and from May 5, 2020 onward. During the period between June 12, 2019 and May 5, 2020 the USD senior notes were hedged by a USD-to-CAD cross currency interest rate swap.

For the three months ended September 30, 2020, we recognized a net unrealized foreign exchange gain of \$15.9 million. The impact of the US dollar weakening 1.8% against the Canadian dollar resulted in an unrealized gain of \$10.4 million on our USD borrowings from our revolving credit facility and an unrealized gain on our senior unsecured notes of \$7.9 million.

For the nine months ended September 30, 2020, we recognized a net unrealized foreign exchange loss of \$1.5 million. Due to the impact of the US dollar strengthening 3.1% against the Canadian dollar, we recognized an unrealized loss of \$33.5 million and \$15.8 million on our USD borrowings from our revolving credit facility and senior unsecured notes, respectively. The unrealized loss was also partially offset by unrealized gains on our USD-to-CAD and CAD-to-EUR cross currency interest swaps of \$37.8 million and the impact of the Euro strengthening 6.8% against the Canadian dollar resulted in an unrealized gain of \$10.0 million on our intercompany loans.

As at September 30, 2020, a \$0.01 appreciation of the Euro against the Canadian dollar would result in a \$1.3 million increase to net earnings as a result of an unrealized gain on foreign exchange. In contrast, a \$0.01 appreciation of the US dollar against the Canadian dollar would result in a \$3.0 million decrease to net earnings as a result of an unrealized loss on foreign exchange.

Accretion

Accretion expense is recognized to update the present value of the asset retirement obligation balance. For the three and nine months ended September 30, 2020 accretion expense increased versus all comparable periods primarily due to a weakening Canadian dollar versus the Euro.

Depletion and depreciation

Depletion and depreciation expense is recognized to allocate the cost of capital assets over the useful life of the respective assets. Depletion and depreciation expense per unit of production is determined for each depletion unit (which are groups of assets within a specific production area that have similar economic lives) by dividing the sum of the net book value of capital assets and future development costs by total proved plus probable reserves.

Fluctuations in depletion and depreciation expense are primarily the result of changes in produced crude oil and natural gas volumes and changes in depletion and depreciation per unit. Fluctuations in depletion and depreciation per unit are the result of changes in reserves, depletable base (net book value of capital assets and future development costs), and relative production mix.

Depletion and depreciation on a per boe basis for Q3 2020 of \$18.95 increased from \$11.83 in Q2 2020 primarily due to an increase in E&E write-offs in Q3 2020 and a decrease in the Q2 2020 rate as a result of impairments taken in the first quarter of 2020. For the three and nine months ended September 30, 2020, depletion and depreciation on a per boe basis of \$18.95 and \$16.07 respectively, decreased from \$19.12 and \$19.25 in the respective comparable period in 2019, primarily due to impairment charges taken in the first half of 2020.

Deferred tax

Deferred tax assets arise when the tax basis of an asset exceeds its accounting basis (known as a deductible temporary difference). Conversely, deferred tax liabilities arise when the tax basis of an asset is less than its accounting basis (known as a taxable temporary difference). Deferred tax assets are recognized only to the extent that it is probable that there are future taxable profits against which the deductible temporary difference can be utilized. Deferred tax assets and liabilities are measured at the enacted or substantively enacted tax rate that is expected to apply when the asset is realized, or the liability is settled.

As such, fluctuations in deferred tax expenses and recoveries primarily arise as a result of: changes in the accounting basis of an asset or liability without a corresponding tax basis change (e.g. when derivative assets and liabilities are marked-to-market or when accounting depletion differs from tax depletion), changes in available tax losses (e.g. if they are utilized to offset taxable income), changes in estimated future taxable profits resulting in a derecognition or recognition of deferred tax assets, and changes in enacted or substantively enacted tax rates.

For the three and nine months ended September 30, 2020, a deferred tax recovery was recognized of \$73.7 million and \$382.3 million respectively. The recovery for the three months ended September 30, 2020 primarily related to the buildup of non-expiring tax losses and net losses on the mark-to-market of our derivatives portfolio. The recovery for the nine months ended September 30, 2020 primarily related to the impairment losses recognized in Q1 2020 and the buildup of non-expiring tax losses, partially offset by the derecognition of a portion of non-expiring tax loss pools in Ireland (\$81.5 million), Australia (\$36.2 million), and Canada (\$19.2 million), as there is uncertainty as to Vermilion's ability to fully utilize such losses based on commodity price forecasts as at September 30, 2020.

Impairment

Impairment losses are recognized when indicators of impairment arise and the carrying amount of a cash generating unit ("CGU") exceeds its recoverable amount, determined as the higher of fair value less costs of disposal or value-in-use.

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 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 \$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's 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.

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).

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).

Financial Position Review

Balance sheet strategy

We regularly review whether our forecast of fund flows from operations is sufficient to finance planned capital expenditures, dividends, and abandonment and reclamation expenditures. To the extent that fund flows from operations forecasts are not expected to be sufficient to fulfill such expenditures, we will evaluate our ability to finance any shortfall by reducing some or all categories of expenditures, reducing or eliminating dividends, with issuances of equity, or with debt (including borrowing using the unutilized capacity of our existing revolving credit facility). We have a long-term goal of maintaining a ratio of net debt to fund flows from operations of less than 1.5.

Due to the significant decline in commodity prices following the outbreak of COVID-19 and the ensuing OPEC+ price war, our ratio of net debt to fund flows from operations continues to remain beyond our target of less than 1.5 and was 3.67 at September 30, 2020. We responded to this rapid change in market conditions by significantly reducing our cost structure, including by suspending our monthly dividend payment, reducing our capital expenditures, and identified expense savings to be executed in 2020. Going forward, we will continue to monitor for changes in forecasted fund flows from operations and as appropriate will adjust our exploration and development capital plans (and associated growth targets) to minimize any further increase to debt. As commodity prices improve, we intend to strengthen our balance sheet through the reduction of debt and will continue to target a ratio of net debt to fund flows from operations of less than 1.5.

Net debt

Net debt is reconciled to long-term debt, as follows:

(\$M)	As at	
	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

As at September 30, 2020, net debt increased to \$2.1 billion (December 31, 2019 - \$2.0 billion) primarily due to the impact of increased borrowings on long-term debt. The ratio of net debt to four quarter trailing fund flows from operations increased to 3.67 (December 31, 2019 - 2.20) due to the increase in net debt combined with lower four quarter trailing fund flows from operations.

Long-term debt

The balances recognized on our balance sheet are as follows:

(\$M)	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

Revolving Credit Facility

In Q1 2020, we negotiated an extension to our \$2.1 billion revolving credit facility to extend the maturity to May 31, 2024. All other terms within the facility remained the same.

As at September 30, 2020, Vermilion had in place a bank revolving credit facility maturing May 31, 2024 with terms and outstanding positions as follows:

(\$M)	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

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

Financial covenant	Limit	As at	
		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

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

- Consolidated total debt: Includes all amounts classified as "Long-term debt", "Current portion of 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 our 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.
- Total interest expense: Includes all amounts classified as "Interest expense", but excluding 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 September 30, 2020, 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.

Due to the OPEC+ price war in the first quarter of 2020 and the ongoing COVID-19 pandemic, worldwide oil and natural gas prices have significantly declined. The impacts of these decreases has had an impact on the Company's financial position for the nine months ended September 30, 2020 and is expected to have a significant impact on our forecasted cash flows and earnings. The Company is currently in compliance with all financial covenants related to its revolving credit facility, but is at risk of breaching one or more of the financial covenants if the depressed worldwide oil and natural gas prices persist. If we believe we are at risk of being in non-compliance with our financial covenants, we will approach our lending syndicate and request temporary covenant relief or other measures to ensure the credit facility remains available. There is no certainty that discussions surrounding covenant relief or other measures would be successful.

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, paid semi-annually on March 15 and September 15, and mature on March 15, 2025. As direct senior unsecured obligations of Vermilion, the notes rank equally in right of payment with existing and future senior 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.

Shareholders' capital

Dividends declared for the nine months ended September 30, 2020 were \$90.1 million.

The following table outlines our dividend payment history:

Date	Monthly dividend per unit or share
January 2003 to December 2007	\$0.170
January 2008 to December 2012	\$0.190
January 2013 to December 2013	\$0.200
January 2014 to March 2018	\$0.215
April 2018 to February 2020	\$0.230
March 2020	\$0.115

In the current economic and commodity outlook following the outbreak of COVID-19, there was uncertainty regarding our ability to achieve a 100% payout ratio at a reasonable level of capital expenditures. Therefore, in the first quarter of 2020, we reduced our 2020 capital budget by \$80 to \$100 million and reduced our March dividend to \$0.115. Subsequent to the first quarter of 2020, the board of directors suspended the monthly dividend as a further measure to strengthen the financial position of the Company during this period of weak commodity prices. We will evaluate our ability to finance any shortfall by reducing some or all categories of expenditures, reducing or eliminating dividends, with issuances of equity, or with debt (including borrowing using the unutilized capacity of our existing revolving credit facility). Our ability to restore a dividend will be dependent upon stronger commodity prices combined with a balance sheet that reflects the Company's ability to sustain such dividend over the long-term.

The following table reconciles the change in shareholders' capital:

Shareholders' Capital	Number of Shares ('000s)	Amount (\$M)
Balance at December 31, 2019	156,290	4,119,031
Shares issued for the Dividend Reinvestment Plan	617	8,277
Vesting of equity based awards	907	43,527
Equity based compensation	226	2,118
Share-settled dividends on vested equity based awards	268	1,361
Balance at September 30, 2020	158,308	4,174,314

As at September 30, 2020, there were approximately 4.4 million equity based compensation awards outstanding. As at November 6, 2020, there were approximately 158.3 million common shares issued and outstanding.

Vermilion had a normal course issuer bid ("NCIB") approved by the Toronto Stock Exchange that allowed us to purchase up to 7,750,000 common shares (representing approximately 5% of shares outstanding common shares) that commenced on August 9, 2019 and which expired on August 8, 2020. Vermilion did not purchase any shares during the period of the NCIB.

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.

Asset Retirement Obligations

As at September 30, 2020, asset retirement obligations were \$363.9 million compared to \$618.2 million as at December 31, 2019. The decrease in asset retirement obligations is primarily attributable to an increase in the credit spread from December 31, 2019 to September 30, 2020.

The present value of the obligation is calculated using a credit-adjusted risk-free rate, calculated using a credit spread 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 risk-free rates and credit spread used as inputs to discount the obligations were as follows:

	Sep 30, 2020	Dec 31, 2019	Change
Country specific risk-free rate			
Canada	1.1 %	1.7 %	(0.6)%
United States	1.4 %	2.4 %	(1.0)%
France	0.3 %	0.9 %	(0.6)%
Netherlands	(0.5)%	(0.1)%	(0.4)%
Germany	(0.1)%	0.3 %	(0.4)%
Ireland	0.1 %	0.6 %	(0.5)%
Australia	1.1 %	1.6 %	(0.5)%
Credit spread added to above noted risk-free rates	10.0 %	5.3 %	4.7 %

Risks and Uncertainties

Vermilion is exposed to various market and operational risks. For a discussion of these risks, please see Vermilion's MD&A and Annual Information Form, each for the year ended December 31, 2019 available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

COVID-19

The emergence of COVID-19 has resulted in emergency actions by governments worldwide, which has had an effect in all of our operating jurisdictions. The actions taken by these governments have typically included, but is not limited to travel bans, mandatory and self-imposed quarantines and isolations, social distancing, and the closing of non-essential businesses which has had significant negative effects on economies, including a substantial decline in crude oil and natural gas demand.

The full extent of the risks surrounding the severity and timing of the COVID-19 pandemic is continually evolving and is not fully known at this time; therefore, there is significant risk and uncertainty which may have a material and adverse effect on our operations. The following risks disclosed in our Annual Information Form for the year ended December 31, 2019 may be exacerbated as a result of the COVID-19 pandemic: market risks related to the volatility of oil and gas prices, volatility of foreign exchange rates, volatility of the market price of common shares, and hedging arrangements; operational risks related to increasing operating costs or declines in production levels, operator performance and payment delays, and government regulations; financing risks related to declaration and payment of dividends, ability to obtain additional financing, ability to service debt, and variations in interest rates and foreign exchanges rates; and other risks related to cyber-security as our workforce moves to remote connections, accounting adjustments, effectiveness of internal controls, and reliance on key personnel, management, and labour.

Off Balance Sheet Arrangements

We have not entered into any guarantee or off balance sheet arrangements that would materially impact our financial position or results of operations.

Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires us to make estimates. Critical accounting estimates are those accounting estimates that require us to make assumptions about matters that are highly uncertain at the time the estimate is made and a different estimate could have been made in the current period or the estimate could change period-to-period.

The carrying amount of asset retirement obligations

The carrying amount of asset retirement obligations (\$363.9 million as at September 30, 2020) is the present value of estimated future costs, discounted from the estimated abandonment date using a credit-adjusted risk-free rate. Estimated future costs are based on our assessment of regulatory requirements and the present condition of our assets. The estimated abandonment date is based on the reserve life of the associated assets. The credit-adjusted risk-free rate is based on prevailing interest rates for the appropriate term, risk-free government bonds adjusted for our estimated credit spread (determined by reference to the trading prices for debt issued by similarly rated independent oil and gas producers, including our own senior unsecured notes). Changes in these estimates would result in a change in the carrying amount of asset retirement obligations and capital assets and, to a significantly lesser degree, future accretion and depletion expense.

The estimated credit-adjusted risk-free rate may change from period to period in response to market conditions in Canada and the international jurisdictions that we operate in. A 0.5% increase or decrease in the credit-adjusted risk-free rate would decrease or increase asset retirement obligations by approximately \$22.5 million.

The recognition of deferred tax assets

In Ireland, we have \$1.0 billion of non-expiring tax loss pools where no deferred tax assets have been recognized (\$262.0 million of deferred tax assets if fully recognized) as there is uncertainty on our ability to fully use these losses based on estimated future taxable profits. Estimated future taxable profits are calculated using proved and probable reserves and forecast pricing for European natural gas. The carrying value of deferred tax assets may change from period-to-period due to changes in forecast pricing. A 5% increase in forecast sales would increase deferred tax assets (with a corresponding deferred tax recovery) by approximately \$15.5 million.

In Canada, we have \$76.9 million of tax pools where \$19.0 million of deferred tax assets has not been recognized as there is uncertainty on our ability to fully use these losses based on estimated future taxable profits. Estimated future taxable profits are calculated using proved and probable reserves and forecast pricing applicable to our Canadian operations. A 5% increase or decrease in forecast sales would increase or decrease deferred tax assets (with a corresponding deferred tax recovery or expense) by approximately \$4.8 million or \$50.5 million, respectively.

The estimated recoverable amount of cash generating units

Each reporting period, we assess our cash generating units for indicators of impairment or impairment reversal. If an indicator of impairment or impairment reversal is identified, we estimate the recoverable amount of the cash generating unit.

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 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 \$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's 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. For impairment charges recorded in the third quarter of 2020, a 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount by \$16.4 million (resulting in a \$64.1 million impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount by \$72.6 million (resulting in a \$120.4 million 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 an impairment test. 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 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). For impairment charges recorded in the second quarter of 2020, a 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount by \$14.0 million (resulting in a \$83.7 million impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount by \$37.5 million (resulting in a \$107.2 million impairment).

In the first quarter of 2020, indicators of impairment were present due to global commodity price forecasts deteriorating from a decrease in demand and an increase of supply around the world. As a result of the indicators of impairment, the Company performed an impairment test on all CGUs whereby the recoverable amount of each CGU was compared against its carrying amount. 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). 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. For impairment charges recorded in the first quarter of 2020, a 1% increase in the assumed after-tax discount rate would reduce the estimated recoverable amount by \$147.5 million (resulting in a \$1.7 billion impairment) while a 5% decrease in revenues (due to a decrease in commodity price forecasts or reserve estimates) would reduce the estimated recoverable amount by \$310.4 million (resulting in a \$1.9 billion impairment).

Internal Control Over Financial Reporting

Other than Vermilion's response to COVID-19, there has been no change in Vermilion's internal control over financial reporting ("ICFR") during the period covered by this MD&A that materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Due to the COVID-19 pandemic, Vermilion has implemented social distancing measures which require deemed non-critical employees to work remotely and has encouraged critical staff to do the same. These measures may have an effect on the design and performance of internal controls throughout the Company and will be continually monitored to mitigate any risks associated with changes in its control environment.

Recently Adopted Accounting Pronouncements

Vermilion did not adopt any new accounting pronouncements as at September 30, 2020.

Disclosure Controls and Procedures

Our officers have established and maintained disclosure controls and procedures and evaluated the effectiveness of these controls in conjunction with our filings.

As of September 30, 2020, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the President, for this specific purpose of acting in the capacity of Chief Executive Officer, and Chief Financial Officer have concluded and certified that our disclosure controls and procedures are effective.

Supplemental Table 1: Netbacks

The following table includes financial statement information on a per unit basis by business unit. Liquids includes crude oil, condensate, and NGLs. Natural gas sales volumes have been converted on a basis of six thousand cubic feet of natural gas to one barrel of oil equivalent.

	Q3 2020			YTD 2020			Q3 2019	YTD 2019
	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Total \$/boe	Total \$/boe
Canada								
Sales	40.50	2.03	28.13	34.79	1.85	24.58	34.94	37.64
Royalties	(4.95)	(0.07)	(2.98)	(4.01)	(0.04)	(2.39)	(4.44)	(4.24)
Transportation	(2.41)	(0.18)	(1.82)	(2.49)	(0.19)	(1.90)	(1.93)	(1.87)
Operating	(8.99)	(1.04)	(7.78)	(11.78)	(1.22)	(9.86)	(10.75)	(11.02)
Operating netback	24.15	0.74	15.55	16.51	0.40	10.43	17.82	20.51
General and administration			(1.10)			(1.05)	(1.08)	(0.96)
Fund flows from operations netback			14.45			9.38	16.74	19.55
United States								
Sales	45.21	1.81	37.28	39.36	1.71	32.84	42.43	44.34
Royalties	(11.78)	(0.53)	(9.80)	(9.91)	(0.47)	(8.32)	(10.76)	(11.31)
Transportation	(1.26)	—	(0.97)	(0.81)	—	(0.63)	—	—
Operating	(8.49)	(1.25)	(8.26)	(8.90)	(1.37)	(8.74)	(9.71)	(9.61)
Operating netback	23.68	0.03	18.25	19.74	(0.13)	15.15	21.96	23.42
General and administration			(2.44)			(3.23)	(4.43)	(4.62)
Fund flows from operations netback			15.81			11.92	17.53	18.80
France								
Sales	53.55	—	53.55	54.35	—	54.35	79.89	83.69
Royalties	(9.73)	—	(9.73)	(9.54)	—	(9.54)	(11.23)	(11.31)
Transportation	(4.23)	—	(4.23)	(4.35)	—	(4.35)	(6.05)	(6.18)
Operating	(16.38)	—	(16.38)	(17.22)	—	(17.22)	(14.77)	(15.18)
Operating netback	23.21	—	23.21	23.24	—	23.24	47.84	51.02
General and administration			(3.05)			(4.10)	(3.31)	(3.56)
Current income taxes			—			—	(3.34)	(5.54)
Fund flows from operations netback			20.16			19.14	41.19	41.92
Netherlands								
Sales	55.26	2.81	17.29	44.57	3.21	19.54	27.40	38.51
Royalties	—	(0.02)	(0.13)	—	(0.02)	(0.13)	(0.41)	(0.59)
Operating	—	(1.93)	(11.48)	—	(1.90)	(11.30)	(9.36)	(9.83)
Operating netback	55.26	0.86	5.68	44.57	1.29	8.11	17.63	28.09
General and administration			(0.64)			(0.56)	(0.44)	(0.83)
Current income taxes			0.49			0.28	(0.68)	(3.18)
Fund flows from operations netback			5.53			7.83	16.51	24.08
Germany								
Sales	52.65	2.41	26.17	47.35	3.11	27.44	37.43	47.79
Royalties	(2.35)	(0.26)	(1.78)	(2.53)	(0.42)	(2.54)	(3.15)	(4.88)
Transportation	(14.26)	(0.38)	(5.93)	(11.25)	(0.38)	(5.02)	(5.65)	(4.34)
Operating	(20.71)	(2.59)	(17.14)	(21.28)	(2.66)	(17.60)	(21.27)	(18.33)
Operating netback	15.33	(0.82)	1.32	12.29	(0.35)	2.28	7.36	20.24
General and administration			(5.97)			(5.29)	(8.05)	(6.78)
Fund flows from operations netback			(4.65)			(3.01)	(0.69)	13.46
Ireland								
Sales	—	3.24	19.45	—	3.36	20.18	25.24	37.74
Transportation	—	(0.37)	(2.23)	—	(0.34)	(2.01)	(1.71)	(1.58)
Operating	—	(1.22)	(7.31)	—	(1.14)	(6.85)	(4.73)	(4.38)
Operating netback	—	1.65	9.91	—	1.88	11.32	18.80	31.78
General and administration			(0.51)			(0.32)	(2.17)	(0.92)
Fund flows from operations netback			9.40			11.00	16.63	30.86

	Q3 2020			YTD 2020			Q3 2019	YTD 2019
	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Liquids \$/bbl	Natural Gas \$/mcf	Total \$/boe	Total \$/boe	Total \$/boe
Australia								
Sales	68.63	—	68.63	76.89	—	76.89	93.71	94.04
Operating	(27.22)	—	(27.22)	(27.73)	—	(27.73)	(19.81)	(23.92)
PRRT ⁽¹⁾	(8.18)	—	(8.18)	(11.13)	—	(11.13)	(9.72)	(14.16)
Operating netback	33.23	—	33.23	38.03	—	38.03	64.18	55.96
General and administration			(2.39)			(1.95)	(2.10)	(2.00)
Current income taxes			(0.53)			(0.61)	(0.66)	(4.58)
Fund flows from operations netback			30.31			35.47	61.42	49.38
Total Company								
Sales	46.08	2.34	31.86	42.67	2.37	29.86	43.04	46.79
Realized hedging gain (loss)	(1.57)	0.51	0.47	4.91	0.49	4.03	4.06	2.21
Royalties	(5.91)	(0.08)	(3.50)	(4.96)	(0.07)	(2.92)	(4.56)	(4.42)
Transportation	(2.61)	(0.17)	(1.92)	(2.56)	(0.18)	(1.88)	(2.13)	(2.05)
Operating	(12.14)	(1.30)	(10.21)	(14.13)	(1.40)	(11.55)	(11.55)	(11.85)
PRRT ⁽¹⁾	(0.74)	—	(0.41)	(1.09)	—	(0.60)	(0.64)	(0.88)
Operating netback	23.11	1.30	16.29	24.84	1.21	16.94	28.22	29.80
General and administration			(1.35)			(1.57)	(1.50)	(1.53)
Interest expense			(1.97)			(2.05)	(2.16)	(2.24)
Realized foreign exchange loss			(0.31)			0.36	(0.37)	(0.25)
Other income			0.29			(0.02)	0.04	0.27
Corporate income taxes			—			(0.03)	(0.50)	(1.16)
Fund flows from operations netback			12.95			13.63	23.73	24.89

⁽¹⁾ Vermilion considers Australian PRRT to be an operating item and, accordingly, has included PRRT in the calculation of operating netbacks. Current income taxes presented above excludes PRRT.

Supplemental Table 2: Hedges

The prices in these tables may represent the weighted averages for several contracts with foreign currency amounts translated to the disclosure currency using forward rates as at the month-end date. The weighted average price for the portfolio of options listed below may not have the same payoff profile as the individual contracts. As such, the presentation of the weighted average prices is purely for indicative purposes.

The following tables outline Vermilion's outstanding risk management positions as at September 30, 2020:

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price
Dated Brent										
Q4 2020	bbl	USD	4,000	30.38	4,000	37.63	4,000	22.91	2,000	29.55
WTI										
Q4 2020	bbl	USD	5,000	44.15	5,000	49.68	5,000	37.53	—	—
AECO										
Q4 2020	mcf	CAD	—	—	—	—	—	—	6,707	1.60
Q2 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12
Q3 2021	mcf	CAD	—	—	—	—	—	—	9,478	2.12
Q4 2021	mcf	CAD	—	—	—	—	—	—	3,194	2.12
AECO Basis (AECO less NYMEX Henry Hub)										
Q4 2020	mcf	USD	—	—	—	—	—	—	36,739	(1.11)
Q1 2021	mcf	USD	—	—	—	—	—	—	30,000	(1.11)
Q2 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)
Q3 2021	mcf	USD	—	—	—	—	—	—	45,000	(1.08)
Q4 2021	mcf	USD	—	—	—	—	—	—	35,054	(1.09)
Q1 2022	mcf	USD	—	—	—	—	—	—	30,000	(1.10)
Q2 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)
Q3 2022	mcf	USD	—	—	—	—	—	—	35,000	(1.09)
Q4 2022	mcf	USD	—	—	—	—	—	—	11,793	(1.09)
NYMEX Henry Hub										
Q4 2020	mcf	USD	45,435	1.82	10,054	2.48	—	—	13,424	2.34
Q1 2021	mcf	USD	5,000	2.90	5,000	3.15	—	—	5,000	3.00
SoCal Border										
Q4 2020	mcf	USD	—	—	—	—	—	—	3,315	3.40
Q1 2021	mcf	USD	—	—	—	—	—	—	5,000	3.40
Conway Propane										
Q4 2020	bbl	USD	—	—	—	—	—	—	500	56% WTI
Q1 2021	bbl	USD	—	—	—	—	—	—	500	56% WTI

	Unit	Currency	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Sold Swap Volume	Weighted Average Sold Swap Price
NBP										
Q4 2020	mcf	EUR	61,419	5.28	63,875	5.70	61,419	3.90	—	—
Q1 2021	mcf	EUR	58,962	5.37	61,419	5.69	58,962	3.88	—	—
Q2 2021	mcf	EUR	49,135	5.37	49,135	5.68	49,135	3.87	—	—
Q3 2021	mcf	EUR	49,135	5.37	49,135	5.67	49,135	3.87	—	—
Q4 2021	mcf	EUR	58,962	5.37	58,962	5.60	58,962	3.88	—	—
Q1 2022	mcf	EUR	34,394	5.18	34,394	5.95	34,394	3.63	—	—
Q2 2022	mcf	EUR	27,024	5.07	27,024	5.74	27,024	3.50	—	—
Q3 2022	mcf	EUR	14,740	4.86	14,740	5.50	14,740	3.42	—	—
Q4 2022	mcf	EUR	14,740	4.86	14,740	5.49	14,740	3.42	—	—
Q1 2023	mcf	EUR	7,370	4.74	7,370	5.11	7,370	3.32	—	—
NBP Basis (NBP less NYMEX Henry Hub)										
Q4 2020	mcf	USD	10,000	3.24	10,000	3.98	—	—	—	—
TTF										
Q4 2020	mcf	EUR	7,370	5.37	7,370	6.25	7,370	3.81	—	—
Q2 2021	mcf	EUR	2,457	4.25	2,457	4.12	2,457	2.93	—	—
Q3 2021	mcf	EUR	2,457	4.25	2,457	4.12	2,457	2.93	—	—
Q1 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—
Q2 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—
Q3 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—
Q4 2022	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—
Q1 2023	mcf	EUR	2,457	4.84	2,457	5.64	2,457	3.52	—	—

VET Equity Swaps			Initial Share Price		Share Volume
Swap	Jan 2020 - Sep 2021		20.9788	CAD	2,250,000
Swap	Jan 2020 - Oct 2021		22.4587	CAD	1,500,000

The following sold option instruments allow the counterparties, at the specified date, to enter into a derivative instrument contract with Vermilion at the detailed terms:

Period if Option Exercised	Unit	Currency	Option Expiration Date	Bought Put Volume	Weighted Average Bought Put Price	Sold Call Volume	Weighted Average Sold Call Price	Sold Put Volume	Weighted Average Sold Put Price	Swap Volume	Weighted Average Swap Price
NYMEX (Henry Hub)											
Nov 2020 - Oct 2021	mcf	USD	23-Oct-20	—	—	—	—	—	—	10,000	3.00
NBP											
Jan 2021 - Dec 2022	mcf	EUR	31-Dec-20	—	—	—	—	—	—	2,457	4.69
Jan 2022 - Dec 2022	mcf	EUR	30-Jun-21	—	—	—	—	—	—	2,457	5.13
Dated Brent											
Jan 2021 - Dec 2021	bbl	USD	31-Dec-20	—	—	—	—	—	—	1,000	53.50
Jan 2021 - Dec 2022	bbl	USD	31-Dec-20	—	—	—	—	—	—	500	54.00

Supplemental Table 3: Capital Expenditures and Acquisitions

By classification (\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Drilling and development	29,762	42,383	117,123	299,578	389,563
Exploration and evaluation	1,568	(109)	10,756	7,730	32,976
Capital expenditures	31,330	42,274	127,879	307,308	422,539

Acquisitions	6,720	2,932	4,657	20,989	29,307
Acquisitions	6,720	2,932	4,657	20,989	29,307

By category (\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Drilling, completion, new well equip and tie-in, workovers and recompletions	13,220	21,954	93,681	243,338	338,875
Production equipment and facilities	15,800	15,190	28,722	48,617	58,490
Seismic, studies, land and other	2,310	5,130	5,476	15,353	25,174
Capital expenditures	31,330	42,274	127,879	307,308	422,539
Acquisitions	6,720	2,932	4,657	20,989	29,307
Total capital expenditures and acquisitions	38,050	45,206	132,536	328,297	451,846

Capital expenditures by country (\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Canada	3,837	9,785	69,963	166,199	227,101
United States	5,738	14,194	21,064	65,281	54,064
France	12,638	5,603	18,139	29,498	65,896
Netherlands	1,553	2,638	3,028	6,688	13,954
Germany	1,558	3,345	4,229	12,692	16,507
Ireland	928	704	354	1,612	449
Australia	3,926	4,200	2,995	20,128	24,098
Corporate	1,152	1,805	8,107	5,210	20,470
Total capital expenditures	31,330	42,274	127,879	307,308	422,539

Acquisitions by country (\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Canada	6,621	260	1,746	12,320	19,061
United States	90	749	1,964	6,697	3,224
France	—	—	—	—	—
Netherlands	—	—	—	—	908
Germany	9	564	947	592	6,114
Ireland	—	—	—	—	—
Australia	—	—	—	—	—
Corporate	—	1,359	—	1,380	—
Total acquisitions	6,720	2,932	4,657	20,989	29,307

In 2020, included in cash expenditures on acquisitions of \$21.0 million is: \$0.9 million net received from vendors in relation to the purchase of assets from other oil and gas producers; \$0.4 million in asset improvements incurred subsequent to acquisitions for compliance with safety, environmental, and Vermilion's operating standards; \$8.7 million paid to acquire land; and \$12.7 million relating to the carry component of farm-in arrangements.

Supplemental Table 4: Production

	Q3/20	Q2/20	Q1/20	Q4/19	Q3/19	Q2/19	Q1/19	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17
Canada												
Crude oil & condensate (bbls/d)	25,048	27,592	27,401	27,399	27,682	28,844	29,164	29,557	28,477	17,009	9,272	9,703
NGLs (bbls/d)	8,350	8,248	6,943	7,005	6,632	7,352	6,968	6,816	6,126	5,589	5,106	5,235
Natural gas (mmcf/d)	155.15	164.08	151.16	145.14	145.14	151.87	151.37	146.65	136.77	127.32	106.21	107.91
Total (boe/d)	59,256	63,187	59,537	58,593	58,504	61,507	61,360	60,814	57,397	43,817	32,078	32,923
% of consolidated	62%	64%	63%	61%	60%	60%	59%	60%	59%	55%	46%	45%
United States												
Crude oil (bbls/d)	3,249	3,977	2,487	3,161	2,722	2,483	1,742	1,605	1,461	655	574	667
NGLs (bbls/d)	1,158	1,340	1,079	1,156	1,140	754	929	998	714	62	20	43
Natural gas (mmcf/d)	7.94	8.35	6.72	8.20	6.38	7.06	5.89	5.65	4.82	0.40	0.15	0.29
Total (boe/d)	5,730	6,708	4,685	5,683	4,925	4,414	3,653	3,545	2,979	784	618	758
% of consolidated	6%	7%	5%	6%	5%	4%	4%	3%	3%	1%	1%	1%
France												
Crude oil (bbls/d)	9,347	7,046	9,957	10,264	10,347	9,800	11,342	11,317	11,407	11,683	11,037	11,215
Natural gas (mmcf/d)	—	—	—	—	—	—	0.77	0.82	—	—	—	—
Total (boe/d)	9,347	7,046	9,957	10,264	10,347	9,800	11,470	11,454	11,407	11,683	11,037	11,215
% of consolidated	10%	7%	10%	10%	11%	10%	11%	11%	12%	14%	16%	15%
Netherlands												
Condensate (bbls/d)	83	87	87	90	82	100	93	112	84	87	77	105
Natural gas (mmcf/d)	46.09	47.31	48.33	47.99	44.08	52.90	51.51	51.82	44.37	43.49	44.79	55.66
Total (boe/d)	7,764	7,972	8,143	8,088	7,429	8,917	8,677	8,749	7,479	7,335	7,541	9,381
% of consolidated	8%	8%	8%	8%	8%	9%	8%	9%	8%	9%	11%	13%
Germany												
Crude oil (bbls/d)	964	1,039	909	800	845	1,047	978	913	1,019	1,008	1,078	1,148
Natural gas (mmcf/d)	11.25	13.23	14.64	15.44	14.54	14.56	16.71	16.94	14.88	14.63	16.19	18.19
Total (boe/d)	2,839	3,244	3,349	3,373	3,269	3,474	3,763	3,736	3,498	3,447	3,777	4,180
% of consolidated	3%	3%	3%	3%	3%	3%	4%	4%	4%	4%	5%	6%
Ireland												
Natural gas (mmcf/d)	35.12	38.57	41.38	42.30	43.21	49.21	51.71	52.03	51.38	56.56	60.87	56.23
Total (boe/d)	5,853	6,428	6,896	7,049	7,202	8,201	8,619	8,672	8,563	9,426	10,144	9,372
% of consolidated	6%	6%	7%	7%	7%	8%	8%	9%	9%	12%	14%	13%
Australia												
Crude oil (bbls/d)	4,549	5,299	4,041	4,548	5,564	6,689	5,862	4,174	4,704	4,132	4,971	4,993
% of consolidated	5%	5%	4%	5%	6%	6%	6%	4%	5%	5%	7%	7%
Corporate												
Natural gas (mmcf/d)	0.80	2.89	3.27	1.66	—	—	—	2.86	1.17	—	—	—
Total (boe/d)	132	483	546	276	—	—	—	477	195	—	—	—
% of consolidated	—	—	—	—	—	—	—	—	—	—	—	—
Consolidated												
Liquids (bbls/d)	52,749	54,629	52,903	54,421	55,014	57,071	57,078	55,493	53,991	40,225	32,134	33,109
% of consolidated	55%	54%	54%	56%	57%	55%	55%	55%	56%	50%	46%	45%
Natural gas (mmcf/d)	256.34	274.42	265.51	260.72	253.36	275.60	277.96	276.77	253.38	242.40	228.20	238.28
% of consolidated	45%	46%	46%	44%	43%	45%	45%	45%	44%	50%	54%	55%
Total (boe/d)	95,471	100,366	97,154	97,875	97,239	103,003	103,404	101,621	96,222	80,625	70,167	72,821

	YTD 2020	2019	2018	2017	2016	2015
Canada						
Crude oil & condensate (bbls/d)	26,674	28,266	21,154	9,051	9,171	11,357
NGLs (bbls/d)	7,849	6,988	5,914	4,144	2,552	2,301
Natural gas (mmcf/d)	156.79	148.35	129.37	97.89	84.29	71.65
Total (boe/d)	60,655	59,979	48,630	29,510	25,771	25,598
% of consolidated	62%	60%	56%	45%	40%	46%
United States						
Crude oil (bbls/d)	3,238	2,531	1,078	666	393	231
NGLs (bbls/d)	1,192	996	452	50	29	7
Natural gas (mmcf/d)	7.67	6.89	2.78	0.39	0.21	0.05
Total (boe/d)	5,708	4,675	1,992	781	457	247
% of consolidated	6%	5%	2%	1%	1%	—
France						
Crude oil (bbls/d)	8,785	10,435	11,362	11,084	11,896	12,267
Natural gas (mmcf/d)	—	0.19	0.21	—	0.44	0.97
Total (boe/d)	8,785	10,467	11,396	11,085	11,970	12,429
% of consolidated	9%	10%	13%	16%	19%	23%
Netherlands						
Condensate (bbls/d)	86	91	90	90	88	99
Natural gas (mmcf/d)	47.24	49.10	46.13	40.54	47.82	44.76
Total (boe/d)	7,959	8,274	7,779	6,847	8,058	7,559
% of consolidated	8%	8%	9%	10%	13%	14%
Germany						
Crude oil (bbls/d)	971	917	1,004	1,060	—	—
Natural gas (mmcf/d)	13.03	15.31	15.66	19.39	14.90	15.78
Total (boe/d)	3,143	3,468	3,614	4,291	2,483	2,630
% of consolidated	3%	3%	4%	6%	4%	5%
Ireland						
Natural gas (mmcf/d)	38.34	46.57	55.17	58.43	50.89	0.03
Total (boe/d)	6,390	7,762	9,195	9,737	8,482	5
% of consolidated	7%	8%	11%	14%	13%	—%
Australia						
Crude oil (bbls/d)	4,629	5,662	4,494	5,770	6,304	6,454
% of consolidated	5%	6%	5%	8%	10%	12%
Corporate						
Natural gas (mmcf/d)	2.31	0.42	1.02	—	—	—
Total (boe/d)	386	70	169	—	—	—
% of consolidated	—%	—%	—%	—%	—%	—%
Consolidated						
Liquids (bbls/d)	53,424	55,886	45,548	31,915	30,433	32,716
% of consolidated	55%	56%	52%	47%	48%	60%
Natural gas (mmcf/d)	265.39	266.82	250.33	216.64	198.55	133.24
% of consolidated	45%	44%	48%	53%	52%	40%
Total (boe/d)	97,656	100,357	87,270	68,021	63,526	54,922

Non-GAAP Financial Measures

This MD&A includes references to certain financial measures which do not have standardized meanings and may not be comparable to similar measures presented by other issuers. These financial measures include fund flows from operations, a measure of profit or loss in accordance with IFRS 8 "Operating Segments" (please see Segmented Information in the Notes to the Consolidated Interim Financial Statements) and net debt, a measure of capital in accordance with IAS 1 "Presentation of Financial Statements" (please see Capital Disclosures in the Notes to the Consolidated Interim Financial Statements).

In addition, this MD&A includes financial measures which are not specified, defined, or determined under IFRS and are therefore considered non-GAAP financial measures and may not be comparable to similar measures presented by other issuers. These non-GAAP financial measures include:

Acquisitions: The sum of acquisitions from the Consolidated Statements of Cash Flows, Vermilion common shares issued as consideration, the estimated value of contingent consideration, the amount of acquiree's outstanding long-term debt assumed plus or net of acquired working capital deficit or surplus. We believe that including these components provides a useful measure of the economic investment associated with our acquisition activity.

Capital expenditures: The sum of drilling and development and exploration and evaluation from the Consolidated Statements of Cash Flows. We consider capital expenditures to be a useful measure of our investment in our existing asset base. Capital expenditures are also referred to as E&D capital.

Cash dividends per share: Represents cash dividends declared per share and is a useful measure of the dividends a common shareholder was entitled to during the period.

Covenants: The financial covenants on our revolving credit facility contain non-GAAP measures. The definitions for these financial covenants are included in Financial Position Review.

Diluted shares outstanding: The sum of shares outstanding at the period end plus outstanding awards under the VIP, based on current estimates of future performance factors and forfeiture rates.

Free cash flow: Represents fund flows from operations in excess of capital expenditures. We use free cash flow to determine the funding available for investing and financing activities, including payment of dividends, repayment of long-term debt, reallocation to existing business units, and deployment into new ventures. We also assess free cash flow as a percentage of fund flows from operations, which is a measure of the percentage of fund flows from operations that is retained for incremental investing and financing activities.

Fund flows from operations per basic and diluted share: Management assesses fund flows from operations on a per share basis as we believe this provides a measure of our operating performance after taking into account the issuance and potential future issuance of Vermilion common shares. Fund flows from operations per basic share is calculated by dividing fund flows from operations by the basic weighted average shares outstanding as defined under IFRS. Fund flows from operations per diluted share is calculated by dividing fund flows from operations by the sum of basic weighted average shares outstanding and incremental shares issuable under the equity based compensation plans as determined using the treasury stock method.

Net dividends: We define net dividends as dividends declared less proceeds received for the issuance of shares pursuant to the Dividend Reinvestment Plan. Management monitors net dividends and net dividends as a percentage of fund flows from operations to assess our ability to pay dividends.

Operating netback: Sales less royalties, operating expense, transportation costs, PRRT, and realized hedging gains and losses presented on a per unit basis. Management assesses operating netback as a measure of the profitability and efficiency of our field operations. In contrast, fund flows from operations netback also includes general and administration expense, corporate income taxes, and interest. Fund flows from operations netback is used by management to assess the profitability of our business units and Vermilion as a whole.

Payout: We define payout as net dividends plus drilling and development costs, exploration and evaluation costs, and asset retirement obligations settled. Management uses payout and payout as a percentage of fund flows from operations (also referred to as the **payout or sustainability ratio**) to assess the amount of cash distributed back to shareholders and re-invested in the business for maintaining production and organic growth.

Return on capital employed (ROCE): ROCE is a measure that we use to analyze our profitability and the efficiency of our capital allocation process. ROCE is calculated by dividing net earnings before interest and taxes ("EBIT") by average capital employed over the preceding twelve months. Capital employed is calculated as total assets less current liabilities while average capital employed is calculated using the balance sheets at the beginning and end of the twelve-month period.

The following tables reconcile net dividends, payout, and diluted shares outstanding from their most directly comparable GAAP measures as presented in our financial statements:

(\$M)	Q3 2020	Q2 2020	Q3 2019	YTD 2020	YTD 2019
Dividends declared	—	—	107,176	90,067	319,609
Shares issued for the Dividend Reinvestment Plan	—	(632)	(8,860)	(8,277)	(24,737)
Net dividends	—	—	98,316	81,790	294,872
Drilling and development	29,762	42,383	117,123	299,578	389,563
Exploration and evaluation	1,568	(109)	10,756	7,730	32,976
Asset retirement obligations settled	2,305	970	3,586	7,007	12,090
Payout	33,635	42,612	229,781	396,105	729,501
% of fund flows from operations	29%	52%	106%	108%	105%

('000s of shares)	Q3 2020	Q2 2020	Q3 2019
Shares outstanding	158,308	158,307	155,505
Potential shares issuable pursuant to the VIP	5,492	5,783	3,755
Diluted shares outstanding	163,800	164,090	159,260

The following tables reconciles the calculation of return on capital employed:

(\$M)	Twelve Months Ended	
	Sep 30, 2020	Sep 30, 2019
Net (loss) earnings	(1,458,243)	354,695
Taxes	(348,533)	160,981
Interest expense	74,438	83,035
EBIT	(1,732,338)	598,711
Average capital employed	4,679,796	5,426,400
Return on capital employed	(37)%	11%

DIRECTORS

Lorenzo Donadeo ¹
Calgary, Alberta

Larry J. Macdonald ^{2, 4, 6, 8}
Calgary, Alberta

Carin Knickel ^{5, 8, 12}
Golden, Colorado

Stephen P. Larke ^{4, 6, 12}
Calgary, Alberta

Loren M. Leiker ¹⁰
McKinney, Texas

Timothy R. Marchant ^{7, 10, 11}
Calgary, Alberta

Robert Michaleski ^{3, 6}
Calgary, Alberta

William Roby ^{8, 9, 12}
Katy, Texas

Catherine L. Williams ^{4, 6}
Calgary, Alberta

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

CANADA

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
Vice President Marketing

Darcy Kerwin *
Vice President Strategic Planning

Kyle Preston
Vice President Investor Relations

Jenson Tan *
Vice President Business Development

Daniel Goulet
Director Corporate HSE

Adam Iwanicki
Director Marketing

Yvonne Jeffery
Director Sustainability

Jeremy Kalanuk
Director Operations Accounting

Bryce Kremnica
Director Field Operations - Canada Business Unit

Tom Rafter
Director Land - Canada Business Unit

Steve Reece
Director Information Technology & Information Systems

Robert (Bob) J. Engbloom
Corporate Secretary

UNITED STATES

Scott Seatter
Managing Director - U.S. Business Unit

EUROPE

Gerard Schut *
Vice President European Operations

Sylvain Nothhelfer
Managing Director - France Business Unit

Sven Tummers
Managing Director - Netherlands Business Unit

Bill Liutkus
Managing Director - Germany Business Unit

Ryan Carty
Managing Director - Ireland Business Unit

Bryan Sralia
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

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTINGS

The Toronto Stock Exchange ("VET")
The New York Stock Exchange ("VET")

INVESTOR RELATIONS

Kyle Preston
Vice President Investor Relations
403-476-8431 TEL
403-476-8100 FAX
1-866-895-8101 IR TOLL FREE
investor_relations@vermilionenergy.com



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.

VERMILION
E N E R G Y



Vermilion Energy Inc.
3500, 520 3rd Avenue SW
Calgary, Alberta T2P 0R3

Telephone: 1.403.269.4884
Facsimile: 1.403.476.8100
IR Toll Free: 1.866.895.8101
investor_relations@vermillionenergy.com
vermillionenergy.com