

Q3 2021

FINANCIAL STATEMENTS

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INTERNATIONALLY DIVERSIFIED | FREE CASH FLOW FOCUSED

VERMILION
ENERGY



Disclaimer

Certain statements included or incorporated by reference in this document may constitute forward looking statements or financial outlooks under applicable securities legislation. Such forward looking statements or information typically contain statements with words such as "anticipate", "believe", "expect", "plan", "intend", "estimate", "propose", "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

Consolidated Interim Financial Statements

Consolidated Balance Sheet

thousands of Canadian dollars, unaudited

	Note	September 30, 2021	December 31, 2020
Assets			
Current			
Cash and cash equivalents		—	6,904
Accounts receivable		281,572	196,077
Crude oil inventory		22,782	13,402
Derivative instruments		131,788	16,924
Prepaid expenses		23,975	27,686
Total current assets		460,117	260,993
Derivative instruments		—	2,451
Deferred taxes		373,979	484,497
Exploration and evaluation assets		237,344	254,094
Capital assets	3	4,678,193	3,107,104
Total assets		5,749,633	4,109,139
Liabilities			
Current			
Accounts payable and accrued liabilities		364,519	297,670
Derivative instruments		509,817	130,919
Income taxes payable		21,640	4,539
Total current liabilities		895,976	433,128
Derivative instruments		95,101	8,228
Long-term debt	6	1,760,342	1,933,848
Lease obligations		67,106	76,524
Asset retirement obligations	4	876,949	467,737
Deferred taxes		318,790	264,272
Total liabilities		4,014,264	3,183,737
Shareholders' Equity			
Shareholders' capital	7	4,236,501	4,181,160
Contributed surplus		47,734	66,250
Accumulated other comprehensive income		48,946	77,986
Deficit		(2,597,812)	(3,399,994)
Total shareholders' equity		1,735,369	925,402
Total liabilities and shareholders' equity		5,749,633	4,109,139

Approved by the Board

(Signed "Robert Michaleski")

Robert Michaleski, Director

(Signed "Lorenzo Donadeo")

Lorenzo Donadeo, Director

Consolidated Statements of Net (Loss) Earnings and Comprehensive (Loss) Income

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

	Note	Three Months Ended		Nine Months Ended	
		Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Revenue					
Petroleum and natural gas sales		538,530	282,020	1,313,846	803,347
Royalties		(49,435)	(30,969)	(127,337)	(78,446)
Sales of purchased commodities		35,540	23,725	109,155	95,951
Petroleum and natural gas revenue		524,635	274,776	1,295,664	820,852
Expenses					
Purchased commodities		35,540	23,725	109,155	95,951
Operating		104,355	90,362	300,333	310,675
Transportation		19,273	16,959	58,128	50,654
Equity based compensation		7,823	9,733	34,899	31,894
Loss (gain) on derivative instruments		351,972	35,457	491,145	(74,211)
Interest expense		18,699	17,400	56,796	55,269
General and administration		12,341	11,969	35,503	42,198
Foreign exchange loss (gain)		24,956	(13,171)	76,303	(8,274)
Other (income) expense		(3,588)	(2,370)	(11,437)	1,132
Accretion	4	11,199	9,158	32,569	26,184
Depletion and depreciation	3	167,808	167,728	423,472	432,242
Impairment (reversal) expense	3	(22,225)	47,777	(1,278,697)	1,682,344
Gain on business combinations	3	—	—	(17,198)	—
		728,153	414,727	310,971	2,646,058
(Loss) earnings before income taxes		(203,518)	(139,951)	984,693	(1,825,206)
Income tax (recovery) expense					
Deferred	3	(62,245)	(73,653)	172,509	(382,321)
Current		5,857	3,628	8,076	16,835
		(56,388)	(70,025)	180,585	(365,486)
Net (loss) earnings		(147,130)	(69,926)	804,108	(1,459,720)
Other comprehensive (loss) income					
Currency translation adjustments		11,244	7,342	(33,936)	73,764
Unrealized gain (loss) on hedges		1,632	1,285	4,896	(38,336)
Comprehensive (loss) income		(134,254)	(61,299)	775,068	(1,424,292)
Net (loss) earnings per share					
Basic		(0.91)	(0.44)	5.00	(9.26)
Diluted		(0.91)	(0.44)	4.91	(9.26)
Weighted average shares outstanding ('000s)					
Basic		161,957	158,307	160,809	157,688
Diluted		161,957	158,307	163,693	157,688

Consolidated Statements of Cash Flows

thousands of Canadian dollars, unaudited

	Note	Three Months Ended		Nine Months Ended	
		Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Operating					
Net (loss) earnings		(147,130)	(69,926)	804,108	(1,459,720)
Adjustments:					
Accretion	4	11,199	9,158	32,569	26,184
Depletion and depreciation	3	167,808	167,728	423,472	432,242
Impairment (reversal) expense	3	(22,225)	47,777	(1,278,697)	1,682,344
Gain on business combinations	3	—	—	(17,198)	—
Unrealized loss on derivative instruments		279,393	39,637	353,359	34,092
Equity based compensation		7,823	9,733	34,899	31,894
Unrealized foreign exchange loss (gain)		27,877	(15,885)	72,085	1,507
Unrealized other expense		196	207	583	631
Deferred taxes		(62,245)	(73,653)	172,509	(382,321)
Asset retirement obligations settled	4	(5,142)	(2,305)	(15,486)	(7,007)
Changes in non-cash operating working capital		(46,006)	(18,692)	1,898	5,204
Cash flows from operating activities		211,548	93,779	584,101	365,050
Investing					
Drilling and development	3	(63,173)	(29,762)	(220,388)	(299,578)
Exploration and evaluation		(3,277)	(1,568)	(8,601)	(7,730)
Acquisitions	3	(92,191)	(6,720)	(104,780)	(20,989)
Changes in non-cash investing working capital		(4,289)	(3,775)	(1,058)	(22,519)
Cash flows used in investing activities		(162,930)	(41,825)	(334,827)	(350,816)
Financing					
(Repayments) borrowings on the revolving credit facility	6	(42,646)	(45,428)	(238,137)	99,527
Payments on lease obligations		(5,712)	(5,769)	(17,279)	(19,219)
Cash dividends		—	—	—	(117,737)
Cash flows used in financing activities		(48,358)	(51,197)	(255,416)	(37,429)
Foreign exchange loss on cash held in foreign currencies		(260)	(204)	(762)	(494)
Net change in cash and cash equivalents		—	553	(6,904)	(23,689)
Cash and cash equivalents, beginning of period		—	4,786	6,904	29,028
Cash and cash equivalents, end of period		—	5,339	—	5,339
Supplementary information for cash flows from operating activities					
Interest paid		24,479	27,970	61,405	66,125
Income taxes (refunded) paid		(2,291)	8,551	(9,025)	3,423

Consolidated Statements of Changes in Shareholders' Equity

thousands of Canadian dollars, unaudited

	Note	Nine Months Ended	
		Sep 30, 2021	Sep 30, 2020
Shareholders' capital	7		
Balance, beginning of period		4,181,160	4,119,031
Shares issued for the Dividend Reinvestment Plan		—	8,277
Vesting of equity based awards		45,051	43,527
Equity based compensation		8,364	2,118
Share-settled dividends on vested equity based awards		1,926	1,361
Balance, end of period		4,236,501	4,174,314
Contributed surplus	7		
Balance, beginning of period		66,250	75,735
Equity based compensation		26,535	29,776
Vesting of equity based awards		(45,051)	(43,527)
Balance, end of period		47,734	61,984
Accumulated other comprehensive income			
Balance, beginning of period		77,986	49,578
Currency translation adjustments		(33,936)	73,764
Hedge accounting reserve		4,896	(38,336)
Balance, end of period		48,946	85,006
Deficit			
Balance, beginning of period		(3,399,994)	(1,791,039)
Net earnings (loss)		804,108	(1,459,720)
Dividends declared		—	(90,067)
Share-settled dividends on vested equity based awards		(1,926)	(1,361)
Balance, end of period		(2,597,812)	(3,342,187)
Total shareholders' equity		1,735,369	979,117

Description of equity reserves

Shareholders' capital

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

Contributed surplus

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

Accumulated other comprehensive income

Represents currency translation adjustments and hedge accounting reserve.

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

The hedge accounting reserve represents the effective portion of the change in fair value related to cash flow and net investment hedges recognized in other comprehensive income, net of tax and reclassified to the consolidated statement of net earnings in the same period in which the transaction associated with the hedged item occurs. For the nine months ended September 30, 2021, accumulated losses of \$3.7 million and \$1.2 million were recognized in the consolidated statement of net earnings on the cash flow hedges and net investment hedges, respectively, and will be recognized in net earnings through 2025 when the senior unsecured notes mature.

Deficit

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

Notes to the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2021 and 2020

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

1. Basis of presentation

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

These condensed consolidated interim financial statements are in compliance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting”. These condensed consolidated interim financial statements have been prepared using the same accounting policies and methods of computation as Vermilion’s consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion’s consolidated financial statements for the year ended December 31, 2020, which are contained within Vermilion’s Annual Report for the year ended December 31, 2020 and are available on SEDAR at www.sedar.com or on Vermilion’s website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on November 9, 2021.

2. Segmented information

	Three Months Ended September 30, 2021								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Drilling and development	29,660	5,519	8,796	2,663	3,187	918	6,073	6,357	63,173
Exploration and evaluation	—	—	90	126	131	—	—	2,930	3,277
Crude oil and condensate sales	158,844	28,441	79,817	809	8,285	—	44,044	—	320,240
NGL sales	21,664	4,726	—	—	—	—	—	—	26,390
Natural gas sales	48,011	2,707	—	68,438	24,658	47,817	—	269	191,900
Sales of purchased commodities	—	—	—	—	—	—	—	35,540	35,540
Royalties	(27,812)	(9,632)	(11,089)	(229)	(616)	—	—	(57)	(49,435)
Revenue from external customers	200,707	26,242	68,728	69,018	32,327	47,817	44,044	35,752	524,635
Purchased commodities	—	—	—	—	—	—	—	(35,540)	(35,540)
Transportation	(9,526)	(559)	(6,400)	—	(1,708)	(1,080)	—	—	(19,273)
Operating	(53,076)	(4,758)	(13,523)	(8,514)	(6,717)	(2,968)	(14,684)	(115)	(104,355)
General and administration	(4,735)	(1,351)	(2,917)	(155)	(1,163)	(306)	(875)	(839)	(12,341)
PRRT	—	—	—	—	—	—	(7,271)	—	(7,271)
Corporate income taxes	—	—	12,403	(10,624)	—	—	(89)	(276)	1,414
Interest expense	—	—	—	—	—	—	—	(18,699)	(18,699)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(72,579)	(72,579)
Realized foreign exchange gain	—	—	—	—	—	—	—	2,921	2,921
Realized other income	—	—	—	—	—	—	—	3,784	3,784
Fund flows from operations	133,370	19,574	58,291	49,725	22,739	43,463	21,125	(85,591)	262,696

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

	Nine Months Ended September 30, 2021								
	Canada	USA	France	Netherlands	Germany	Ireland	Australia	Corporate	Total
Total assets	2,465,914	549,544	729,967	222,391	340,784	441,573	229,155	770,305	5,749,633
Drilling and development	104,191	28,948	24,566	14,535	8,608	1,156	26,030	12,354	220,388
Exploration and evaluation	—	—	112	70	816	—	—	7,603	8,601
Crude oil and condensate sales	444,677	56,597	199,454	1,729	20,461	23	102,682	—	825,623
NGL sales	57,120	10,744	—	—	—	—	—	—	67,864
Natural gas sales	129,378	10,620	—	128,624	45,851	105,050	—	836	420,359
Sales of purchased commodities	—	—	—	—	—	—	—	109,155	109,155
Royalties	(76,587)	(20,692)	(27,492)	(454)	(1,938)	—	—	(174)	(127,337)
Revenue from external customers	554,588	57,269	171,962	129,899	64,374	105,073	102,682	109,817	1,295,664
Purchased commodities	—	—	—	—	—	—	—	(109,155)	(109,155)
Transportation	(29,630)	(1,023)	(19,923)	—	(4,283)	(3,269)	—	—	(58,128)
Operating	(160,683)	(12,262)	(37,905)	(23,820)	(19,826)	(10,782)	(34,830)	(225)	(300,333)
General and administration	(15,147)	(2,974)	(8,547)	(532)	(3,744)	381	(2,354)	(2,586)	(35,503)
PRRT	—	—	—	—	—	—	(10,144)	—	(10,144)
Corporate income taxes	—	—	12,402	(12,986)	—	—	3,341	(689)	2,068
Interest expense	—	—	—	—	—	—	—	(56,796)	(56,796)
Realized loss on derivative instruments	—	—	—	—	—	—	—	(137,786)	(137,786)
Realized foreign exchange loss	—	—	—	—	—	—	—	(4,218)	(4,218)
Realized other income	—	—	—	—	—	—	—	12,020	12,020
Fund flows from operations	349,128	41,010	117,989	92,561	36,521	91,403	58,695	(189,618)	597,689

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

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

	Three Months Ended		Nine Months Ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Fund flows from operations	262,696	114,776	597,689	366,853
Equity based compensation	(7,823)	(9,733)	(34,899)	(31,894)
Unrealized loss on derivative instruments	(279,393)	(39,637)	(353,359)	(34,092)
Unrealized foreign exchange (loss) gain	(27,877)	15,885	(72,085)	(1,507)
Accretion	(11,199)	(9,158)	(32,569)	(26,184)
Depletion and depreciation	(167,808)	(167,728)	(423,472)	(432,242)
Deferred tax recovery (expense)	62,245	73,653	(172,509)	382,321
Gain on business combinations	—	—	17,198	—
Impairment reversal (expense)	22,225	(47,777)	1,278,697	(1,682,344)
Unrealized other expense	(196)	(207)	(583)	(631)
Net (loss) earnings	(147,130)	(69,926)	804,108	(1,459,720)

3. Capital assets

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

	2021
Balance at January 1	3,107,104
Acquisitions	145,784
Additions	220,388
Increase in right-of-use assets	3,319
Impairment reversal	1,278,697
Depletion and depreciation	(407,510)
Changes in asset retirement obligations	399,083
Foreign exchange	(68,672)
Balance at September 30	4,678,193

In the third quarter of 2021, indicators of impairment reversal were present in our Ireland CGU due to increased European forecast gas prices. As a result of the indicators of impairment reversal, the Company performed impairment reversal calculations on the Ireland CGU and 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 12.0%. Based on the results of the impairment reversal calculations completed, the recoverable amount was determined to be greater than the carrying value and \$16.7 million (net of \$5.5 million deferred income tax expense) of impairment reversal was recorded.

In the second quarter of 2021, indicators of impairment reversal were present in our Alberta, Saskatchewan, Germany, Ireland and United States CGU due to an increase and stabilization in forecast oil and gas prices. As a result of the indicators of impairment reversal, the Company performed impairment reversal calculations on the identified CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 12.0%. Based on the results of the impairment reversal calculations completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and \$460.4 million (net of \$133.2 million deferred income tax expense) of impairment reversal was recorded. Inputs used in the measurement of capital assets are not based on observable market data and fall within level 3 of the fair value hierarchy.

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

	2H2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	73.25	69.55	66.42	67.75	69.11	70.49	71.90	73.34	74.80	76.30
WTI Crude (\$ US/bbl) ⁽¹⁾	71.00	66.30	62.42	63.67	64.95	66.25	67.57	68.92	70.30	71.71
NBP (€/mmbtu) ⁽¹⁾	9.17	7.19	5.53	5.65	5.75	5.87	5.99	6.11	6.23	6.35
Exchange rate (CAD/USD)	0.81	0.81	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80

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

(2) In 2031 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2031 and beyond there is no escalation of exchange rates.

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

Operating Segment	CGU	Impairment Reversal ⁽¹⁾	Recoverable Amount	1% increase in discount rate	5% decrease in pricing
Canada	Alberta	88,708	988,447	—	29,716
Canada	Saskatchewan	270,897	1,500,139	80,724	156,875
Ireland	Ireland	133,005	339,315	9,136	23,975
Germany	Germany - Gas	43,735	168,290	—	—
United States	United States	57,261	429,322	26,903	44,317
Total		593,606	3,425,513	116,763	254,883

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

In the first quarter of 2021, indicators of impairment reversal were present in our Australia, Alberta, Saskatchewan, and United States CGUs due to an increase and stabilization in forecast oil prices. As a result of the indicators of impairment reversal, the Company performed impairment reversal calculations on the identified CGUs and the recoverable amounts were determined using fair value less costs to sell, which considered future after-tax cash flows from proved plus probable reserves and an after-tax discount rate of 12.0%. Based on the results of the impairment reversal calculations completed, recoverable amounts were determined to be greater than the carrying values of the CGUs tested and \$492.2 million (net of \$170.7 million deferred income tax expense) of impairment reversal was recorded. Inputs used in the measurement of capital assets are not based on observable market data and fall within level 3 of the fair value hierarchy.

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

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030 ⁽²⁾
Brent Crude (\$ US/bbl) ⁽¹⁾	64.50	62.08	61.69	62.84	64.02	65.22	66.45	67.70	68.97	70.35
WTI Crude (\$ US/bbl) ⁽¹⁾	62.00	58.58	57.69	58.84	60.02	61.22	62.45	63.70	64.97	66.27
Exchange rate (CAD/USD)	0.80	0.79	0.78	0.78	0.78	0.78	0.78	0.78	0.78	0.78

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

(2) In 2031 and beyond, commodity price forecasts are inflated at a rate of 2.0% per annum. In 2031 and beyond there is no escalation of exchange rates.

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

Operating Segment	CGU	Impairment Reversal ⁽¹⁾	Recoverable Amount	1% increase in discount rate	5% decrease in pricing
Australia	Australia	82,016	189,749	6,921	19,756
Canada	Alberta	232,724	859,706	46,223	81,212
Canada	Saskatchewan	290,241	1,206,343	69,104	143,281
United States	United States	57,885	364,242	24,180	41,345
Total		662,866	2,620,040	146,428	285,594

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

Assets in Wyoming

In July 2021, Vermilion acquired mineral leasehold land and oil and gas producing assets from a private oil company for total cash consideration of \$92.0 million. The assets are located in the Powder River Basin and are adjacent to Vermilion's Hilight assets within the USBU cash generating unit ("CGU"). The acquired assets complement Vermilion's existing Powder River operations and were funded through Vermilion's revolving credit facility. Vermilion applied the optional concentration test under IFRS 3 *Business Combinations* which resulted in the purchase being accounted for as an asset acquisition.

Minor Acquisition

In the second quarter of 2021, Vermilion completed an acquisition within its Germany Gas CGU for total consideration of \$11.6 million, in which \$49.2 million in capital assets, \$12.4 million in asset retirement obligations, and \$7.9 million in deferred tax liabilities were recognized. The acquisition resulted in a gain on acquisition of \$17.2 million which was due to increases in commodity prices from the effective date to close and was accounted for as a business combination under IFRS 3.

4. Asset retirement obligations

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

	2021
Balance at January 1	467,737
Additional obligations recognized	15,144
Changes in estimated abandonment timing and costs	726
Obligations settled	(15,486)
Accretion	32,569
Changes in discount rates	396,577
Foreign exchange	(20,318)
Balance at September 30	876,949

Vermilion calculated the present value of the obligations using a credit-adjusted risk-free rate, calculated using a credit spread of 4.3% as at September 30, 2021 (December 31, 2020 - 9.5%) added to risk-free rates based on long-term, risk-free government bonds. Vermilion's credit spread is determined as the yield to maturity on its senior unsecured notes as at the reporting period.

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

	Sep 30, 2021	Dec 31, 2020
Canada	2.0 %	1.2 %
United States	2.0 %	1.6 %
France	0.8 %	0.3 %
Netherlands	(0.4)%	(0.6)%
Germany	0.2 %	(0.2)%
Ireland	0.5 %	(0.1)%
Australia	1.7 %	1.3 %

5. Capital disclosures

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

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

	Sep 30, 2021	Dec 31, 2020 (revised)
Long-term debt	1,760,342	1,933,848
Adjusted net working capital deficiency ⁽¹⁾	41,168	35,258
Unrealized foreign exchange on swapped USD borrowings	(23,458)	40,219
Net debt	1,778,052	2,009,325
Ratio of net debt to four quarter trailing fund flows from operations	2.43	4.00

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

In Q3 2021, the Company adjusted the calculation for net debt in order to provide more meaningful and comparable information to users. The revised definition for net debt excludes net current derivatives, current lease liabilities, and unrealized foreign exchange effects on USD borrowings under the revolving credit facility.

6. Long-term debt

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

	As at	
	Sep 30, 2021	Dec 31, 2020
Revolving credit facility	1,383,946	1,555,215
Senior unsecured notes	376,396	378,633
Long-term debt	1,760,342	1,933,848

The fair value of the revolving credit facility is equal to its carrying value due to the use of short-term borrowing instruments at market rates of interest. The fair value of the senior unsecured notes as at September 30, 2021 was \$383.8 million (December 31, 2020 - \$329.1 million).

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

	2021
Balance at January 1	1,933,848
(Repayments) borrowings on the revolving credit facility	(238,137)
Amortization of transaction costs	583
Foreign exchange	64,048
Balance at September 30	1,760,342

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.

As at September 30, 2021, Vermilion had in place a bank revolving credit facility maturing May 31, 2024 with the following terms:

	As at	
	Sep 30, 2021	Dec 31, 2020
Total facility amount	2,100,000	2,100,000
Amount drawn	(1,383,946)	(1,555,215)
Letters of credit outstanding	(16,022)	(23,210)
Unutilized capacity	700,032	521,575

The facility can be extended from time to time at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion.

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

As at September 30, 2021, the revolving credit facility was subject to the following financial covenants:

Financial covenant	Limit	As at	
		Sep 30, 2021	Dec 31, 2020
Consolidated total debt to consolidated EBITDA	Less than 4.0	2.20	3.48
Consolidated total senior debt to consolidated EBITDA	Less than 3.5	1.72	2.82
Consolidated EBITDA to consolidated interest expense	Greater than 2.5	11.00	8.12

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

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

In addition, our revolving credit facility has provisions relating to our liability management ratings in Alberta and Saskatchewan whereby if our security adjusted liability management ratings fall below specified limits in a province, a portion of the asset retirement obligations are included in the definitions of consolidated total debt and consolidated total senior debt. An event of default occurs if our security adjusted liability management ratings breach additional lower limits for a period greater than 90 days. As of September 30, 2021, Vermilion's liability management ratings were higher than the specified levels, and as such, no amounts relating to asset retirement obligations were included in the calculation of consolidated total debt and consolidated total senior debt.

As at September 30, 2021 and December 31, 2020, Vermilion was in compliance with the above covenants.

Senior unsecured notes

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

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

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

Year	Redemption price
2021	102.813 %
2022	101.406 %
2023 and thereafter	100.000 %

7. Shareholders' capital

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

Shareholders' Capital	2021	
	Shares ('000s)	Amount
Balance at January 1	158,724	4,181,160
Vesting of equity based awards	2,132	45,051
Shares issued for equity based compensation	911	8,364
Share-settled dividends on vested equity based awards	218	1,926
Balance at September 30	161,985	4,236,501

8. Financial instruments

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

	Sep 30, 2021
Currency risk - Euro to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the Euro	(705)
\$0.01 decrease in strength of the Canadian dollar against the Euro	705
Currency risk - US dollar to Canadian dollar	
\$0.01 increase in strength of the Canadian dollar against the US \$	2,805
\$0.01 decrease in strength of the Canadian dollar against the US \$	(2,805)
Commodity price risk - Crude oil	
US \$5.00/bbl increase in crude oil price used to determine the fair value of derivatives	(8,013)
US \$5.00/bbl decrease in crude oil price used to determine the fair value of derivatives	2,941
Commodity price risk - European natural gas	
€0.5/GJ increase in European natural gas price used to determine the fair value of derivatives	(15,038)
€0.5/GJ decrease in European natural gas price used to determine the fair value of derivatives	14,926
Share price risk - Equity swaps	
\$1.00 increase from initial share price of the equity swap	3,750
\$1.00 decrease from initial share price of the equity swap	(3,750)

DIRECTORS

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Calgary, Alberta

Larry J. Macdonald^{2, 4, 8, 10}
Calgary, Alberta

James J. Kleckner Jr.^{8, 10}
Edwards, Colorado

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Judy Steele^{6, 12}
Halifax, Nova Scotia

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 / CORPORATE SECRETARY

Lorenzo Donadeo*
Executive Chairman

Curtis Hicks*
President (to December 31, 2021)

Dion Hatcher*
Vice President North America / President (effective January 1, 2022)

Lars Glemser*
Vice President & Chief Financial Officer

Terry Hergott
Vice President Marketing

Yvonne Jeffery
Vice President Sustainability

Darcy Kerwin*
Vice President International & HSE

Bryce Kremnica*
Vice President North America

Geoff MacDonald
Vice President Geosciences

Kyle Preston
Vice President Investor Relations

Averyl Schraven
Vice President People and Culture

Jenson Tan*
Vice President Business Development

Gerard Schut*
Vice President European Operations

Robert (Bob) J. Engbloom
Corporate Secretary

* Executive Committee

AUDITORS

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

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

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