VERMILION ENERGY

Vermilion Energy Inc.

# 2014 First Quarter Management's Discussion & Analysis

DEFINED PRODUCTION GROWTH
RELIABLE & GROWING DIVIDENDS

**DISCLAIMER**

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

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

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

All oil and natural gas reserve information contained in this document has been prepared and presented in accordance with National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. The actual oil and natural gas reserves and future production will be greater than or less than the estimates provided in this document. The estimated future net revenue from the production of oil and natural gas reserves does not represent the fair market value of these reserves. Natural gas volumes have been converted on the basis of six thousand cubic feet of natural gas to one barrel of oil equivalent. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. A boe conversion ratio of six thousand cubic feet to one barrel of oil is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is Management's Discussion and Analysis ("MD&A"), dated May 1, 2014, of Vermilion Energy Inc.'s ("Vermilion" or the "Company") operating and financial results as at and for the three months ended March 31, 2014 compared with the corresponding period in the prior year.

This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2014 and the audited consolidated financial statements for the year ended December 31, 2013 and 2012, together with 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 months ended March 31, 2014 and comparative information have been prepared in Canadian dollars, except where another currency is indicated, and in accordance with IAS 34, "Interim financial reporting", as issued by the International Accounting Standard Board.

This MD&A includes references to certain financial measures which do not have standardized meanings prescribed by International Financial Reporting Standards ("IFRS"). As such, these financial measures are considered additional GAAP or non-GAAP financial measures and therefore are unlikely to be comparable with similar financial measures presented by other issuers. These additional GAAP and non-GAAP financial measures include:

- Fund flows from operations: This additional GAAP financial measure is calculated as cash flows from operating activities before changes in non-cash operating working capital and asset retirement obligations settled. 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 cash necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments
- Netbacks: These non-GAAP financial measures are per boe and per mcf 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 third party crude oil and natural gas producers.

For a full description of these and other non-GAAP financial measures and a reconciliation of these measures to their most directly comparable GAAP measures, please refer to "ADDITIONAL AND NON-GAAP FINANCIAL MEASURES".

### VERMILION'S BUSINESS

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

This MD&A separately discusses each of our business units in addition to our corporate segment.

- Canada business unit: Relates to our producing assets in Alberta.
- France business unit: Relates to our operations in France in the Paris and Aquitaine Basins.
- Netherlands business unit: Relates to our operations in the Netherlands.
- Germany business unit: Relates to our 25% contractual participation interest in a four-partner consortium in Germany.
- Ireland business unit: Relates to our 18.5% non-operated interest in the offshore Corrib natural gas field.
- Australia business unit: Relates to our operations in the Wandoo offshore crude oil field.
- Corporate: Includes expenditures related to our global hedging program, financing expenses, and general and administration expenses, primarily incurred in Canada and not directly related to the operations of a specific business unit.

Prior to December 31, 2013, Vermilion combined the operating and financial results of the Canada business unit and the Corporate segment and presented the combined results as Canada.

## CORPORATE ACQUISITION

On March 18, 2014, we announced that we had entered into an arrangement agreement to acquire Elkhorn Resources Inc., a private southeast Saskatchewan producer. On April 29, 2014, we announced completion of the acquisition for total consideration of $427 million. Total consideration comprised the assumption of an estimated $42 million of debt, $180 million of cash, and the issuance of 2.8 million common shares of Vermilion valued at approximately $205 million (based on the closing price per Vermilion common share of $72.50 on the Toronto Stock Exchange on April 29, 2014).

The acquired assets include approximately 57,000 net acres of land (approximately 80% undeveloped), seven oil batteries, and preferential access to 50% or greater capacity at a solution gas facility that is currently under construction. Production from the assets is primarily high netback, low base decline, light oil from the Northgate region of southeast Saskatchewan and is projected to be approximately 3,750 boe/d (97% crude oil) during 2014. More than 90% of the current production base is operated by Vermilion.

Total proved ("1P") and proved plus probable ("2P") reserves attributed to the assets at February 28, 2014 are 10.3[(1)] mmboe (81% crude oil and natural gas liquids) and 16.5[(1)] mmboe (81% crude oil and natural gas liquids), respectively, based on an independent evaluation by GLJ Petroleum Consultants Ltd. We have currently identified approximately 175 (152 net) potential drilling locations targeting the Midale, Frobisher, Bakken, and Three Forks/Torquay formations. Approximately 45% of the locations remain unbooked and are not reflected in the GLJ Report. The majority of production and development drilling opportunities are from the Midale formation, with additional opportunities identified in the Frobisher, Bakken and Three Forks/Torquay formations.

(1) Estimated total proved and proved plus probable reserves attributable to the assets as evaluated by GLJ Petroleum Consultants Ltd. ("GLJ") in a report dated March 17, 2014 with an effective date of February 28, 2014, in accordance with National Instrument 51-101 - Standards for Disclosure for Oil and Gas Activities of the Canadian Securities Administrators, using the GLJ (2014-01) price forecast (the "GLJ Report")

## GUIDANCE

We first issued 2014 capital expenditure guidance of $555 million on November 7, 2013. We subsequently increased our 2014 capital expenditure guidance to $590 million on March 18, 2014, to reflect an additional $35 million of 2014 development capital expected to be incurred in association with our acquisition of Elkhorn Resources Inc. Concurrent with the release of our first quarter 2014 financial and operating results on May 2, 2014, we are further updating our 2014 capital expenditure guidance to $635 million, an increase of $45 million from prior guidance. The increase largely reflects the expected full-year rise in the cost to Vermilion, in Canadian dollar terms, of both actual and anticipated international capital expenditures as a result of the continued devaluation of the Canadian dollar against both the U.S. dollar and the Euro. It further reflects the addition of approximately $15 million of anticipated spending associated with drilling activities.

With the strength of operations during the first quarter of 2014, we are also increasing our original production guidance of 47,500-48,500 boe/d to revised guidance of 48,000-49,000 boe/d.

The following table summarizes our 2014 guidance:

| | Date | Capital Expenditures ($MM) | Production (boe/d) |
|---|---|---|---|
| 2014 Guidance | November 7, 2013 | 555 | 45,000 to 46,000 |
| 2014 Guidance - Update | March 18, 2014 | 590 | 47,500 to 48,500 |
| 2014 Guidance - Update | May 2, 2014 | 635 | 48,000 to 49,000 |

## SHAREHOLDER RETURN

Vermilion strives to provide investors with reliable and growing dividends in addition to sustainable, global production growth. The following table, as of March 31, 2014, reflects our trailing one, three, and five year performance:

| Total return (1) | Trailing One Year | Trailing Three Year | Trailing Five Year |
|---|---|---|---|
| Dividends per Vermilion share | $2.45 | $7.04 | $11.60 |
| Capital appreciation per Vermilion share | $16.45 | $18.52 | $42.15 |
| Total return per Vermilion share | 35.9% | 50.6% | 199.8% |
| Annualized total return per Vermilion share | 35.9% | 14.6% | 24.6% |
| Annualized total return on the S&P TSX High Income Energy Index | 19.8% | (5.1%) | 8.9% |

(1) The above table includes non-GAAP financial measures which may not be comparable to other companies. Please see the "ADDITIONAL AND NON-GAAP FINANCIAL MEASURES" section of this MD&A.

## CONSOLIDATED RESULTS OVERVIEW

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| **Production** | | | | | |
| Crude oil (bbls/d) | **27,318** | 26,039 | 23,583 | 5% | 16% |
| NGLs (bbls/d) | **2,140** | 1,761 | 1,431 | 22% | 50% |
| Natural gas (mmcf/d) | **103.32** | 78.96 | 82.16 | 31% | 26% |
| Total (boe/d) | **46,677** | 40,960 | 38,707 | 14% | 21% |
| Build (draw) in inventory (bbl) | **(97,843)** | (10,192) | (239,162) | | |
| **Financial metrics** | | | | | |
| Fund flows from operations ($M) | **205,363** | 163,660 | 163,629 | 25% | 26% |
| Per share ($/basic share) | **2.01** | 1.61 | 1.65 | 25% | 22% |
| Net earnings ($M) | **102,788** | 101,510 | 52,137 | 1% | 97% |
| Per share ($/basic share) | **1.00** | 1.00 | 0.53 | - | 89% |
| Cash flows from operating activities ($M) | **178,238** | 177,003 | 190,712 | 1% | (7%) |
| Net debt ($M) | **966,310** | 749,685 | 744,762 | 29% | 30% |
| Cash dividends ($/share) | **0.645** | 0.600 | 0.600 | 8% | 8% |
| **Activity** | | | | | |
| Capital expenditures ($M) | **196,375** | 148,478 | 180,469 | 32% | 9% |
| Acquisitions ($M) | **178,227** | 29,103 | - | 512% | 100% |
| Gross wells drilled | **24.00** | 21.00 | 28.00 | | |
| Net wells drilled | **18.83** | 16.65 | 26.50 | | |

### Operational review

- Recorded average production of 46,677 boe/d during Q1 2014, a 14% increase as compared to Q4 2013 and a 21% increase as compared to Q1 2013. The growth quarter-over-quarter and year-over-year was largely the result of production growth in both Canada and the Netherlands. In Canada, production growth of 14% quarter-over-quarter (including a 22% growth in NGL production) and 22% year-over-year (including a 55% growth in NGL production) was achieved through continued development of the Cardium and Mannville plays in Canada. In the Netherlands, production increased to 7,260 boe/d resulting from incremental production from our acquisition in the Netherlands in Q4 2013 and increased volumes following completion of the Middenmeer Treatment Centre retrofit in the latter part of 2013. In addition, we grew production in Australia to 7,110 boe/d, a 15% quarter-over-quarter increase and a 34% year-over-year increase and added 1,773 boe/d of incremental volumes from our acquisition in Germany, which closed in February of 2014. On a year-over-year basis, these increases were partially offset by a 3% decrease in production in France, largely the result of the temporary shut-in of natural gas production.
- Activity during the quarter included capital expenditures of $196.4 million, the majority of which, $114.9 million, was incurred in Canada primarily relating to the drilling of 15.0 net wells in the Cardium and Mannville. The remaining capital expenditures were incurred in drilling two net wells in France, 1.9 net wells in the Netherlands, and ongoing tunnelling and facilities activities in Ireland.
- Acquisitions totalling $178.2 million was largely related to our acquisition in Germany, which closed in February of 2014, for total cash consideration of $172.9 million.

### Financial review

*Net earnings*

- Net earnings for Q1 2014 were $102.8 million ($1.00/basic share) as compared to net earnings in Q4 2013 of $101.5 million ($1.00/basic share). Net earnings remained consistent quarter-over-quarter despite increased sales volumes, favorable foreign exchange and favorable Canadian commodity pricing, due to the impact of an impairment recovery recorded in Q4 2013.
- Net earnings for Q1 2014 increased by 97% (89% on a per basic share basis) as compared to Q1 2013 due primarily to increased sales driven by production growth in most of our operating regions, foreign exchange impacts, and stronger pricing for Canadian crude oil and natural gas. The increases included a $22.0 million unrealized foreign exchange gain due to the Euro continuing to strengthen versus the Canadian dollar and the resulting impact on our Euro denominated financial assets.

*Cash flows from operating activities*

- Increased cash flow from operating activities by approximately 29% quarter-over-quarter and 30% year-over year as a result of increased sales volumes and favorable Canadian dollar commodity prices. On a year-over-year basis, these favorable variances were partially offset by timing differences pertaining to working capital.

*Fund flows from operations*

- Generated fund flows from operations of $205.4 million ($2.01/basic share) during Q1 2014, an increase of 25% quarter-over-quarter and 26% year-over-year. The increase in fund flows from operations resulted from increased production in the majority of our producing regions, strong pricing for Canadian crude oil and natural gas, and the favorable impacts of the weakening Canadian dollar versus the US dollar and the Euro.

*Net debt*

- Maintained a strong balance sheet with closing net debt of $966.3 million, representing 1.2 times annualized fund flows from operations. The increase in net debt versus the comparative periods was largely driven by the aforementioned acquisition in Germany coupled with current year development capital expenditures in Ireland.

*Dividends*

- Declared dividends of $0.215 per common share per month during 2014, totalling $0.645 per common share over the quarter, an increase of 8% versus Q4 and Q1 2013.

**COMMODITY PRICES**

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| **Average reference prices** | | | | | |
| WTI (US $/bbl) | **98.68** | 97.46 | 94.37 | 1% | 5% |
| Edmonton Sweet index (US $/bbl) | **90.43** | 82.53 | 87.42 | 10% | 3% |
| Dated Brent (US $/bbl) | **108.22** | 109.27 | 112.55 | (1%) | (4%) |
| AECO ($/GJ) | **5.42** | 3.35 | 3.03 | 62% | 79% |
| TTF ($/GJ) | **10.19** | 10.65 | 10.40 | (4%) | (2%) |
| TTF (€/GJ) | **6.75** | 7.45 | 7.81 | (9%) | (14%) |
| **Average foreign currency exchange rates** | | | | | |
| CDN $/US $ | **1.10** | 1.05 | 1.01 | 5% | 9% |
| CDN $/Euro | **1.51** | 1.43 | 1.33 | 6% | 14% |
| **Average realized prices ($/boe)** | | | | | |
| Canada | **69.26** | 61.10 | 57.61 | 13% | 20% |
| France | **117.54** | 112.84 | 107.17 | 4% | 10% |
| Netherlands | **63.60** | 67.88 | 61.21 | (6%) | 4% |
| Germany | **55.85** | - | - | 100% | 100% |
| Australia | **127.26** | 124.63 | 120.76 | 2% | 5% |
| Consolidated | **88.67** | 86.04 | 83.04 | 3% | 7% |
| **Production mix (% of production)** | | | | | |
| % priced with reference to WTI | **25%** | 25% | 24% | | |
| % priced with reference to AECO | **17%** | 17% | 18% | | |
| % priced with reference to TTF | **19%** | 15% | 18% | | |
| % priced with reference to Dated Brent | **39%** | 43% | 40% | | |

**Reference prices**

- For Q1 2014, both Dated Brent and WTI were largely unchanged from Q4 2013, with Dated Brent averaging US$108.22/bbl (down 1% quarter-over-quarter) and WTI averaging US$98.68/bbl, up 1% over Q4 2013. While a relatively tight fundamental balance and the emergence of geopolitical unrest in Ukraine helped support oil prices throughout the quarter, weather factors along with concerns of weaker emerging market demand growth and more restrictive central bank policies kept upside price advances limited.
- Edmonton Sweet averaged US$90.43/bbl in Q1 2014, up 10% from the previous quarter and 3% higher than the same quarter last year. Favourable market conditions including stronger US Midwest refining demand, pipeline takeaway capacity improvements, and growing crude-by-rail helped lift Edmonton prices and tighten the differential to WTI.
- AECO natural gas averaged $5.42/GJ in Q1 2014, which was 62% higher than Q4 2013 and 79% increase over the same quarter last year. During Q1 2014, there was a significant increase in weather driven demand for heating fuel that led gas-in-storage to decline dramatically and a tighter supply/demand balance.
- Conversely, Q1 2014 saw TTF prices average 6.75 €/GJ, or 9% lower than Q4 2013 and 14% below the same period last year. Warmer-than-normal winter weather decreased demand and caused gas-in-storage levels to remain elevated. However, geopolitical tensions between Russia and Ukraine limited the downside as Ukraine is still a major conduit for Russian natural gas exports to Europe.
- Canadian dollar weakness relative to both the US dollar and the Euro in Q1 2014 was largely on the back of an accommodative Bank of Canada monetary policy, weaker-than-expected Canadian economic data and shrinking capital inflow. However, stronger US dollar buying interest due in part to reduced asset purchases by the US Fed, and reduced peripheral sovereign risk concerns in Europe also contributed to the Q1 Canadian dollar weakness versus the US dollar and the Euro.

**Realized prices**

- Consolidated realized price increased by 3% for Q1 2014 as compared to Q4 2013 primarily as a result of stronger Canadian crude oil and natural gas pricing and the weakness of the Canadian dollar versus the US dollar. These increases were partially offset by a 4% decrease in Canadian dollar TTF pricing quarter-over-quarter and an increased weighting towards TTF priced production due to production growth in the Netherlands and incremental production from our acquisition of working interests in Germany.
- Consolidated realized price increased by 7% for Q1 2014 as compared to Q1 2013 primarily resulting from increased AECO pricing coupled with the impact of the weakening Canadian dollar on US dollar and Euro denominated commodities.

**FUND FLOWS FROM OPERATIONS**

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | Mar 31, 2014 | | Dec 31, 2013 | | Mar 31, 2013 | |
| | $M | $/boe | $M | $/boe | $M | $/boe |
| Petroleum and natural gas sales | **381,183** | **88.67** | 325,108 | 86.04 | 309,576 | 83.04 |
| Royalties | **(24,024)** | **(5.59)** | (17,616) | (4.66) | (15,790) | (4.24) |
| Petroleum and natural gas revenues | **357,159** | **83.08** | 307,492 | 81.38 | 293,786 | 78.80 |
| Transportation expense | **(9,861)** | **(2.29)** | (9,081) | (2.40) | (6,641) | (1.78) |
| Operating expense | **(57,986)** | **(13.49)** | (48,140) | (12.74) | (52,575) | (14.10) |
| General and administration | **(14,467)** | **(3.37)** | (13,954) | (3.69) | (12,610) | (3.38) |
| Corporate income taxes | **(38,603)** | **(8.98)** | (43,065) | (11.40) | (35,557) | (9.54) |
| PRRT | **(20,239)** | **(4.71)** | (17,173) | (4.55) | (11,153) | (2.99) |
| Interest expense | **(11,460)** | **(2.67)** | (10,049) | (2.66) | (8,689) | (2.33) |
| Realized gain (loss) on derivative instruments | **2,640** | **0.61** | (1,300) | (0.34) | (2,787) | (0.75) |
| Realized foreign exchange loss | **(2,041)** | **(0.47)** | (1,294) | (0.34) | (617) | (0.17) |
| Realized other income | **221** | **0.05** | 224 | 0.06 | 472 | 0.13 |
| Fund flows from operations | **205,363** | **47.76** | 163,660 | 43.32 | 163,629 | 43.89 |

The following table shows a reconciliation of the change in fund flows from operations:

| **($M)** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
|---|---|---|
| **Fund flows from operations – Comparative period** | **163,660** | **163,629** |
| Sales volume variance: | | |
| Canada | 9,111 | 19,472 |
| France | 2,101 | (12,007) |
| Netherlands | 4,886 | 5,399 |
| Germany | 8,915 | 8,915 |
| Australia | 10,581 | 15,477 |
| Pricing variance on sold volumes: | | |
| WTI | 8,679 | 10,347 |
| AECO | 8,024 | 9,673 |
| Dated Brent | 6,560 | 12,597 |
| TTF | (2,782) | 1,734 |
| Changes in: | | |
| Realized derivatives | 3,940 | 5,427 |
| Royalties | (6,408) | (8,234) |
| Operating expense | (9,846) | (5,411) |
| Transportation | (780) | (3,220) |
| Interest | (1,411) | (2,771) |
| General and administration | (513) | (1,857) |
| Realized other income | (3) | (251) |
| Realized foreign exchange | (747) | (1,424) |
| Corporate income taxes | 4,462 | (3,046) |
| PRRT | (3,066) | (9,086) |
| **Fund flows from operations – Current Period** | **205,363** | **205,363** |

Fund flows from operations for Q1 2014 was approximately 25% ($41.7 million) higher than Q4 2013. This increase was driven by a $35.6 million positive sales volume variance coupled with a $20.5 million positive pricing variance, partially offset by a $14.4 million increase in expenditures following higher levels of operational activity. The $35.6 million sales volume variance was primarily driven by production growth in Canada, the Netherlands, and Australia and incremental production from our Germany acquisition. The $14.4 million pricing variance was largely driven by strong Canadian crude oil and natural gas pricing and favorable foreign exchange impacts on US dollar priced crude oil but was partially offset by lower TTF pricing as a result of warmer winter weather in Europe.

Fund flows from operations for Q1 2014 was approximately 26% ($41.7 million) higher than Q1 2013. This increase was driven by a $37.3 million positive sales volume variance coupled with a $34.4 million positive pricing variance, partially offset by a $30.0 million increase in expenditures following higher levels of operational activity. The $37.3 million sales volume variance was primarily driven by increased production in Canada, the Netherlands, and Australia in addition to incremental production from our Germany acquisition. These increases were partially offset by an unfavorable $12.0 million sales volume variance in France resulting from an approximately 71,000 bbl decrease in volumes sold due to the timing of inventory movements and a $4.2 million sales volume variance resulting from the temporary shut-in of natural gas production. The $34.4 million pricing variance was driven by increases in all Canadian dollar translated reference prices, including a 79% increase in AECO pricing which contributed a $9.7 million price variance.

Fluctuations in fund flows from operations (and correspondingly net earnings and cash flows from operating activities) may occur as a result of changes in commodity prices and costs to produce petroleum and natural gas. In addition, fund flows from operations may be highly 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 our balance sheet. When the crude oil inventory is subsequently drawn down, the related expenses are recognized in fund flows from operations.

## CANADA BUSINESS UNIT

### Overview

- Production and assets focused in Alberta at West Pembina near Drayton Valley, Slave Lake and Central Alberta.
- Potential for three significant resource plays sharing the same surface infrastructure in the West Pembina region:
  - Cardium light oil (1,800m depth) – in development phase
  - Mannville condensate-rich gas (2,400 – 2,700m depth) – in development phase
  - Duvernay condensate-rich gas (3,400m depth) – in appraisal phase
- Canadian cash flows are fully tax-sheltered for the foreseeable future.

### Operational review

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| **Canada business unit** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| **Production** | | | | | |
| Crude oil (bbls/d) | **9,437** | 8,719 | 7,966 | 8% | 18% |
| NGLs (bbls/d) | **2,071** | 1,699 | 1,335 | 22% | 55% |
| Natural gas (mmcf/d) | **49.53** | 41.43 | 41.04 | 20% | 21% |
| Total (boe/d) | **19,763** | 17,322 | 16,140 | 14% | 22% |
| **Production mix (% of total)** | | | | | |
| Crude oil | **48%** | 50% | 49% | | |
| NGLs | **10%** | 10% | 8% | | |
| Natural gas | **42%** | 40% | 43% | | |
| **Activity** | | | | | |
| Capital expenditures ($M) | **114,939** | 77,245 | 92,129 | 49% | 25% |
| Acquisitions ($M) | **4,768** | 1,603 | - | | |
| Gross wells drilled | **20.00** | 21.00 | 24.00 | | |
| Net wells drilled | **14.97** | 16.65 | 22.50 | | |

### Production

- Production in Canada increased by 14% quarter-over-quarter and by 22% year-over-year.
- Year-over-year increase was largely attributable to strong production from our Mannville program and continued development in the Cardium.
- Cardium production averaged more than 10,400 boe/d in Q1 2014 and reached a record monthly high of nearly 11,300 boe/d in March.
- Mannville production averaged more than 3,000 boe/d in Q1 2014.

**Activity review**

- Vermilion drilled 20 (15.0 net) wells during Q1 2014.

*Cardium*

- In the Cardium, we drilled 11 (10.5 net) operated wells and brought 13 (13 net) operated wells on production during Q1 2014. Ten of the 13 wells that came on production in Q1 2014 were long reach wells.
- Since 2009, we have drilled or participated in 252 (181.9 net) wells in the Cardium.
- Operating netbacks averaged more than $70/boe in Q1 2014 for Cardium related production.
- In 2014, we plan to drill or participate in 36 (30.3 net) Cardium wells.

*Mannville*

- During Q1 2014, in the Mannville, we drilled five (3.7 net) operated wells and brought three (2.2 net) operated wells on production.
- In 2014, we plan to drill eight (5.7 net) Mannville wells.
- Operating netbacks averaged more than $40/boe in Q1 2014 for Mannville related production.

*Duvernay*

- We have begun drilling two (1.4 net) horizontal Duvernay wells, with completion of the wells anticipated for Q3 2014.

**Financial review**

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| **Canada business unit ($M except as indicated)** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| Sales | **123,180** | 97,367 | 83,688 | 27% | 47% |
| Royalties | **(12,663)** | (11,039) | (8,989) | 15% | 41% |
| Transportation expense | **(3,098)** | (4,102) | (2,269) | (24%) | 37% |
| Operating expense | **(16,610)** | (13,218) | (13,841) | 26% | 20% |
| General and administration | **(2,868)** | (2,478) | (3,069) | 16% | (7%) |
| Fund flows from operations | **87,941** | 66,530 | 55,520 | 32% | 58% |
| **Netbacks ($/boe)** | | | | | |
| Sales | **69.26** | 61.10 | 57.61 | 13% | 20% |
| Royalties | **(7.12)** | (6.93) | (6.19) | 3% | 15% |
| Transportation expense | **(1.74)** | (2.57) | (1.56) | (32%) | 12% |
| Operating expense | **(9.34)** | (8.29) | (9.53) | 13% | (2%) |
| General and administration | **(1.61)** | (1.60) | (2.11) | 1% | (24%) |
| Fund flows from operations netback | **49.45** | 41.71 | 38.22 | 19% | 29% |
| **Reference prices** | | | | | |
| WTI (US $/bbl) | **98.68** | 97.46 | 94.37 | 1% | 5% |
| Edmonton Sweet index (US $/bbl) | **90.43** | 82.53 | 87.42 | 10% | 3% |
| AECO ($/GJ) | **5.42** | 3.35 | 3.03 | 62% | 79% |

**Sales**

- The realized price for our crude oil production in Canada is directly linked to WTI but is subject to market conditions in Western Canada. These market conditions can result in fluctuations in the pricing differential, as reflected by the Edmonton Sweet index price. The realized price of our NGLs in Canada is based on product specific differentials pertaining to trading hubs in the United States. The realized price of our natural gas in Canada is based on the AECO spot price in Canada.
- Sales per boe increased by 13% quarter-over-quarter and 20% year-over-year as a result of significantly increased AECO pricing (62% quarter-over-quarter and 79% year-over-year) coupled with stronger Edmonton Sweet index pricing.
- The increase in commodity prices coupled with production growth in the Cardium and Mannville resource plays resulted in quarter-over-quarter and year-over-year increases in sales of 27% and 47%, respectively.

**Royalties**

- Royalty expense as a percentage of sales decreased to 10.3% for Q1 2014 as compared to 11.3% for Q4 2013 as a result of the timing of placing Cardium wells on production due to the associated royalty incentive on initial production volumes.
- Royalty expense as a percentage of sales for Q1 2014 as compared to Q1 2013 was consistent at 10.3% and 10.7%, respectively.

**Transportation**

- Transportation expense relates to the delivery of crude oil and natural gas production to major pipelines where legal title transfers.
- Transportation expense decreased in Q1 2014 as compared to Q4 2013 as that quarter included costs associated with trucking oil to a rail terminal. Vermilion did not have any similar sales agreements in place during the current quarter.
- Transportation expense per boe increased for Q1 2014 as compared to Q1 2013 due to rate increases as well as clean oil trucking costs associated with a Pembina pipeline outage.

**Operating expense**

- Operating expense was higher for Q1 2014 as compared to Q4 2013 due to higher maintenance expense associated with fire tube repairs at Vermilion's Cardium facility, increased trucking charges associated with temporary emulsion storage due to a Pembina pipeline outage and additional gas processing fees related to higher gas production. Operating expense per boe also increased quarter-over-quarter due to the additional expenses, partially offset by increased production.
- Operating expense for Q1 2014 was higher than the expense for the same period of the prior year due to variable expenses associated with increased production volumes as well as the previously mentioned fire tube repairs and emulsion trucking charges. On a per boe basis, operating expense per boe decreased for the current period as compared to the first quarter of 2013 due to higher production volumes.

**General and administration**

- Year-over-year, general and administration expense remained consistent. Fluctuations in the presented quarters relates primarily to the timing of expenditures.

## FRANCE BUSINESS UNIT

### Overview

- Entered France in 1997 and completed three subsequent acquisitions, including two in 2012.
- Largest oil producer by volume.
- Producing assets include large conventional fields with high working interests located in the Aquitaine and Paris Basins with an identified inventory of workover, infill drilling, and secondary recovery opportunities.
- Production is characterized by Brent-based crude pricing and low base decline rates.

### Operational review

| France business unit | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 | % change Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|---|---|---|
| **Production** | | | | | |
| Crude oil (bbls/d) | **10,771** | 11,131 | 10,330 | (3%) | 4% |
| Natural gas (mmcf/d) | **-** | - | 4.21 | - | (100%) |
| Total (boe/d) | **10,771** | 11,131 | 11,032 | (3%) | (2%) |
| **Inventory (mbbls)** | | | | | |
| Opening crude oil inventory | **269** | 226 | 354 | | |
| Adjustments | **-** | - | 5 | | |
| Crude oil production | **969** | 1,024 | 930 | | |
| Crude oil sales | **(1,000)** | (981) | (1,071) | | |
| Closing crude oil inventory | **238** | 269 | 218 | | |
| **Production mix (% of total)** | | | | | |
| Crude oil | **100%** | 100% | 94% | | |
| Natural gas | **-** | - | 6% | | |
| **Activity** | | | | | |
| Capital expenditures ($M) | **37,967** | 31,899 | 21,592 | 19% | 76% |
| Gross wells drilled | **2.00** | - | 2.00 | | |
| Net wells drilled | **2.00** | - | 2.00 | | |

### Production

- Quarter-over-quarter production decrease of 3% and year-over-year production decrease of 2%. Year-over-year production of crude oil increased 4%
- In late September 2013, the third party Lacq processing facility that processed our Vic Bihl gas production was permanently closed. As a result, our Vic Bihl gas production has been temporarily shut-in while preparations to transfer to an alternative facility are completed. We expect approximately 850 mcf/d will be back on-stream in Q3 2014, with the remaining approximately 3,400 mcf/d not anticipated to be back on production until late-2015.
- Production remains 100% weighted to Brent crude due to the shut-in of Vic Bihl gas production.

### Activity review

- Vermilion drilled two (2.0 net) wells in the Aquitaine Basin during Q1 2014, with production from these wells anticipated to come on-line in Q2.
- During Q1 2014 we also completed a number of seismic and facility integrity projects.
- In 2014, we are planning a nine-well drilling program in the Champotran, Cazaux, Parentis, and Tamaris fields. In addition, we are planning an estimated 18-well workover program.

**Financial review**

| France business unit ($M except as indicated) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 | % change Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|---|---|---|
| Sales | **117,560** | 110,757 | 121,566 | 6% | (3%) |
| Royalties | **(7,351)** | (6,577) | (6,801) | 12% | 8% |
| Transportation expense | **(4,753)** | (4,622) | (2,754) | 3% | 73% |
| Operating expense | **(16,420)** | (15,524) | (19,939) | 6% | (18%) |
| General and administration | **(5,194)** | (5,080) | (5,686) | 2% | (9%) |
| Current income taxes | **(25,264)** | (28,024) | (18,659) | (10%) | 35% |
| Fund flows from operations | **58,578** | 50,930 | 67,727 | 15% | (14%) |
| **Netbacks ($/boe)** | | | | | |
| Sales | **117.54** | 112.84 | 107.17 | 4% | 10% |
| Royalties | **(7.35)** | (6.70) | (6.00) | 10% | 23% |
| Transportation expense | **(4.75)** | (4.71) | (2.43) | 1% | 95% |
| Operating expense | **(16.42)** | (15.82) | (17.58) | 4% | (7%) |
| General and administration | **(5.19)** | (5.18) | (5.01) | - | 4% |
| Current income taxes | **(25.26)** | (28.55) | (16.45) | (12%) | 54% |
| Fund flows from operations netback | **58.57** | 51.88 | 59.70 | 13% | (2%) |
| **Reference prices** | | | | | |
| Dated Brent (US $/bbl) | **108.22** | 109.27 | 112.55 | (1%) | (4%) |

**Sales**

- Crude oil production in France is priced with reference to Dated Brent.
- Sales increased by 6% for Q1 2014 as compared to Q4 2013 as a result of higher sales volumes coupled with the aforementioned weakening of the Canadian dollar.
- Sales decreased slightly for Q1 2014 as compared to Q1 2013 as a result of the temporary shut-in of gas production, which reduced sales by $4.2 million.
- Sales per boe increased for Q1 2014 as compared to both Q4 and Q1 2013, despite a decline in the US dollar Dated Brent reference price, as a result of the impact of the weakening Canadian dollar.

**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 revenue).
- As a percentage of sales, royalties for the periods presented remained relatively constant.

**Transportation**

- Historically, transportation expense in France related to the shipments of crude oil by tanker from the Aquitaine Basin to third party refineries. As a result of the closure of the Lacq processing facility in Q3 2013, Vermilion began incurring additional transportation charges to ship Vic Bihl production to market. Accordingly, transportation expense per boe for Q1 2014 and Q4 2013 is higher than the expense per boe for Q1 2013.

**Operating expense**

- Operating expense per boe for Q1 2014 increased as compared to Q4 2013 as a result of the strengthening of the Euro versus the Canadian dollar and lower production volumes.
- The decrease in operating expense per boe in Q1 2014 versus the same quarter in the prior year was primarily the result of less maintenance expense year-over-year partially offset by a weaker Canadian dollar.

**General and administration**

- General and administration expense was consistent among the periods presented. Minor variances are largely attributable to the timing of expenditures.

**Current income taxes**

- Current income taxes in France apply to taxable income after eligible deductions at a statutory rate of 38.1% for 2014. Following the expiration of a temporary surtax, the statutory tax rate is expected to decrease to 34.4% for the tax year 2015. For 2014, the effective rate on current taxes is expected to be between approximately 28% and 31%. This rate is subject to change in response to commodity price fluctuations, the timing of capital expenditures and other eligible in-country adjustments.
- Current income taxes decreased by 10% for Q1 2014 as compared to Q4 2013. The decrease was the result of an increase in eligible deductions during Q1 2014, partially offset by increased fund flows from operations.
- Current income taxes increased by 35% from Q1 2014 as compared to Q1 2013. The increase was the result of the absence of certain interest deductions, lower depletion for tax purposes, and higher tax rates following a December 2013 corporate tax legislation enacted by the France government which increased the rate of a temporary surtax.

## NETHERLANDS BUSINESS UNIT

### Overview

- Entered the Netherlands in 2004.
- Second largest onshore gas producer by volume.
- Interests include 16 licenses in the northeast region, five licenses in the central region, and two offshore licenses.
- Licenses include more than 800,000 net acres of undeveloped land.
- High impact natural gas drilling and development.
- Natural gas produced in the Netherlands is priced off the TTF index, which receives a significant premium over North American gas prices.

### Operational review

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| **Netherlands business unit** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| **Production** | | | | | |
| NGLs (bbls/d) | **69** | 62 | 96 | 11% | (28%) |
| Natural gas (mmcf/d) | **43.15** | 37.53 | 36.91 | 15% | 17% |
| Total (boe/d) | **7,260** | 6,318 | 6,248 | 15% | 16% |
| **Activity** | | | | | |
| Capital expenditures ($M) | **20,118** | 15,698 | 1,999 | 28% | 906% |
| Acquisitions ($M) | **-** | 27,500 | - | | |
| Gross wells drilled | **2.00** | - | - | | |
| Net wells drilled | **1.86** | - | - | | |

### Production

- Achieved record quarterly production of 7,260 boe/d.
- Quarter-over-quarter production growth of 15% and year-over-year production growth of 16%.
- The increase in production was mainly attributable to strong, steady production from current wells and completion of the retrofit of the Middenmeer Treatment Centre in 2013 which allowed for associated volumes to be processed through the 35 mmcf/d facility.

### Activity review

- Vermilion drilled two (1.9 net) wells during Q1 2014. One well (Leeuwarden-102) is being tested and, at this point, it is unclear whether it will warrant tie-in. The other well (Hempens-01) was wet on open-hole logs, and was subsequently plugged and abandoned.
- An additional four-to-five wells are planned for the 2014 drilling program in the Netherlands. The drilling program will include our first new well on the lands acquired in October 2013.
- During Q1 2014, we were awarded the Ijsselmuiden exploration concession consisting of approximately 110,500 net undeveloped acres thereby increasing our total position in the country to over 800,000 net undeveloped acres.

**Financial review**

| Netherlands business unit ($M except as indicated) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 | % change Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|---|---|---|
| Sales | **41,554** | 39,451 | 34,421 | 5% | 21% |
| Royalties | **(2,208)** | - | - | 100% | 100% |
| Operating expense | **(6,042)** | (6,179) | (3,969) | (2%) | 52% |
| General and administration | **(598)** | (1,553) | (412) | (61%) | 45% |
| Current income taxes | **(3,788)** | (8,267) | (9,434) | (54%) | (60%) |
| Fund flows from operations | **28,918** | 23,452 | 20,606 | 23% | 40% |
| **Netbacks ($/boe)** | | | | | |
| Sales | **63.60** | 67.88 | 61.21 | (6%) | 4% |
| Royalties | **(3.38)** | - | - | 100% | 100% |
| Operating expense | **(9.25)** | (10.63) | (7.06) | (13%) | 31% |
| General and administration | **(0.91)** | (2.67) | (0.73) | (66%) | 25% |
| Current income taxes | **(5.80)** | (14.22) | (16.78) | (59%) | (65%) |
| Fund flows from operations netback | **44.26** | 40.36 | 36.64 | 10% | 21% |
| **Reference prices** | | | | | |
| TTF ($/GJ) | **10.19** | 10.65 | 10.40 | (4%) | (2%) |
| TTF (€/GJ) | **6.75** | 7.45 | 7.81 | (9%) | (14%) |

**Sales**

- The price of our natural gas in the Netherlands is based on the TTF day-ahead index, as determined on the Title Transfer Facility Virtual Trading Point operated by Dutch TSO Gas Transport Services, plus various fees. GasTerra, a state owned entity, continues to purchase all of the natural gas we produce in the Netherlands.
- Sales increased in Q1 2014 as compared to both Q4 and Q1 2013, despite slightly lower Canadian dollar TTF pricing, due to an increase in natural gas production.

**Royalties**

- Historically, we have not paid royalties in the Netherlands, however, certain wells associated with an acquisition completed by Vermilion's Netherlands Business Unit in October 2013 have reached payout and are now subject to an overriding royalty.

**Transportation expense**

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

**Operating expense**

- Despite the strengthening of the Euro versus the Canadian dollar, operating expense for Q1 2014 versus Q4 2013 remained relatively consistent. Due to higher production in Q1 2014 however, operating expenses per boe decreased quarter-over-quarter.
- Q1 2014 operating expense increased as compared to Q1 2013 as a result of the stronger Euro versus the Canadian dollar, additional costs related to the October 2013 acquisition as well as increased staffing and facility maintenance work. These items increased operating expense on a per boe basis, partially offset by an increase in production year-over-year.

**General and administration**

- Q4 2013 general and administration expense was higher than Q1 2014 and Q1 2013 due to additional expenses related to the previously mentioned acquisition that closed in October 2013.

**Current income taxes**

- Current income taxes in the Netherlands apply to taxable income after eligible deductions at a statutory tax rate of approximately 46%. For 2014, the effective rate on current taxes is expected to be between approximately 10% and 12%. This rate is subject to change in response to commodity price fluctuations, the timing of capital expenditures and other eligible in-country adjustments.
- Current income taxes decreased as compared to both Q4 and Q1 2013 as a result of an increase in tax deductions for depletion during the current quarter.

## GERMANY BUSINESS UNIT

### Overview

- Vermilion entered Germany in February 2014 with the purchase of a 25% participation interest in a four-partner consortium.
- The assets of the four-partner consortium include four gas producing fields across 11 production licenses and an exploration license in surrounding fields.
- Production licenses comprising 207,000 gross acres, of which 85% is in the exploration license.

### Summary of results

| Germany business unit | Three Months Ended Mar 31, 2014 |
|---|---|
| **Production** | |
| Natural gas (mmcf/d) | **10.64** |
| Total (boe/d) | **1,773** |
| **Activity** | |
| Capital expenditures ($M) | **196** |
| Acquisitions ($M) | **172,871** |

### Production

- Q1 2014 production of 1,773 boe/d taking into account an effective date for production of February 1, 2014.
- Anticipate average sales gas volume of 2,300 boe/d in 2014.

### Activity review

- Completed the acquisition of a 25% interest in a four-party consortium that enables us to participate in the exploration, development, production and transportation of natural gas from the assets, which include four gas producing fields across 11 production licenses.
- We have opened a small office outside of Berlin, which we are outfitting and staffing.

### Financial review

| Germany business unit ($M except as indicated) | Three Months Ended Mar 31, 2014 |
|---|---|
| Sales | **8,915** |
| Royalties | **(1,802)** |
| Transportation expense | **(422)** |
| Operating expense | **(1,554)** |
| General and administration | **(568)** |
| Current income taxes | **(537)** |
| Fund flows from operations | **4,032** |
| **Netbacks ($/boe)** | |
| Sales | **55.85** |
| Royalties | **(11.29)** |
| Transportation expense | **(2.64)** |
| Operating expense | **(9.74)** |
| General and administration | **(3.56)** |
| Current income taxes | **(3.36)** |
| Fund flows from operations netback | **25.26** |
| **Reference prices** | |
| TTF ($/GJ) | **10.19** |
| TTF (€/GJ) | **6.75** |

### Sales

- The price of our natural gas in Germany is based on the TTF month-ahead index, as determined on the Title Transfer Facility Virtual Trading Point operated by Dutch TSO Gas Transport Services, plus various fees.

### Royalties expense

- Our production in Germany is subject to royalties at a rate of approximately 20% of natural gas sales revenue.

**Transportation expense**

- Transportation expense relates to costs incurred to deliver natural gas from the processing facility to the customer.

**Operating expense**

- Operating expenses for Germany is billed monthly by the joint venture operator and is expected to be similar to our Netherlands operating costs per boe.

**Current income taxes**

- Current income taxes in Germany apply to taxable income after eligible deductions at a statutory tax rate of approximately 23%. For 2014, the effective rate on current taxes is expected to be between approximately 10% and 12%. This rate is subject to change in response to commodity price fluctuations, the timing of capital expenditures and other eligible in-country adjustments.

## IRELAND BUSINESS UNIT

**Overview**

- 18.5% non-operating interest in the offshore Corrib gas field located approximately 83km off the northwest coast of Ireland.
- Project comprises six offshore wells, both offshore and onshore pipeline segments as well as a natural gas processing facility.
- Acquired interest on July 30, 2009 for cash consideration of $136.8 million. Pursuant to the terms of the acquisition agreement, Vermilion made an additional payment to the vendor of $134.3 million (US$135 million) at the end of 2012.
- Production from Corrib is expected to increase Vermilion's volumes by approximately 58 mmcf/d (9,700 boe/d) once the field reaches peak production.
- The Corrib field is expected to constitute 95% of Ireland's natural gas production and approximately 60% to 65% of Ireland's domestic gas consumption.

**Operational and financial review**

| | Three Months Ended | | | % change | |
|---|---|---|---|---|---|
| **Ireland business unit ($M)** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** | **Q1/14 vs. Q4/13** | **Q1/14 vs. Q1/13** |
| Transportation expense | **(1,588)** | (357) | (1,618) | 345% | (2%) |
| General and administration | **(282)** | (482) | (237) | (41%) | 19% |
| Fund flows from operations | **(1,870)** | (839) | (1,855) | 123% | 1% |
| **Activity** | | | | | |
| Capital expenditures | **16,236** | 14,472 | 16,520 | 12% | (2%) |

**Activity review**

- Tunneling operations continued in Q1 2014. Boring operations are nearly 95% complete with less than 300 metres of boring beneath Sruwaddacon Bay remaining. Preparations for the demobilization of the tunnel boring machine have commenced.
- Based on our deterministic schedule for remaining construction and commissioning activities, we anticipate first gas in approximately mid-2015 with peak production of approximately 58 mmcf/d (9,700 boe/d), net to Vermilion.

**Transportation expense**

- Transportation expense in Ireland relates to payments under a ship or pay agreement related to the Corrib project.

## AUSTRALIA BUSINESS UNIT

### Overview

- Entered Australia in 2005.
- Hold title to a 100% working interest in Wandoo field, located approximately 80 km offshore on the northwest shelf of Australia.
- Production is operated from two off-shore platforms, and originates from 21 producing well bores.
- Wells are located 600 metres below the sea bed with 500 to 3,000 plus metre horizontal lengths.
- Contracted crude oil production is priced with reference to Dated Brent.

### Operational review

| Australia business unit | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 | % change Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|---|---|---|
| **Production** | | | | | |
| Crude oil (bbls/d) | **7,110** | 6,189 | 5,287 | 15% | 34% |
| **Inventory (mbbls)** | | | | | |
| Opening crude oil inventory | **130** | 183 | 268 | | |
| Crude oil production | **640** | 569 | 476 | | |
| Crude oil sales | **(707)** | (622) | (579) | | |
| Closing crude oil inventory | **63** | 130 | 165 | | |
| **Activity** | | | | | |
| Capital expenditures ($M) | **5,691** | 8,420 | 55,349 | (32%) | (90%) |
| Gross wells drilled | **-** | - | 2.0 | | |
| Net wells drilled | **-** | - | 2.0 | | |

### Production

- Wandoo production increased by 15% quarter-over-quarter and 34% year-over-year.
- Production volumes are managed to meet customer demands and long-term supply agreements. We continue to plan for production levels of between 6,000 and 8,000 bbls/d.
- Production continues to reflect strong well results from the 2013 drilling program, more than offsetting natural declines. We continue to produce the wells at restricted rates below their demonstrated productive capacity.

### Activity review

- In Q1 2014, efforts were focused on facilities repairs and engineering studies, including the expansion of accommodation quarters on the Wandoo B platform and repair of the A5 conductor on Wandoo A.
- 2014 planned activities include ongoing facilities maintenance, enhancement, and refurbishment along with preparation and permitting activities in advance of our planned 2015 drilling program.

### Financial review

| Australia business unit ($M except as indicated) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 | % change Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|---|---|---|
| Sales | **89,974** | 77,533 | 69,901 | 16% | 29% |
| Operating expense | **(17,360)** | (13,219) | (14,826) | 31% | 17% |
| General and administration | **(1,206)** | (1,442) | (1,518) | (16%) | (21%) |
| PRRT | **(20,239)** | (17,173) | (11,153) | 18% | 81% |
| Corporate income taxes | **(8,841)** | (6,210) | (7,213) | 42% | 23% |
| Fund flows from operations | **42,328** | 39,489 | 35,191 | 7% | 20% |
| **Netbacks ($/boe)** | | | | | |
| Sales | **127.26** | 124.63 | 120.76 | 2% | 5% |
| Operating expense | **(24.55)** | (21.25) | (25.61) | 16% | (4%) |
| General and administration | **(1.71)** | (2.32) | (2.62) | (26%) | (35%) |
| PRRT | **(28.63)** | (27.60) | (19.27) | 4% | 49% |
| Corporate income taxes | **(12.51)** | (9.98) | (12.46) | 25% | - |
| Fund flows from operations netback | **59.86** | 63.48 | 60.80 | (6%) | (2%) |
| **Reference prices** | | | | | |
| Dated Brent (US $/bbl) | **108.22** | 109.27 | 112.55 | (1%) | (4%) |

**Sales**

- Our production in Australia currently receives a premium to Dated Brent. This premium, coupled with the weakening of the Canadian dollar versus the US dollar, resulted in an increase in sales per boe for Q1 2014 as compared to both Q4 and Q1 2013 despite slight decreases in the Dated Brent reference price.
- Sales increased for Q1 2014 as compared to both Q4 and Q1 2013 due to the impact of the weakening of the Canadian dollar coupled with an increase in crude oil sales.

**Royalties and transportation expense**

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

**Operating expense**

- Operating expense per boe for Q1 2014 was higher than Q4 2013 due to increased diesel usage and diesel transportation costs, coupled with higher maintenance costs due to inspection work being conducted in the current quarter.
- Operating expense per boe for Q1 2014 was lower than the corresponding quarter in 2013 due to increased production volumes.

**General and administration**

- General and administration expense remained relatively consistent for the periods presented with minor fluctuations related to the timing of expenditures.

**PRRT and corporate income taxes**

- In Australia, current income taxes include both 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 include PRRT.
- For 2014, the combined corporate income tax and PRRT effective rate is expected to be between approximately 38% and 42% This rate is subject to change in response to commodity price fluctuations, the timing of capital expenditures and other eligible in-country adjustments.
- Corporate income taxes increased 42% quarter-over-quarter and 23% year-over-year largely as a result of increased fund flows from operations.

## CORPORATE

### Overview

- Our Corporate segment includes costs related to our global hedging program, financing expenses, and general and administration expenses, primarily incurred in Canada and not directly related to the operations of our business units.

### Financial review

| | Three Months Ended | | |
|---|---|---|---|
| ($M) | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** |
| General and administration | **(3,751)** | (2,919) | (1,688) |
| Current income taxes | **(173)** | (564) | (251) |
| Interest expense | **(11,460)** | (10,049) | (8,689) |
| Realized gain (loss) on derivatives | **2,640** | (1,300) | (2,787) |
| Realized foreign exchange loss | **(2,041)** | (1,294) | (617) |
| Realized other income | **221** | 224 | 472 |
| Fund flows from operations | **(14,564)** | (15,902) | (13,560) |

### General and administration

- The increase in general and administration costs for Q1 2014 versus Q4 and Q1 2013 was the result of increased business development acquisition activity coupled with the impact of certain outstanding VIP awards to be settled partially in cash.

### Current income taxes

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

### Interest expense

- Interest expense is incurred on our senior unsecured notes and on borrowings under our revolving credit facility. The increase in 2014 versus the 2013 periods is due to increased borrowings under our revolving credit facility.

### Hedging

- The nature of our operations results in exposure to fluctuations in commodity prices, interest rates and foreign currency exchange rates. We monitor and, when appropriate, use derivative financial instruments to manage our exposure to these fluctuations. All transactions of this nature entered into are related to an underlying financial position or to future crude oil and natural gas production. We do not use derivative financial instruments for speculative purposes. We have elected not to designate any of our derivative financial instruments as accounting hedges and thus account for changes in fair value in net earnings at each reporting period. We have not obtained collateral or other security to support our financial derivatives as we review the creditworthiness of our counterparties prior to entering into derivative contracts.
- Our hedging philosophy is to hedge solely for the purposes of risk mitigation. Our approach is to hedge centrally to manage our global risk (typically with an outlook of 12 to 18 months) with a goal of securing pricing for up to 50% of net of royalty volumes through a portfolio of forward collars, swaps, and physical fixed price arrangements.
- We believe that our hedging philosophy and approach increases the stability of revenues, cash flows and future dividends while also assisting us in the execution of our capital and development plans.
- The realized gain in Q1 2014 related primarily to amounts received on our Dated Brent and TTF derivatives, partially offset by payments made on our AECO derivatives.
- A listing of derivative positions as at March 31, 2014 is included in “Supplemental Table 2” in this MD&A.

## FINANCIAL PERFORMANCE REVIEW

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($M except per share) | Mar 31, 2014 | Dec 31, 2013 | Sep 30, 2013 | Jun 30, 2013 | Mar 31, 2013 | Dec 31, 2012 | Sep 30, 2012 | Jun 30, 2012 |
| Petroleum and natural gas sales | **381,183** | 325,108 | 327,185 | 311,966 | 309,576 | 241,233 | 284,838 | 246,544 |
| Net earnings | **102,788** | 101,510 | 67,796 | 106,198 | 52,137 | 56,914 | 30,798 | 37,816 |
| Net earnings per share | | | | | | | | |
| Basic | **1.00** | 1.00 | 0.67 | 1.05 | 0.53 | 0.58 | 0.31 | 0.39 |
| Diluted | **0.99** | 0.98 | 0.66 | 1.04 | 0.51 | 0.57 | 0.31 | 0.38 |

The following table shows a reconciliation of the change in net earnings:

| ($M) | Q1/14 vs. Q4/13 | Q1/14 vs. Q1/13 |
|---|---|---|
| **Net earnings – Comparative period** | 101,510 | 52,137 |
| Changes in: | | |
| Fund flows from operations | 41,703 | 41,734 |
| Equity based compensation | 4,734 | (336) |
| Unrealized gain or loss on derivative instruments | 2,663 | 5,048 |
| Unrealized foreign exchange gain or loss | (290) | 24,519 |
| Unrealized other income | 168 | 151 |
| Accretion | 815 | 112 |
| Depletion and depreciation | (15,758) | (18,004) |
| Deferred tax | 14,643 | (2,573) |
| Impairment recovery | (47,400) | - |
| **Net earnings – Current Period** | **102,788** | **102,788** |

The fluctuations in net earnings from quarter-to-quarter and from year-to-year are caused by changes in both cash and non-cash charges. Cash charges are reflected in fund flows from operations and include: sales, royalties, operating expenses, transportation, general and administration expense, current tax expense, interest expense, realized gains and losses on derivative instruments, and realized foreign exchange gains and losses. Non-cash charges 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 charges may also include non-recurring charges resulting from acquisitions or charges resulting from impairment or impairment recoveries.

***Equity based compensation***

Equity based compensation expense relates to non-cash compensation expense attributable to long-term incentives granted to directors, officers and employees under the Vermilion Incentive Plan ("VIP"). The expense is recognized over the vesting period based on the grant date fair value of awards, adjusted for the ultimate number of awards that actually vest as determined by the Company's achievement of performance conditions.

Fluctuations in equity based compensation expense primarily result from revisions in the future performance conditions related to the VIP, estimated forfeiture rates, and the overall number of VIP outstanding. In general, future performance conditions and estimated forfeiture rates are revised during the fourth quarter as information becomes more readily available relating to the Company's performance during the fiscal year.

Equity based compensation expense was lower in Q1 2014 as compared to Q4 2013 as the 2013 period included an upward revision of future performance condition assumptions. Equity based compensation expense for Q1 2014 was relatively consistent with the expense for Q1 2013.

***Unrealized gain or loss on derivative instruments***

Unrealized gain or loss on derivative instruments arise as a result of changes in forecasted future commodity prices. 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 forecasted future commodity prices decline and vise-versa.

In Q1 2014, we recognized an unrealized gain on derivative instruments of $3.9 million relating primarily to our European crude oil and natural gas derivative instruments. As at March 31, 2014, we had a net current derivative asset of $2.6 million relating primarily to European crude oil and natural gas derivative instruments settling in Q2 and Q3 2014.

***Unrealized foreign exchange gain or loss***
As a result of Vermilion's international operations, Vermilion conducts business in currencies other than the Canadian dollar and has monetary assets and liabilities (including cash, receivables, payables, derivative assets and liabilities, and intercompany loans) denominated in such currencies. Vermilion's exposure to foreign currencies includes the U.S. Dollar, the Euro and the Australian Dollar.

Unrealized foreign exchange gains and losses are the result of translating monetary assets and liabilities held in non-functional currencies to the respective functional currencies of Vermilion and its subsidiaries. Unrealized foreign exchange primarily results from the translation of Euro denominated financial assets. As such, an appreciation in the Euro against the Canadian dollar will result in an unrealized foreign exchange gain, and vice versa.

During Q1 2014, the Euro strengthened by 4% versus the Canadian dollar resulting in unrealized foreign exchange gains of $22.0 million.

***Accretion***
Fluctuations in accretion expense is primarily the result of changes in the balance of asset retirement obligations. Q1 2014 accretion expense was relatively consistent as compared to Q1 2013. The decrease in accretion expense for Q1 2014 as compared to Q4 2013 was primarily the result of a decrease in the discount rate used to calculate asset retirement obligations.

***Depletion and depreciation***
Fluctuations in depletion and depreciation expense are primarily the result of changes in produced crude oil and natural gas volumes.

Q1 2014 production as compared to the comparable periods in 2013 increased by 21% and 14%, respectively, resulting in higher depletion and depreciation expense of 22% and 19%, respectively.

Depletion and depreciation on a per boe basis for Q1 2014 of $23.13/boe was relatively consistent as compared to Q4 2013 depletion and depreciation of $22.15/boe. The increase on a per boe basis for Q1 2014 as compared to Q1 2013 ($21.85/boe) increased largely due to Vermilion's increased capital activity in the Cardium light oil and Mannville condensate-rich natural gas plays.

***Deferred tax***
Deferred tax expense arises primarily as a result of changes in the accounting basis and tax basis for capital assets and asset retirement obligations and changes in available tax losses.

Deferred tax expense decreased from $21.3 million for Q4 2013 to $6.6 million for Q1 2014. The decrease was largely the result of the absence of an increase in the temporary difference relating to asset retirement obligations which occurred in Q4 2013. The Q4 2013 increase was the result of an increase to asset retirement obligations for accounting purposes, due to a change in discount and inflation rates, with no corresponding change in the tax basis. On a year-over-year basis, deferred tax expense increased as the result of the increase in taxable income leading to the usage of tax losses.

***Impairment recovery***
In Q4 2013, we recognized a recovery of a portion of impairment charges recorded in 2011. The impairment recovery resulted from increased proved and probable reserves of natural gas and natural gas liquids, due primarily to the successful application of horizontal drilling and multi-stage fracturing technology to the previously impaired cash generating unit.

## FINANCIAL POSITION REVIEW

### Balance sheet strategy

We believe that our balance sheet supports our defined growth initiatives and our focus is on managing and maintaining a conservative balance sheet. To ensure that our balance sheet continues to support our defined growth initiatives, we regularly review whether forecasted fund flows from operations is sufficient to finance planned capital expenditures, dividends, and abandonment and reclamation expenditures. To the extent that forecasted fund flows from operations is not expected to be sufficient to fulfill such expenditures, we will evaluate our ability to finance any excess with debt (including borrowing using the unutilized capacity of our existing revolving credit facility) or issue equity.

To ensure that we maintain a conservative balance sheet, we monitor the ratio of net debt to fund flows from operations and typically strive to maintain a ratio of approximately 1.0 to 1.2. In a commodity price environment where prices trend higher, we may target a lower ratio and conversely, in a lower commodity price environment, the acceptable ratio may be higher. At times, we will use our balance sheet to finance acquisitions and, in these situations, we are prepared to accept a higher ratio in the short term but will implement a strategy to reduce the ratio to acceptable levels within a reasonable period of time, usually considered to be no more than 12 to 24 months. This plan could potentially include an increase in hedging activities, a reduction in capital expenditures, an issuance of equity or the utilization of excess fund flows from operations to reduce outstanding indebtedness.

### Long-term debt

Our long-term debt consists of our revolving credit facility and our senior unsecured notes. The applicable annual interest rates and the balances recognized on our balance sheet are as follows:

| | Annual Interest Rate | | As At | |
|---|---|---|---|---|
| ($M) | Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2014 | Dec 31, 2013 |
| Revolving credit facility | **3.3%** | 3.3% | **720,762** | 766,898 |
| Senior unsecured notes | **6.5%** | 6.5% | **223,347** | 223,126 |
| Long-term debt | **4.0%** | 4.7% | **944,109** | 990,024 |

#### *Revolving Credit Facility*

Our revolving credit facility bears interest at rates applicable to demand loans plus applicable margins. The following table outlines the terms of our revolving credit facility:

| | As At | |
|---|---|---|
| | Mar 31, 2014 | Dec 31, 2013 |
| Total facility amount | $1.20 billion | $1.20 billion |
| Amount drawn | $720.8 million | $766.9 million |
| Letters of credit outstanding | $8.4 million | $8.1 million |
| Facility maturity date | 31-May-16 | 31-May-16 |

In addition, the revolving credit facility is subject to the following covenants:

| | | As At | |
|---|---|---|---|
| Financial covenant | Limit | Mar 31, 2014 | Dec 31, 2013 |
| Consolidated total debt to consolidated EBITDA | 4.0 | 0.96 | 1.06 |
| Consolidated total senior debt to consolidated EBITDA | 3.0 | 0.73 | 0.82 |

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

- Consolidated total debt: Includes all amounts classified as “Long-term debt” 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.

Vermilion was in compliance with its financial covenants for all periods presented.

Subsequent to March 31, 2014, we amended our revolving credit facility agreement. The amended revolving credit facility increases the total committed facility amount to $1.50 billion and extends the facility maturity date to May 31, 2017. In addition, we may, by adding lenders or by seeking an increase to an existing lender's commitment, increase the total committed facility amount to no more than $1.75 billion. The amended revolving credit facility includes an additional financial covenant requiring that the ratio of consolidated total senior debt to total capitalization be less than 50%. Total capitalization includes all amounts on our balance sheet classified as "Long-term debt" and "Shareholders' Equity". As at March 31, 2014, Vermilion had a ratio of consolidated total senior debt to total capitalization of 25.9%.

***Senior Unsecured Notes***

We have outstanding senior unsecured notes that are senior unsecured obligations and rank pari passu with all our other present and future unsecured and unsubordinated indebtedness. The following table outlines the terms of these notes:

| | |
|---|---|
| Total issued amount | $225.0 million |
| Interest | 6.5% per annum |
| Issued date | February 10, 2011 |
| Maturity date | February 10, 2016 |

We may redeem all or part of the notes at fixed redemption prices plus in each case, accrued and unpaid interest, if any, to the applicable redemption date. The notes were initially recognized at fair value net of transaction costs and are subsequently measured at amortized cost using an effective interest rate of 7.1%.

**Net debt**

Net debt is reconciled to its most directly comparable GAAP measure, long-term debt, as follows:

| | As At | |
|---|---|---|
| **($M)** | **Mar 31, 2014** | **Dec 31, 2013** |
| Long-term debt | **944,109** | 990,024 |
| Current liabilities | **409,070** | 347,444 |
| Current assets | **(386,869)** | (587,783) |
| Net debt | **966,310** | 749,685 |
| | | |
| Ratio of net debt to annualized fund flows from operations | **1.2** | 1.1 |

Long-term debt as at March 31, 2014 decreased to $944.1 million from $990.0 million as a result of a repayment on the revolving credit facility of excess funds borrowed prior to December 31, 2013 in anticipation of the closing of our acquisition in Germany.

Net debt increased from $749.7 million to $966.3 million a result of the closing of our Germany acquisition in February of 2014 and current period capital expenditures. As fund flows from operations similarly increased, the ratio of net debt to annualized fund flows increased slightly to 1.2.

**Shareholders' capital**

Beginning with the January 2014 dividend paid on February 18, 2014, we increased our monthly dividend by 7.5%. This was our second consecutive annual increase.

During the three months ended March 31, 2014, we maintained monthly dividends at 0.215 per share and declared dividends totalled $66.0 million.

The following table outlines our dividend payment history:

| Date | Monthly dividend per unit or share |
|---|---|
| January 2003 to December 2007 | $0.17 |
| January 2008 to December 2012 | $0.19 |
| January 2013 to December 31, 2013 | $0.20 |
| Beginning January 2014 | $0.215 |

Our policy with respect to dividends is to be conservative and maintain a low ratio of dividends to fund flows from operations. During low price commodity cycles, we will initially maintain dividends and allow the ratio to rise. Should low commodity price cycles remain for an extended period of time, we will evaluate the necessity of changing the level of dividends, taking into consideration capital development requirements, debt levels and acquisition opportunities.

Over the next two years, we anticipate that Corrib, Cardium and other exploration and development activities will require significant capital investment. Although we currently expect to be able to maintain our current dividend, fund flows from operations may not be sufficient during this period to fund cash dividends, capital expenditures and asset retirement obligations. We will evaluate our ability to finance any shortfalls with debt, issuances of equity or by reducing some or all categories of expenditures to ensure that total expenditures do not exceed available funds.

The following table reconciles the change in shareholders' capital:

| Shareholders' Capital | Number of Shares ('000s) | Amount ($M) |
|---|---|---|
| **Balance as at December 31, 2013** | 102,123 | 1,618,443 |
| Issuance of shares pursuant to the dividend reinvestment plan | 319 | 18,885 |
| Shares issued pursuant to the bonus plan | 11 | 721 |
| **Balance as at March 31, 2014** | 102,453 | 1,638,049 |

As at March 31, 2014, there were approximately 1.6 million VIP awards outstanding. As at May 1, 2014, there were approximately 106.3 million shares outstanding.

## ASSET RETIREMENT OBLIGATIONS

As at March 31, 2014, asset retirement obligations were $362.3 million compared to $326.2 million as at December 31, 2013.

The increase in asset retirement obligations is largely attributable to an overall decrease in the discount rates applied to the abandonment obligations and the impact of the weakening Canadian dollar on abandonment obligations denominated in foreign currencies.

## OFF BALANCE SHEET ARRANGEMENTS

We have certain lease agreements that are entered into in the normal course of operations, all of which are operating leases and accordingly no asset or liability value has been assigned to the consolidated balance sheet as at March 31, 2014.

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

## RISK MANAGEMENT

Vermilion is exposed to various market and operational risks. For a detailed discussion of these risks, please see Vermilion's Annual Report for the year ended December 31, 2013.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect reported assets, liabilities, revenues and expenses, gains and losses, and disclosures of any possible contingencies. These estimates and assumptions are developed based on the best available information which management believed to be reasonable at the time such estimates and assumptions were made. As such, these assumptions are uncertain at the time estimates are made and could change, resulting in a material impact on Vermilion's consolidated financial statements. Estimates are reviewed by management on an ongoing basis and as a result may change from period to period due to the availability of new information or changes in circumstances. Additionally, as a result of the unique circumstances of each jurisdiction that Vermilion operates in, the critical accounting estimates may affect one or more jurisdictions.

The following outlines what management believes to be the most critical accounting policies involving the use of estimates and assumptions:

i. Depletion and depreciation charges are based on estimates of total proven and probable reserves that Vermilion expects to recover in the future.
ii. Asset retirement obligations are based on past experience and current economic factors which management believes are reasonable.
iii. Impairment tests are performed at the cash generating unit (CGU) level, which is determined based on management's judgment. The calculation of the recoverable amount of a CGU is based on market factors as well as estimates of PNG reserves and future costs required to develop reserves.
iv. Deferred tax amounts recognized in the consolidated financial statements are based on management's assessment of the tax positions at the end of each reporting period.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in Vermilion's internal control over financial reporting that occurred during the period covered by this MD&A that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

## Supplemental Table 1: Netbacks

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

| | Three Months Ended Mar 31, 2014 | | | Three Months Ended Mar 31, 2013 |
|---|---|---|---|---|
| | Oil & NGLs $/bbl | Natural Gas $/mcf | Total $/boe | Total $/boe |
| **Canada** | | | | |
| Sales | 95.25 | 5.50 | **69.26** | 57.61 |
| Royalties | (10.75) | (0.34) | **(7.12)** | (6.19) |
| Transportation | (2.27) | (0.17) | **(1.74)** | (1.56) |
| Operating | (10.99) | (1.17) | **(9.34)** | (9.53) |
| Operating netback | 71.24 | 3.82 | **51.06** | 40.33 |
| General and administration | | | **(1.61)** | (2.11) |
| Fund flows from operations netback | | | **49.45** | 38.22 |
| **France** | | | | |
| Sales | 117.54 | - | **117.54** | 107.17 |
| Royalties | (7.35) | - | **(7.35)** | (6.00) |
| Transportation | (4.75) | - | **(4.75)** | (2.43) |
| Operating | (16.42) | - | **(16.42)** | (17.58) |
| Operating netback | 89.02 | - | **89.02** | 81.16 |
| General and administration | | | **(5.19)** | (5.01) |
| Current income taxes | | | **(25.26)** | (16.45) |
| Fund flows from operations netback | | | **58.57** | 59.70 |
| **Netherlands** | | | | |
| Sales | 106.96 | 10.53 | **63.60** | 61.21 |
| Royalties | - | (0.57) | **(3.38)** | - |
| Operating | - | (1.56) | **(9.25)** | (7.06) |
| Operating netback | 106.96 | 8.40 | **50.97** | 54.15 |
| General and administration | | | **(0.91)** | (0.73) |
| Current income taxes | | | **(5.80)** | (16.78) |
| Fund flows from operations netback | | | **44.26** | 36.64 |
| **Germany** | | | | |
| Sales | - | 9.31 | **55.85** | - |
| Royalties | - | (1.88) | **(11.29)** | - |
| Transportation | - | (0.44) | **(2.64)** | - |
| Operating | - | (1.62) | **(9.74)** | - |
| Operating netback | - | 5.37 | **32.18** | - |
| General and administration | | | **(3.56)** | - |
| Current income taxes | | | **(3.36)** | - |
| Fund flows from operations netback | | | **25.26** | - |
| **Australia** | | | | |
| Sales | 127.26 | - | **127.26** | 120.76 |
| Operating | (24.55) | - | **(24.55)** | (25.61) |
| PRRT [(1)] | (28.63) | - | **(28.63)** | (19.27) |
| Operating netback | 74.08 | - | **74.08** | 75.88 |
| General and administration | | | **(1.71)** | (2.62) |
| Corporate income taxes | | | **(12.51)** | (12.46) |
| Fund flows from operations netback | | | **59.86** | 60.80 |
| **Total Company** | | | | |
| Sales | 111.62 | 7.99 | **88.67** | 83.04 |
| Realized hedging (loss) gain | 0.26 | 0.21 | **0.61** | (0.75) |
| Royalties | (6.72) | (0.60) | **(5.59)** | (4.24) |
| Transportation | (2.58) | (0.30) | **(2.29)** | (1.78) |
| Operating | (16.43) | (1.38) | **(13.49)** | (14.10) |
| PRRT [(1)] | (7.36) | - | **(4.71)** | (2.99) |
| Operating netback | 78.79 | 5.92 | **63.20** | 59.18 |
| General and administration | | | **(3.37)** | (3.38) |
| Interest expense | | | **(2.67)** | (2.33) |
| Realized foreign exchange loss | | | **(0.47)** | (0.17) |
| Other income | | | **0.05** | 0.13 |
| Corporate income taxes [(1)] | | | **(8.98)** | (9.54) |
| Fund flows from operations netback | | | **47.76** | 43.89 |

[(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 following table summarizes Vermilion's outstanding risk management positions as at March 31, 2014:

| | Note | Volume | Strike Price(s) |
|---|---|---|---|
| **Crude Oil** | | | |
| **WTI - Swap** | | | |
| January 2014 - June 2014 | | 250 bbl/d | 100.05 USD $ |
| January 2014 - June 2014 | (1) | 1,000 bbl/d | 100.07 USD $ |
| April 2014 - June 2014 | | 2,500 bbl/d | 108.13 CAD $ |
| July 2014 - September 2014 | | 1,250 bbl/d | 108.53 CAD $ |
| July 2014 - September 2014 | (1) | 250 bbl/d | 99.55 USD $ |
| **Dated Brent - Collar** | | | |
| January 2014 - June 2014 | | 1,250 bbl/d | 103.20 - 110.24 USD $ |
| April 2014 - June 2014 | | 1,000 bbl/d | 105.00 - 115.00 USD $ |
| April 2014 - September 2014 | | 1,000 bbl/d | 105.00 - 112.00 USD $ |
| April 2014 - December 2014 | | 1,000 bbl/d | 106.00 - 110.73 USD $ |
| **Dated Brent - Swap** | | | |
| January 2014 - June 2014 | | 1,000 bbl/d | 107.25 USD $ |
| January 2014 - June 2014 | (1) | 1,500 bbl/d | 110.32 USD $ |
| April 2014 - June 2014 | | 1,250 bbl/d | 109.74 USD $ |
| April 2014 - June 2014 | (2) | 350 bbl/d | 111.75 USD $ |
| January 2014 - December 2014 | | 500 bbl/d | 108.28 USD $ |
| **MSW - Fixed Price Differential (Physical)** | | | |
| April 2014 - June 2014 | | 2,074 bbl/d | WTI less 7.38 USD $ |
| April 2014 - December 2014 | | 1,030 bbl/d | WTI less 8.20 USD $ |
| July 2014 - December 2014 | | 2,052 bbl/d | WTI less 8.68 USD $ |
| **MSW - Fixed Price Sale (Physical)** | | | |
| April 2014 - June 2014 | | 1,000 bbl/d | 92.85 CAD $ |
| | | | |
| **Canadian Natural Gas** | | | |
| **AECO - Collar** | | | |
| January 2014 - December 2014 | | 10,000 GJ/d | 3.18 - 3.81 CAD $ |
| April 2014 - December 2014 | | 1,000 GJ/d | 3.60 - 3.96 CAD $ |
| April 2014 - March 2015 | | 2,500 GJ/d | 3.60 - 4.08 CAD $ |
| November 2014 - March 2015 | | 2,500 GJ/d | 3.60 - 4.27 CAD $ |
| **AECO - Swap** | | | |
| April 2014 - October 2014 | | 8,000 GJ/d | 4.00 CAD $ |
| January 2014 - December 2014 | | 5,000 GJ/d | 3.71 CAD $ |
| | | | |
| **European Natural Gas** | | | |
| **TTF - Swap** | | | |
| February 2014 - June 2014 | | 5,400 GJ/d | 7.28 EUR € |
| March 2014 - September 2014 | | 5,400 GJ/d | 6.62 EUR € |
| April 2014 - September 2014 | | 16,200 GJ/d | 6.74 EUR € |
| | | | |
| **Electricity** | | | |
| **AESO - Swap** | | | |
| January 2014 - December 2014 | | 7.2 MWh/d | 54.75 CAD $ |
| **AESO - Swap (Physical)** | | | |
| January 2013 - December 2015 | | 72.0 MWh/d | 53.17 CAD $ |
| | | | |
| **US Dollar** | | | |
| **USD - Collar** | | | |
| April 2014 - June 2014 | | 2,000,000 USD $/month | 1.080 - 1.167 CAD $ |
| **USD - Forward** | | | |
| April 2014 - June 2014 | | 2,000,000 USD $/month | 1.116 CAD $ |

(1) Prior to the expiration of this swap, the counterparty has the option to extend the swap to December 31, 2014 at the contracted volume and price.
(2) Prior to the expiration of this swap, the counterparty has the option to extend the swap to September 30, 2014 at the contracted volume and price.

**Supplemental Table 3: Capital expenditures**

| By classification ($M) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 |
|---|---|---|---|
| Drilling and development | **168,840** | 147,929 | 179,520 |
| Dispositions | **-** | - | (8,627) |
| Exploration and evaluation | **27,535** | 549 | 9,576 |
| Capital expenditures | **196,375** | 148,478 | 180,469 |
| Property acquisition | **178,227** | 1,603 | - |
| Corporate acquisition | **-** | 27,500 | - |
| Acquisitions | **178,227** | 29,103 | - |

| By category ($M) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 |
|---|---|---|---|
| Land | **4,753** | 2,676 | 3,129 |
| Seismic | **3,432** | 1,942 | 3,813 |
| Drilling and completion | **106,536** | 68,993 | 126,185 |
| Production equipment and facilities | **68,755** | 63,420 | 49,942 |
| Recompletions | **4,226** | 3,309 | 4,131 |
| Other | **8,673** | 8,138 | 1,896 |
| Dispositions | **-** | - | (8,627) |
| Capital expenditures | **196,375** | 148,478 | 180,469 |
| Acquisitions | **178,227** | 29,103 | - |
| Total capital expenditures and acquisitions | **374,602** | 177,581 | 180,469 |

| By country ($M) | Three Months Ended Mar 31, 2014 | Dec 31, 2013 | Mar 31, 2013 |
|---|---|---|---|
| Canada | **119,707** | 78,848 | 85,129 |
| France | **37,967** | 31,899 | 21,592 |
| Netherlands | **20,118** | 43,198 | 372 |
| Germany | **173,067** | - | - |
| Ireland | **16,236** | 14,472 | 16,520 |
| Australia | **5,691** | 8,420 | 55,349 |
| Corporate | **1,816** | 744 | 1,507 |
| Total capital expenditures and acquisitions | **374,602** | 177,581 | 180,469 |

## Supplemental Table 4: Production

| | Q1/14 | Q4/13 | Q3/13 | Q2/13 | Q1/13 | Q4/12 | Q3/12 | Q2/12 | Q1/12 | Q4/11 | Q3/11 | Q2/11 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Canada** | | | | | | | | | | | | |
| Crude oil (bbls/d) | **9,437** | 8,719 | 7,969 | 8,885 | 7,966 | 7,983 | 7,322 | 7,757 | 7,574 | 6,591 | 4,526 | 3,856 |
| NGLs (bbls/d) | **2,071** | 1,699 | 1,897 | 1,725 | 1,335 | 1,106 | 1,204 | 1,321 | 1,302 | 1,246 | 1,305 | 1,353 |
| Natural gas (mmcf/d) | **49.53** | 41.43 | 43.40 | 43.69 | 41.04 | 31.41 | 35.54 | 41.32 | 41.83 | 43.96 | 42.94 | 43.30 |
| Total (boe/d) | **19,763** | 17,322 | 17,099 | 17,892 | 16,140 | 14,323 | 14,449 | 15,965 | 15,848 | 15,163 | 12,987 | 12,426 |
| % of consolidated | **42%** | 43% | 41% | 42% | 41% | 40% | 40% | 40% | 40% | 41% | 38% | 35% |
| **France** | | | | | | | | | | | | |
| Crude oil (bbls/d) | **10,771** | 11,131 | 11,625 | 10,390 | 10,330 | 9,843 | 9,767 | 9,931 | 10,270 | 7,819 | 7,946 | 8,273 |
| Natural gas (mmcf/d) | **-** | - | 5.23 | 4.19 | 4.21 | 3.91 | 3.39 | 3.57 | 3.48 | 0.94 | 0.97 | 0.88 |
| Total (boe/d) | **10,771** | 11,131 | 12,496 | 11,088 | 11,032 | 10,495 | 10,333 | 10,526 | 10,850 | 7,976 | 8,108 | 8,419 |
| % of consolidated | **23%** | 27% | 30% | 26% | 29% | 29% | 28% | 27% | 28% | 22% | 23% | 24% |
| **Netherlands** | | | | | | | | | | | | |
| NGLs (bbls/d) | **69** | 62 | 48 | 50 | 96 | 70 | 41 | 84 | 72 | 66 | 64 | 54 |
| Natural gas (mmcf/d) | **43.15** | 37.53 | 28.78 | 38.52 | 36.91 | 33.03 | 34.59 | 33.74 | 35.08 | 34.58 | 33.15 | 33.77 |
| Total (boe/d) | **7,260** | 6,318 | 4,845 | 6,470 | 6,248 | 5,574 | 5,806 | 5,707 | 5,919 | 5,829 | 5,589 | 5,682 |
| % of consolidated | **16%** | 15% | 12% | 15% | 16% | 15% | 16% | 15% | 15% | 16% | 16% | 16% |
| **Germany** | | | | | | | | | | | | |
| Natural gas (mmcf/d) | **10.64** | - | - | - | - | - | - | - | - | - | - | - |
| Total (boe/d) | **1,773** | - | - | - | - | - | - | - | - | - | - | - |
| % of consolidated | **4%** | - | - | - | - | - | - | - | - | - | - | - |
| **Australia** | | | | | | | | | | | | |
| Crude oil (bbls/d) | **7,110** | 6,189 | 7,070 | 7,363 | 5,287 | 5,873 | 5,958 | 6,970 | 6,648 | 7,686 | 7,992 | 8,692 |
| % of consolidated | **15%** | 15% | 17% | 17% | 14% | 16% | 16% | 18% | 17% | 21% | 23% | 25% |
| **Consolidated** | | | | | | | | | | | | |
| Crude oil & NGLs (bbls/d) | **29,458** | 27,800 | 28,609 | 28,413 | 25,014 | 24,875 | 24,292 | 26,063 | 25,866 | 23,408 | 21,833 | 22,228 |
| % of consolidated | **63%** | 68% | 69% | 66% | 65% | 69% | 66% | 67% | 66% | 64% | 63% | 63% |
| Natural gas (mmcf/d) | **103.32** | 78.96 | 77.41 | 86.40 | 82.16 | 68.34 | 73.52 | 78.63 | 80.39 | 79.48 | 77.06 | 77.95 |
| % of consolidated | **37%** | 32% | 31% | 34% | 35% | 31% | 34% | 33% | 34% | 36% | 37% | 37% |
| Total (boe/d) | **46,677** | 40,960 | 41,510 | 42,813 | 38,707 | 36,265 | 36,546 | 39,168 | 39,265 | 36,654 | 34,676 | 35,219 |

| | YTD 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| **Canada** | | | | | | |
| Crude oil (bbls/d) | **9,437** | 8,387 | 7,659 | 4,701 | 2,778 | 2,137 |
| NGLs (bbls/d) | **2,071** | 1,666 | 1,232 | 1,297 | 1,427 | 1,518 |
| Natural gas (mmcf/d) | **49.53** | 42.39 | 37.50 | 43.38 | 43.91 | 47.85 |
| Total (boe/d) | **19,763** | 17,117 | 15,142 | 13,227 | 11,524 | 11,629 |
| % of consolidated | **42%** | 41% | 40% | 38% | 36% | 37% |
| **France** | | | | | | |
| Crude oil (bbls/d) | **10,771** | 10,873 | 9,952 | 8,110 | 8,347 | 8,246 |
| Natural gas (mmcf/d) | **-** | 3.40 | 3.59 | 0.95 | 0.92 | 1.05 |
| Total (boe/d) | **10,771** | 11,440 | 10,550 | 8,269 | 8,501 | 8,421 |
| % of consolidated | **23%** | 28% | 28% | 23% | 26% | 27% |
| **Netherlands** | | | | | | |
| NGLs (bbls/d) | **69** | 64 | 67 | 58 | 35 | 23 |
| Natural gas (mmcf/d) | **43.15** | 35.42 | 34.11 | 32.88 | 28.31 | 21.06 |
| Total (boe/d) | **7,260** | 5,967 | 5,751 | 5,538 | 4,753 | 3,533 |
| % of consolidated | **16%** | 15% | 15% | 16% | 15% | 11% |
| **Germany** | | | | | | |
| Natural gas (mmcf/d) | **10.64** | - | - | - | - | - |
| Total (boe/d) | **1,773** | - | - | - | - | - |
| % of consolidated | **4%** | - | - | - | - | - |
| **Australia** | | | | | | |
| Crude oil (bbls/d) | **7,110** | 6,481 | 6,360 | 8,168 | 7,354 | 7,812 |
| % of consolidated | **15%** | 16% | 17% | 23% | 23% | 25% |
| **Consolidated** | | | | | | |
| Crude oil & NGLs (bbls/d) | **29,458** | 27,471 | 25,270 | 22,334 | 19,941 | 19,735 |
| % of consolidated | **63%** | 67% | 67% | 63% | 62% | 63% |
| Natural gas (mmcf/d) | **103.32** | 81.21 | 75.20 | 77.21 | 73.14 | 69.96 |
| % of consolidated | **37%** | 33% | 33% | 37% | 38% | 37% |
| Total (boe/d) | **46,677** | 41,005 | 37,803 | 35,202 | 32,132 | 31,395 |

**Supplemental Table 5: Segmented Financial Results**

| | Three Months Ended March 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ($M) | Canada | France | Netherlands | Germany | Ireland | Australia | Corporate | Total |
| Total assets | 1,287,169 | 955,096 | 237,795 | 181,130 | 799,381 | 298,306 | 132,261 | 3,891,138 |
| Drilling and development | 101,673 | 29,853 | 15,191 | 196 | 16,236 | 5,691 | - | 168,840 |
| Exploration and evaluation | 13,266 | 8,114 | 4,927 | - | - | - | 1,228 | 27,535 |
| Oil and gas sales to external customers | 123,180 | 117,560 | 41,554 | 8,915 | - | 89,974 | - | 381,183 |
| Royalties | (12,663) | (7,351) | (2,208) | (1,802) | - | - | - | (24,024) |
| Revenue from external customers | 110,517 | 110,209 | 39,346 | 7,113 | - | 89,974 | - | 357,159 |
| Transportation expense | (3,098) | (4,753) | - | (422) | (1,588) | - | - | (9,861) |
| Operating expense | (16,610) | (16,420) | (6,042) | (1,554) | - | (17,360) | - | (57,986) |
| General and administration | (2,868) | (5,194) | (598) | (568) | (282) | (1,206) | (3,751) | (14,467) |
| PRRT | - | - | - | - | - | (20,239) | - | (20,239) |
| Corporate income taxes | - | (25,264) | (3,788) | (537) | - | (8,841) | (173) | (38,603) |
| Interest expense | - | - | - | - | - | - | (11,460) | (11,460) |
| Realized gain on derivative instruments | - | - | - | - | - | - | 2,640 | 2,640 |
| Realized foreign exchange loss | - | - | - | - | - | - | (2,041) | (2,041) |
| Realized other income | - | - | - | - | - | - | 221 | 221 |
| Fund flows from operations | 87,941 | 58,578 | 28,918 | 4,032 | (1,870) | 42,328 | (14,564) | 205,363 |

## ADDITIONAL AND NON-GAAP FINANCIAL MEASURES

This MD&A includes references to certain financial measures which do not have standardized meanings prescribed by IFRS. As such, these financial measures are considered additional GAAP or non-GAAP financial measures and therefore may not be comparable with similar measures presented by other issuers.

**Fund flows from operations:** We define fund flows from operations as cash flows from operating activities before changes in non-cash operating working capital and asset retirement obligations settled. Management believes that by excluding the temporary impact of changes in non-cash operating working capital, fund flows from operations provides a measure of our ability to generate cash (that is not subject to short-term movements in non-cash operating working capital) necessary to pay dividends, repay debt, fund asset retirement obligations and make capital investments. As we have presented fund flows from operations in the "Segmented Information" note of our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2014, we consider fund flows from operations to be an additional GAAP financial measure.

**Free cash flow:** Represents fund flows from operations in excess of capital expenditures. We consider free cash flow to be a key measure as it is used 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.

**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.

**Payout:** We define payout as net dividends plus drilling and development, exploration and evaluation, dispositions and asset retirement obligations settled. Management uses payout to assess the amount of cash distributed back to shareholders and re-invested in the business for maintaining production and organic growth.

**Fund flows from operations (excluding Corrib) and Payout (excluding Corrib):** Management excludes expenditures relating to the Corrib project in assessing fund flows from operations (an additional GAAP financial measure) and payout in order to assess our ability to generate cash and finance organic growth from our current producing assets.

**Net debt:** We define net debt as the sum of long-term debt and working capital. Management uses net debt, and the **ratio of net debt to fund flows from operations**, to analyze our financial position and leverage. Please refer to the preceding "Net Debt" section for a reconciliation of the net debt non-GAAP financial measure.

**Diluted shares outstanding:** Is 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.

**Cash dividends per share:** Represents cash dividends declared per share.

**Netbacks:** Per boe and per mcf measures used in the analysis of operational activities.

**Total returns:** Includes cash dividends per share and the change in Vermilion's share price on the Toronto Stock Exchange.

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

| | Three Months Ended | | |
|---|---|---|---|
| **($M)** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** |
| Cash flows from operating activities | **178,238** | 177,003 | 190,712 |
| Changes in non-cash operating working capital | **24,474** | (18,769) | (28,471) |
| Asset retirement obligations settled | **2,651** | 5,426 | 1,388 |
| Fund flows from operations | **205,363** | 163,660 | 163,629 |
| Expenses related to Corrib | **1,870** | 839 | 1,855 |
| Fund flows from operations (excluding Corrib) | **207,233** | 164,499 | 165,484 |

| | Three Months Ended | | |
|---|---|---|---|
| **($M)** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** |
| Dividends declared | **66,007** | 61,208 | 59,612 |
| Issuance of shares pursuant to the dividend reinvestment plan | **(18,885)** | (18,775) | (15,532) |
| Net dividends | **47,122** | 42,433 | 44,080 |
| Drilling and development | **168,840** | 147,929 | 179,520 |
| Dispositions | **-** | - | (8,627) |
| Exploration and evaluation | **27,535** | 549 | 9,576 |
| Asset retirement obligations settled | **2,651** | 5,426 | 1,388 |
| Payout | **246,148** | 196,337 | 225,937 |
| Payout relating to Corrib | **(16,236)** | (14,472) | (16,520) |
| Payout (excluding Corrib) | **229,912** | 181,865 | 209,417 |

| | As At | | |
|---|---|---|---|
| **('000s of shares)** | **Mar 31, 2014** | **Dec 31, 2013** | **Mar 31, 2013** |
| Shares outstanding | **102,453** | 102,123 | 99,462 |
| Potential shares issuable pursuant to the VIP | **2,714** | 2,746 | 2,918 |
| Diluted shares outstanding | **105,167** | 104,869 | 102,380 |

## CORPORATE INFORMATION

### DIRECTORS

Larry J. Macdonald [1, 2, 3, 4, 5]
Chairman & CEO, Point Energy Ltd.
Calgary, Alberta

W. Kenneth Davidson [2, 3]
Toronto, Ontario

Lorenzo Donadeo
Calgary, Alberta

Claudio A. Ghersinich [2, 5]
Executive Director, Carrera Investments Corp.
Calgary, Alberta

Joseph F. Killi [2, 3]
Chairman, Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
Calgary, Alberta

Loren M. Leiker [5]
Houston, Texas

William F. Madison [2, 4, 5]
Sugar Land, Texas

Timothy R. Marchant [3, 4, 5]
Calgary, Alberta

Sarah E. Raiss [3]
Calgary, Alberta

1 Chairman of the Board
2 Audit Committee
3 Governance and Human Resources Committee
4 Health, Safety and Environment Committee
5 Independent Reserves Committee

### ABBREVIATIONS

| | |
|---|---|
| bbl(s) | barrel(s) |
| mbbls | thousand barrels |
| bbls/d | barrels per day |
| mcf | thousand cubic feet |
| mmcf | million cubic feet |
| bcf | billion cubic feet |
| mcf/d | thousand cubic feet per day |
| mmcf/d | million cubic feet per day |
| GJ | gigajoules |
| MWh | megawatt hour |
| boe | barrel of oil equivalent, including: crude oil, natural gas liquids and natural gas (converted on the basis of one boe for six mcf of natural gas) |
| mboe | thousand barrel of oil equivalent |
| mmboe | million barrel of oil equivalent |
| boe/d | barrel of oil equivalent per day |
| NGLs | natural gas liquids |
| WTI | West Texas Intermediate, the reference price paid for crude oil of standard grade in U.S. dollars at Cushing, Oklahoma |
| AECO | the daily average benchmark price for natural gas at the AECO ‘C’ hub in southeast Alberta |
| TTF | the day-ahead price for natural gas in the Netherlands, quoted in MWh of natural, at the Title Transfer Facility Virtual Trading Point operated by Dutch TSO Gas Transport Services |
| $M | thousand dollars |
| $MM | million dollars |
| PRRT | Petroleum Resource Rent Tax, a profit based tax levied on petroleum projects in Australia |

### OFFICERS AND KEY PERSONNEL

***CANADA***

Lorenzo Donadeo, P.Eng.
Chief Executive Officer

Anthony Marino, P.Eng.
President & Chief Operating Officer

John D. Donovan, FCA
Executive Vice President Business Development

Curtis W. Hicks, CA
Executive Vice President & Chief Financial Officer

Mona Jasinski, M.B.A., C.H.R.P.
Executive Vice President People

Terry Hergott, CMA
Vice President Marketing

Michael Kaluza, P.Eng.
Vice President Canada Business Unit

Daniel Goulet, P.Eng.
Director Corporate HSE

Dion Hatcher, P.Eng.
Director Alberta Foothills Asset Area

Bryce Kremnica, P.Eng.
Director Production Operations

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology

Jenson Tan, P.Eng.
Director New Ventures

Robert (Bob) J. Engbloom, LL.B
Corporate Secretary

***EUROPE***

Gerard Schut, P.Eng.
Vice President European Operations

Darcy Kerwin, P.Eng.
Managing Director
France Business Unit

Neil Wallace
Managing Director
Netherlands Business Unit

***AUSTRALIA***

Bruce D. Lake, P.Eng.
Managing Director
Australia Business Unit

### AUDITORS

Deloitte LLP
Calgary, Alberta

### BANKERS

The Toronto-Dominion Bank

Royal Bank of Canada

The Bank of Nova Scotia

Canadian Imperial Bank of Commerce

Bank of Montreal

National Bank of Canada

Wells Fargo Bank N.A., Canadian Branch

Alberta Treasury Branches

La Caisse Centrale Desjardins du Québec

HSBC Bank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

Citibank N.A., Canadian Branch - Citibank Canada

Union Bank, Canada Branch

Bank of America N.A., Canada Branch

Canadian Western Bank

Goldman Sachs Lending Partners LLC

### EVALUATION ENGINEERS

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Calgary, Alberta

### LEGAL COUNSEL

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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

Dean Morrison, Director Investor Relations

VERMILION
ENERGY

## EXCELLENCE

We aim for exceptional results in everything we do.

## TRUST

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

## RESPECT

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

## RESPONSIBILITY

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

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