VERMILION
ENERGY

Q1 2015

FIRST QUARTER FINANCIAL STATEMENTS

EXCELLENCE. TRUST. RESPECT. RESPONSIBILITY.

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.

Although Vermilion believes that the expectations reflected in such forward looking statements or information are reasonable, undue reliance should not be placed on forward looking statements because Vermilion can give no assurance that such expectations will prove to be correct. Financial outlooks are provided for the purpose of understanding Vermilion's financial position and business objectives and the information may not be appropriate for other purposes. Forward looking statements or information are based on current expectations, estimates and projections that involve a number of risks and uncertainties which could cause actual results to differ materially from those anticipated by Vermilion and described in the forward looking statements or information. These risks and uncertainties include but are not limited to: the ability of management to execute its business plan; the risks of the oil and gas industry, both domestically and internationally, such as operational risks in exploring for, developing and producing crude oil, natural gas liquids and natural gas; risks and uncertainties involving geology of crude oil, natural gas liquids and natural gas deposits; risks inherent in Vermilion's marketing operations, including credit risk; the uncertainty of reserves estimates and reserves life and estimates of resources and associated expenditures; the uncertainty of estimates and projections relating to production and associated expenditures; potential delays or changes in plans with respect to exploration or development projects; Vermilion's ability to enter into or renew leases on acceptable terms; fluctuations in crude oil, natural gas liquids and natural gas prices, foreign currency exchange rates and interest rates; health, safety and environmental risks; uncertainties as to the availability and cost of financing; the ability of Vermilion to add production and reserves through exploration and development activities; the possibility that government policies or laws may change or governmental approvals may be delayed or withheld; uncertainty in amounts and timing of royalty payments; risks associated with existing and potential future law suits and regulatory actions against Vermilion; and other risks and uncertainties described elsewhere in this document or in Vermilion's other filings with Canadian securities regulatory authorities.

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

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.

CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

	Note	March 31, 2015	December 31, 2014
ASSETS			
Current			
Cash and cash equivalents		88,192	120,405
Accounts receivable		169,378	171,820
Crude oil inventory		26,358	9,510
Derivative instruments		10,000	23,391
Income tax receivable		19,394	-
Prepaid expenses		16,269	13,033
		329,591	338,159
Derivative instruments		-	1,403
Deferred taxes		154,532	154,816
Exploration and evaluation assets	3	378,276	380,621
Capital assets	2	3,599,999	3,511,092
		4,462,398	4,386,091
LIABILITIES			
Current			
Accounts payable and accrued liabilities		283,885	298,196
Current portion of long-term debt	5	224,235	-
Dividends payable	6	23,159	23,070
Derivative instruments		5,176	-
Income taxes payable		13,125	44,463
		549,580	365,729
Long-term debt	5	1,168,614	1,238,080
Finance lease obligation	2	26,751	-
Asset retirement obligations	4	377,003	350,753
Deferred taxes		386,935	410,183
		2,508,883	2,364,745
SHAREHOLDERS' EQUITY			
Shareholders' capital	6	1,980,931	1,959,021
Contributed surplus		110,696	92,188
Accumulated other comprehensive (loss) income		(34,412)	5,722
Deficit		(103,700)	(35,585)
		1,953,515	2,021,346
		4,462,398	4,386,091

APPROVED BY THE BOARD

("Joseph F. Killi")

Joseph F. Killi, Director

("Lorenzo Donadeo")

Lorenzo Donadeo, Director

CONSOLIDATED STATEMENTS OF NET EARNINGS AND COMPREHENSIVE INCOME
(THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)

	Note	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
REVENUE			
Petroleum and natural gas sales		195,885	381,183
Royalties		(16,424)	(24,024)
Petroleum and natural gas revenue		179,461	357,159
EXPENSES			
Operating		43,851	57,986
Transportation		9,540	9,861
Equity based compensation	7	19,040	16,472
Loss (gain) on derivative instruments		13,713	(6,575)
Interest expense		13,298	11,460
General and administration		13,560	14,467
Foreign exchange loss (gain)		1,539	(19,959)
Other (income) expense	11	(31,736)	33
Accretion	4	5,675	5,712
Depletion and depreciation	2, 3	90,957	99,452
		179,437	188,909
EARNINGS BEFORE INCOME TAXES		24	168,250
INCOME TAXES			
Deferred		(21,228)	6,620
Current		19,977	58,842
		(1,251)	65,462
NET EARNINGS		1,275	102,788
OTHER COMPREHENSIVE (LOSS) INCOME			
Currency translation adjustments		(40,134)	45,535
COMPREHENSIVE (LOSS) INCOME		(38,859)	148,323
NET EARNINGS PER SHARE			
Basic		0.01	1.00
Diluted		0.01	0.99
WEIGHTED AVERAGE SHARES OUTSTANDING ('000s)			
Basic		107,513	102,278
Diluted		109,305	104,171

CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

		Three Months Ended	
	Note	March 31, 2015	March 31, 2014
OPERATING			
Net earnings		1,275	102,788
Adjustments:			
Accretion	4	5,675	5,712
Depletion and depreciation	2, 3	90,957	99,452
Unrealized loss (gain) on derivative instruments		19,970	(3,935)
Equity based compensation	7	19,040	16,472
Unrealized foreign exchange loss (gain)		4,845	(22,000)
Unrealized other expense		261	254
Deferred taxes		(21,228)	6,620
Asset retirement obligations settled	4	(3,107)	(2,651)
Changes in non-cash operating working capital		(95,041)	(24,474)
Cash flows from operating activities		22,647	178,238
INVESTING			
Drilling and development	2	(174,311)	(168,840)
Exploration and evaluation	3	-	(27,535)
Property acquisitions	2, 3	(35)	(178,227)
Changes in non-cash investing working capital		12,143	39,473
Cash flows used in investing activities		(162,203)	(335,129)
FINANCING			
Increase (decrease) in long-term debt		154,914	(50,000)
Cash dividends		(47,923)	(45,520)
Cash flows from (used in) financing activities		106,991	(95,520)
Foreign exchange gain on cash held in foreign currencies		352	14,189
Net change in cash and cash equivalents		(32,213)	(238,222)
Cash and cash equivalents, beginning of period		120,405	389,559
Cash and cash equivalents, end of period		88,192	151,337
Supplementary information for operating activities - cash payments			
Interest paid		18,245	14,094
Income taxes paid		70,513	21,074

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(THOUSANDS OF CANADIAN DOLLARS, UNAUDITED)

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Shareholders' Equity
Balances as at January 1, 2014		1,618,443	75,427	47,142	(24,637)	1,716,375
Net earnings		-	-	-	102,788	102,788
Currency translation adjustments		-	-	45,535	-	45,535
Equity based compensation expense		-	15,751	-	-	15,751
Dividends declared	6	-	-	-	(66,007)	(66,007)
Shares issued pursuant to the dividend reinvestment plan	6	18,885	-	-	-	18,885
Modification of equity based awards		-	(2,396)	-	-	(2,396)
Shares issued pursuant to the bonus plan	6	721	-	-	-	721
Balances as at March 31, 2014		1,638,049	88,782	92,677	12,144	1,831,652

	Note	Shareholders' Capital	Contributed Surplus	Accumulated Other Comprehensive Loss	Deficit	Total Shareholders' Equity
Balances as at January 1, 2015		1,959,021	92,188	5,722	(35,585)	2,021,346
Net earnings		-	-	-	1,275	1,275
Currency translation adjustments		-	-	(40,134)	-	(40,134)
Equity based compensation expense	7	-	18,508	-	-	18,508
Dividends declared	6	-	-	-	(69,390)	(69,390)
Shares issued pursuant to the dividend reinvestment plan	6	21,378	-	-	-	21,378
Shares issued pursuant to the bonus plan	6	532	-	-	-	532
Balances as at March 31, 2015		1,980,931	110,696	(34,412)	(103,700)	1,953,515

DESCRIPTION OF EQUITY RESERVES

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

Contributed surplus
Represents the recognized value of employee awards which are settled in shares. Once vested, the value of the awards is transferred to shareholders' capital.

Accumulated other comprehensive (loss) income
Represents the cumulative income and expenses which are not recorded immediately in net earnings and are accumulated until an event triggers recognition in net earnings. The current balance consists of currency translation adjustments resulting from translating financial statements of subsidiaries with a foreign functional currency to Canadian dollars at period-end rates.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(TABULAR AMOUNTS IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT SHARE AND PER SHARE AMOUNTS, UNAUDITED)

1. BASIS OF PRESENTATION

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

These condensed consolidated interim financial statements are in compliance with IAS 34, "Interim financial reporting" and have been prepared using the same accounting policies and methods of computation as Vermilion's consolidated financial statements for the year ended December 31, 2014.

These condensed consolidated interim financial statements should be read in conjunction with Vermilion's consolidated financial statements for the year ended December 31, 2014, which are contained within Vermilion's Annual Report for the year ended December 31, 2014 and are available on SEDAR at www.sedar.com or on Vermilion's website at www.vermilionenergy.com.

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Directors of Vermilion on May 7, 2015.

2. CAPITAL ASSETS

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

($M)	Petroleum and Natural Gas Assets	Furniture and Office Equipment	Total Capital Assets
Balance at January 1, 2014	2,784,634	15,211	2,799,845
Additions	608,709	9,980	618,689
Property acquisitions	176,625	-	176,625
Corporate acquisitions	390,523	-	390,523
Changes in estimate for asset retirement obligations	19,107	-	19,107
Depletion and depreciation	(412,768)	(5,072)	(417,840)
Effect of movements in foreign exchange rates	(75,635)	(222)	(75,857)
Balance at December 31, 2014	3,491,195	19,897	3,511,092
Additions	173,612	699	174,311
Property acquisitions	35	-	35
Changes in estimate for asset retirement obligations	29,006	-	29,006
Depletion and depreciation	(97,440)	(1,210)	(98,650)
Recognition of finance lease obligation	31,028	-	31,028
Effect of movements in foreign exchange rates	(46,674)	(149)	(46,823)
Balance at March 31, 2015	3,580,762	19,237	3,599,999

As part of the Elkhorn acquisition, Vermilion assumed an agreement for the construction and use of a solution gas facility which was under construction at the time of acquisition. The substance of the arrangement has been determined to be a lease and has been classified as a finance lease. The carrying amount of the asset and liability at the commencement date was $31.0 million, with the liability being apportioned between current ($3.9 million) and long-term ($27.1 million).

3. EXPLORATION AND EVALUATION ASSETS

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

($M)	Exploration and Evaluation Assets
Balance at January 1, 2014	136,259
Additions	69,035
Changes in estimate for asset retirement obligations	22
Property Acquisitions	46,135
Corporate acquisitions	138,264
Depreciation	(5,038)
Effect of movements in foreign exchange rates	(4,056)
Balance at December 31, 2014	380,621
Changes in estimate for asset retirement obligations	12
Depreciation	(956)
Effect of movements in foreign exchange rates	(1,401)
Balance at March 31, 2015	378,276

4. ASSET RETIREMENT OBLIGATIONS

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

($M)	Asset Retirement Obligations
Balance at January 1, 2014	326,162
Additional obligations recognized	22,565
Changes in estimates for asset retirement obligations	(3,434)
Obligations settled	(15,956)
Accretion	23,913
Changes in discount rates	9,404
Effect of movements in foreign exchange rates	(11,901)
Balance at December 31, 2014	350,753
Additional obligations recognized	681
Obligations settled	(3,107)
Accretion	5,675
Changes in discount rates	28,337
Effect of movements in foreign exchange rates	(5,336)
Balance at March 31, 2015	377,003

5. LONG-TERM DEBT

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

	As At	
($M)	Mar 31, 2015	Dec 31, 2014
Revolving credit facility	1,168,614	1,014,067
Senior unsecured notes (1)	224,235	224,013
Long-term debt	1,392,849	1,238,080

(1) The senior unsecured notes, which will mature on February 10, 2016, are included in the current portion of long-term debt as at March 31, 2015.

Revolving Credit Facility

At March 31, 2015, Vermilion had in place a bank revolving credit facility totalling $1.75 billion, of which approximately $1.17 billion was drawn. The facility, which matures on May 31, 2017, is fully revolving up to the date of maturity.

The facility is extendable from time to time, but not more than once per year, for a period not longer than three years, at the option of the lenders and upon notice from Vermilion. If no extension is granted by the lenders, the amounts owing pursuant to the facility are due at the maturity date. This facility bears interest at a rate applicable to demand loans plus applicable margins. For the three months ended March 31, 2015, the interest rate on the revolving credit facility was approximately 3.0% (2014 – 3.1%).

The amount available to Vermilion under this facility is reduced by certain outstanding letters of credit associated with Vermilion's operations totalling $9.8 million as at March 31, 2015 (December 31, 2014 - $8.6 million).

The facility is secured by various fixed and floating charges against the subsidiaries of Vermilion. Under the terms of the facility, Vermilion must maintain:

- A ratio of total bank borrowings (defined as consolidated total debt), to consolidated net earnings before interest, income taxes, depreciation, accretion and other certain non-cash items (defined as consolidated EBITDA) of not greater than 4.0.
- A ratio of consolidated total senior debt (defined as consolidated total debt excluding unsecured and subordinated debt) to consolidated EBITDA of not greater than 3.0.
- A ratio of consolidated total senior debt to total capitalization (defined as amounts classified as "Long-term debt", including the current portion, and "Shareholders' Equity" on the balance sheet) of less than 50%.

As at March 31, 2015, Vermilion was in compliance with all financial covenants.

Subsequent to March 31, 2015, Vermilion negotiated a further expansion and extension of its existing revolving credit facilities from $1.75 billion to $2 billion, with a maturity of May 2019.

Senior Unsecured Notes

On February 10, 2011, Vermilion issued $225.0 million of senior unsecured notes at par. The notes bear interest at a rate of 6.5% per annum and will mature on February 10, 2016. As direct senior unsecured obligations of Vermilion, the notes rank pari passu with all other present and future unsecured and unsubordinated indebtedness of the Company. Vermilion may redeem all or part of the senior unsecured notes at 100% of their principal amount plus any accrued and unpaid interest. 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%.

6. SHAREHOLDERS' CAPITAL

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

Shareholders' Capital	Number of Shares ('000s)	Amount ($M)
Balance as at January 1, 2014	102,123	1,618,443
Shares issued pursuant to corporate acquisition	2,827	204,960
Shares issued pursuant to the dividend reinvestment plan	1,279	79,430
Vesting of equity based awards	955	47,925
Share-settled dividends on vested equity based awards	108	7,542
Shares issued pursuant to the bonus plan	11	721
Balance as at December 31, 2014	107,303	1,959,021
Shares issued pursuant to the dividend reinvestment plan	405	21,378
Shares issued pursuant to the bonus plan	10	532
Balance as at March 31, 2015	107,718	1,980,931

Dividends declared to shareholders for the three months ended March 31, 2015 were $69.4 million (2014 - $66.0 million).

Subsequent to the end of the period and prior to the condensed consolidated interim financial statements being authorized for issue on May 7, 2015, Vermilion declared dividends totalling $23.5 million or $0.215 per share.

7. EQUITY BASED COMPENSATION

The following table summarizes the number of awards outstanding under the Vermilion Incentive Plan ("VIP"):

Number of Awards ('000s)	2015	2014
Opening balance	1,775	1,665
Granted	-	707
Vested	-	(515)
Modified	-	(21)
Forfeited	(18)	(61)
Closing balance	1,757	1,775

The fair value of a VIP award is determined on the grant date at the closing price of Vermilion's common shares on the Toronto Stock Exchange, adjusted by the estimated performance factor that will ultimately be achieved.

8. SEGMENTED INFORMATION

Vermilion has operations in three core areas North America, Europe, and Australia. Vermilion's operating activities in each country relate solely to the exploration, development and production of petroleum and natural gas. Vermilion has a Corporate head office located in Calgary, Alberta. Costs incurred in the Corporate segment relate to Vermilion's global hedging program and expenses incurred in financing and managing our operating business units.

Vermilion's chief operating decision maker reviews the financial performance of the Company by assessing the fund flows from operations of each country individually. Fund flows from operations provides a measure of each business unit's ability to generate cash (that is not subject to short-term movements in non-cash operating working capital) necessary to pay dividends, fund asset retirement obligations, and make capital investments.

	Three Months Ended March 31, 2015								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	Total
Drilling and development	114,849	34,114	4,333	968	12,955	6,455	637	-	174,311
Oil and gas sales to external customers	77,884	59,832	26,818	11,395	-	19,284	672	-	195,885
Royalties	(8,592)	(5,102)	(926)	(1,598)	-	-	(206)	-	(16,424)
Revenue from external customers	69,292	54,730	25,892	9,797	-	19,284	466	-	179,461
Transportation expense	(3,942)	(3,011)	-	(894)	(1,693)	-	-	-	(9,540)
Operating expense	(19,099)	(10,826)	(5,826)	(1,999)	-	(5,886)	(215)	-	(43,851)
General and administration	(4,015)	(5,111)	(737)	(1,608)	(512)	(1,454)	(1,080)	957	(13,560)
PRRT	-	-	-	-	-	(2,354)	-	-	(2,354)
Corporate income taxes	-	(14,281)	(2,388)	-	-	(577)	-	(377)	(17,623)
Interest expense	-	-	-	-	-	-	-	(13,298)	(13,298)
Realized gain on derivative instruments	-	-	-	-	-	-	-	6,257	6,257
Realized foreign exchange gain	-	-	-	-	-	-	-	3,306	3,306
Realized other income	-	31,775	-	-	-	-	-	222	31,997
Fund flows from operations	42,236	53,276	16,941	5,296	(2,205)	9,013	(829)	(2,933)	120,795

	Three Months Ended March 31, 2014								
($M)	Canada	France	Netherlands	Germany	Ireland	Australia	United States	Corporate	Total
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

8. SEGMENTED INFORMATION (Continued)

Reconciliation of fund flows from operations to net earnings

	Three Months Ended	
($M)	Mar 31, 2015	Mar 31, 2014
Fund flows from operations	120,795	205,363
Equity based compensation	(19,040)	(16,472)
Unrealized (loss) gain on derivative instruments	(19,970)	3,935
Unrealized foreign exchange (loss) gain	(4,845)	22,000
Unrealized other expense	(261)	(254)
Accretion	(5,675)	(5,712)
Depletion and depreciation	(90,957)	(99,452)
Deferred taxes	21,228	(6,620)
Net earnings	1,275	102,788

9. CAPITAL DISCLOSURES

	Three Months Ended	
($M except as indicated)	Mar 31, 2015	Mar 31, 2014
Long-term debt	1,168,614	944,109
Current liabilities(1)	549,580	409,070
Current assets	(329,591)	(386,869)
Net debt [1]	1,388,603	966,310
Cash flows from operating activities	22,647	178,238
Changes in non-cash operating working capital	95,041	24,474
Asset retirement obligations settled	3,107	2,651
Fund flows from operations	120,795	205,363
Annualized fund flows from operations [2]	483,180	821,452
Ratio of net debt to annualized fund flows from operations ([1] ÷ [2])	2.9	1.2

(1) Includes the current portion of long-term debt, which, as at March 31, 2015, represents the senior unsecured notes that will mature on February 10, 2016.

Long-term debt, including the current portion, as at March 31, 2015 increased to $1.39 billion from $1.24 billion as at December 31, 2014, primarily as a result of draws on the revolving credit facility to fund capital expenditures as first quarter fund flows from operations were lower due to weakening crude oil and North American natural gas prices. The increase in long-term debt resulted in an increase in net debt from $1.27 billion to $1.39 billion.

Due to this increase in net debt as well as the lower commodity price environment, lower sales volumes, and the aforementioned capital expenditures, the ratio of net debt to fund flows increased to 2.9.

10. FINANCIAL INSTRUMENTS

Classification of Financial Instruments

The following table summarizes information relating to Vermilion's financial instruments as at March 31, 2015 and December 31, 2014:

				As at Mar 31, 2015		As at Dec 31, 2014		
Class of financial instrument	Consolidated balance sheet caption	Accounting designation	Related caption on Statement of Net Earnings	Carrying value ($M)	Fair value ($M)	Carrying value ($M)	Fair value ($M)	Fair value measurement hierarchy
Cash	Cash and cash equivalents	HFT	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	88,192	88,192	120,405	120,405	Level 1
Receivables	Accounts receivable	LAR	Gains and losses on foreign exchange are included in foreign exchange loss (gain) and impairments are recognized as general and administration expense	169,378	169,378	171,820	171,820	Not applicable
Derivative assets	Derivative instruments	HFT	Loss (gain) on derivative instruments	10,000	10,000	24,794	24,794	Level 2
Derivative liabilities	Derivative instruments	HFT	Loss (gain) on derivative instruments	(5,176)	(5,176)	-	-	Level 2
Payables	Accounts payable and accrued liabilities Dividends payable	OTH	Gains and losses on foreign exchange are included in foreign exchange loss (gain)	(307,044)	(307,044)	(321,266)	(321,266)	Not applicable
Long-term debt	Long-term debt	OTH	Interest expense	(1,392,849)	(1,394,739)	(1,238,080)	(1,238,505)	Level 2

The accounting designations used in the above table refer to the following:

HFT – Classified as "Held for trading" in accordance with International Accounting Standard 39 "Financial Instruments: Recognition and Measurement". These financial assets and liabilities are carried at fair value on the consolidated balance sheets with associated gains and losses reflected in net earnings.

LAR – "Loans and receivables" are initially recognized at fair value and are subsequently measured at amortized cost. Impairments and foreign exchange gains and losses are recognized in net earnings.

OTH – "Other financial liabilities" are initially recognized at fair value net of transaction costs directly attributable to the issuance of the instrument and subsequently are measured at amortized cost. Interest is recognized in net earnings using the effective interest method. Foreign exchange gains and losses are recognized in net earnings.

Level 1 – Fair value measurement is determined by reference to unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Fair value measurement is determined based on inputs other than unadjusted quoted prices that are observable, either directly or indirectly.

Level 3 – Fair value measurement is based on inputs for the asset or liability that are not based on observable market data.

Determination of Fair Values

The level in the fair value hierarchy into which the fair value measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. Transfers between levels on the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Fair values for derivative assets and derivative liabilities are determined using pricing models incorporating future prices that are based on assumptions which are supported by prices from observable market transactions and are adjusted for credit risk.

The carrying value of receivables approximate their fair value due to their short maturities.

The carrying value of long-term debt outstanding on the revolving credit facility approximates its fair value due to the use of short-term borrowing instruments at market rates of interest.

The fair value of the senior unsecured notes changes in response to changes in the market rates of interest payable on similar instruments and was determined with reference to prevailing market rates for such instruments.

10. FINANCIAL INSTRUMENTS (Continued)

Nature and Extent of Risks Arising from Financial Instruments

Market risk:
Vermilion's financial instruments are exposed to currency risk related to changes in foreign currency denominated financial instruments and commodity price risk related to outstanding derivative positions. The following table summarizes what the impact on comprehensive income before tax would be for the three months ended March 31, 2015 given changes in the relevant risk variables that Vermilion considers were reasonably possible at the balance sheet date. The impact on comprehensive income before tax associated with changes in these risk variables for assets and liabilities that are not considered financial instruments are excluded from this analysis. This analysis does not attempt to reflect any interdependencies between the relevant risk variables.

Risk ($M)	Description of change in risk variable	Before tax effect on comprehensive income - increase (decrease) Mar 31, 2015
Currency risk - Euro to Canadian	Increase in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates	(3,466)
	Decrease in strength of the Canadian dollar against the Euro by 5% over the relevant closing rates	3,466
Currency risk - US $ to Canadian	Increase in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates	(5,770)
	Decrease in strength of the Canadian dollar against the US $ by 5% over the relevant closing rates	5,770
Commodity price risk	Increase in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US $5.00/bbl at the relevant valuation dates	(1,038)
	Decrease in relevant oil reference price within option pricing models used to determine the fair value of financial derivatives by US $5.00/bbl at the relevant valuation dates	1,175
	Increase in relevant TTF reference price within option pricing models used to determine the fair value of financial derivatives by € 0.5/GJ at the relevant valuation dates	(7,975)
	Decrease in relevant TTF reference price within option pricing models used to determine the fair value of financial derivatives by € 0.5/GJ at the relevant valuation dates	8,459
Interest rate risk	Increase in average Canadian prime interest rate by 100 basis points during the relevant periods	(2,555)
	Decrease in average Canadian prime interest rate by 100 basis points during the relevant periods	2,555

11. SIGNIFICANT TRANSACTIONS

During Q1 2015, Vermilion was awarded a recovery of costs resulting from an oil spill at the Ambès oil terminal in France that occurred in 2007. The French court awarded Vermilion approximately €25 million (before taxes), of which 50% is immediately due to Vermilion upon posting a surety bond. This payment is expected to be received in Q2 2015, with the remainder due upon conclusion of the appeal process. Based on the recent court decision and the conclusions of an expert engaged by the French court, Vermilion is virtually certain that the award will be upheld.

DIRECTORS

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Chairman & CEO, Point Energy Ltd.
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Calgary, Alberta

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Calgary, Alberta

Joseph F. Killi [2, 3]
Chairman, Parkbridge Lifestyle Communities Inc.
Vice Chairman, Realex Properties Corp.
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Loren M. Leiker [5]
Houston, Texas

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

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

Sarah E. Raiss [3, 4]
Calgary, Alberta

Kevin J. Reinhart [2, 3]
Calgary, Alberta

Catherine L. Williams [2, 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

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

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 and Culture

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 – Canada Business Unit

Bryce Kremnica, P.Eng.
Director Field Operations – Canada Business Unit

Dean N. Morrison, CFA
Director Investor Relations

Mike Prinz
Director Information Technology & Information Systems

Jenson Tan, P.Eng.
Director New Ventures

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

UNITED STATES

Daniel G. Anderson
Managing Director – U.S. Business Unit

Timothy R. Morris
Director, U.S. Business Development – U.S. Business Unit

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

Albrecht Moehring
Managing Director - Germany Business Unit

AUSTRALIA

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

AUDITORS

Deloitte LLP
Calgary, Alberta

BANKERS

The Toronto-Dominion Bank

Bank of Montreal

Canadian Imperial Bank of Commerce

Royal Bank of Canada

The Bank of Nova Scotia

National Bank of Canada

Alberta Treasury Branches

HSBC Bank Canada

La Caisse Centrale Desjardins du Québec

Wells Fargo Bank N.A., Canadian Branch

Bank of America N.A., Canada Branch

BNP Paribas, Canada Branch

Citibank N.A., Canadian Branch - Citibank Canada

JPMorgan Chase Bank, N.A., Toronto Branch

Union Bank, Canada Branch

Canadian Western Bank

Goldman Sachs Lending Partners LLC

EVALUATION ENGINEERS

GLJ Petroleum Consultants Ltd.
Calgary, Alberta

LEGAL COUNSEL

Norton Rose Fulbright Canada LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Trust Company of Canada

STOCK EXCHANGE LISTINGS

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

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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